Zydus Wellness

January 3, 2020

Listing Department
BSE LIMITED
P J Towers, Dalal Street, Fort,
Mumbai–400 001

Code: ***531335***

Listing Department
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai–400 051

Code: ***ZYDUSWELL***

Re.: **Review of Credit Rating of 15,000, 9.14% (payable semi-annually) Secured, Listed, Rated, Non-Convertible Debentures (NCDs) of the Company.**

Dear Sirs,

We hereby inform that pursuant to regulation 85 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, CARE Ratings Limited has reviewed and reaffirmed the rating of "CARE AA+/Stable", on, 15,000 9.14% (payable semi-annually) Secured, Listed, Rated, Non-Convertible Debentures (NCDs) of Rs. 10 lacs each of the Company, aggregating to Rs. 1,500 crores.

A copy of letter received from CARE Ratings Limited is attached.

Please receive the same in order and bring the same to the notice of the members of the exchange and the investors' at large.

Thank you,

Yours faithfully,
For, **ZYDUS WELLNESS LIMITED**

for

DHANRAJ P. DAGAR
COMPANY SECRETARY

ZYDUS WELLNESS LIMITED * AHMEDABAD *

Encl.: As above

CARE Ratings
Professional Risk Opinion

No. CARE/ARO/RL/2019-29/2353

Mr. Umesh Parikh
Chief Financial Officer
Zydus Wellness Limited
Zydus Corporate Park,
Scheme No.63, Survey No.563, Khoraj,
S.G. Highway,
Ahmedabad - 382481

December 30, 2019

Confidential

Dear Sir,

Credit rating for outstanding Non-Convertible Debenture (NCD) issue

On a review of recent developments including operational and financial performance of your company for FY19 (Audited) and H1FY20 (un-audited), our Rating Committee has reviewed the following rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
NCD Issue	1,500 (Rupees One Thousand Five Hundred Crore only)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**

2. The NCDs are repayable in three yearly installments of Rs.500 crore each on January 14, 2022, January 16, 2023 and January 16, 2024 respectively.
3. Kindly arrange to submit to us a copy of the trust deed pertaining to NCD issue.
4. The rationale for the rating will be communicated to you separately. A write-up (Brief Rationale) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 02, 2020, we will proceed on the basis that you have no comments to offer.
5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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CIN-L67190MH1993PLC071691

available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to buy, sell or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

[Dhruv Shah]
Analyst
dhruv.shah@careratings.com

[Krunal Modi]
Senior Manager
krunal.modi@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure

Brief Rationale

Zydus Wellness Limited

Ratings

Instrument	Amount (Rs. crore)	Rating[2]	Rating Action
Non-convertible debenture issue	1,500 (Rupees One Thousand Five Hundred Crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed

Details of Instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debenture (NCD) issue of Zydus Wellness Limited (ZWL) continues to derive strength from its strong parentage of Cadila Healthcare Limited (CHL) which provides significant financial flexibility, ZWL's strategic importance to CHL leading to expectation of strong support from its parent, its professional and experienced management, strengthening of its product portfolio of market-leading brands in the Indian Fast Moving Consumer Goods (FMCG) industry after the acquisition of Heinz India Private Limited (HIPL) along with its established marketing and distribution network and expected synergy benefits from the acquisition. The rating is also underpinned by the comfortable leverage of ZWL on account of infusion of equity share capital during FY19 (refers to the period April 1 to March 31) for the acquisition.

The rating is, however, constrained due to lower than envisaged revenue and profitability during H1FY20 leading to moderation in the debt coverage indicators along with low return indicators and susceptibility of its profit margin to intense competition in the FMCG industry and volatility in raw material prices.

Rating Sensitivities

Positive Factors

- Significant increase in market share of its key products resulting in significant improvement in its profitability and debt coverage indicators
- Improvement in Return on Capital Employed (ROCE) to more than 12% on sustained basis

Negative Factors

- PBILDT margin remaining less than 15% from FY21 onwards on a sustained basis.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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- Any large size debt-funded capex or acquisition adversely impacting credit metrics of ZWL or its parent, CHL or lower than envisaged support from its parent

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage: ZWL is a part of the Zydus Cadila group promoted by Ahmedabad-based Pankaj Patel and his family. The promoter group has significant experience of more than six decades in the pharmaceutical industry. Flagship entity of Zydus Cadila group, CHL is the 4th largest pharmaceutical company in India and the 7th biggest pharmaceutical company in the United States of America (USA) based on prescription (source: Company). CHL is among the top 3 players in pain management, Oncology, Respiratory and Gynaecology therapeutic segments. CHL along with the promoter group holds around 67.62% equity share capital in ZWL as on September 30, 2019. Apart from ZWL being a majority-owned subsidiary of CHL, it is also strategically important to CHL in terms of diversifying the group's business risk profile. During FY19, CHL along with promoter family infused equity share capital of Rs.1,475 crore to fund the acquisition of HIPL. Due to its strong financial profile, CHL is capable of providing any need-based financial assistance to ZWL which is centrally factored in the rating.

Strengthening of portfolio of market-leading brands after the acquisition of HIPL: Before acquisition of HIPL, ZWL's brand portfolio consisted of three brands i.e. "Sugar-Free" (Sugar substitute), "Everyuth" (Skin Care) and "Nutralite" (Health foods). Products under "Sugar-Free" brand are market leaders in the low-calorie sugar substitute category with around 94% market share. Table Spread under "Nutralite" and scrub and peel off under "Everyuth" brand are also market leaders in their respective product categories. During FY19, ZWL acquired HIPL with its four brands i.e. "Glucon-D", "Nycil", "Complan" and "Sampriti Ghee". Products under "Glucon-D" and "Nycil" brands are market leaders in their respective categories. "Complan" despite not being a market leader and with relatively subdued performance, has strong brand recall value.

Strong R&D capabilities of ZWL can provide necessary innovation and impetus to HIPL's brands while the large pharmacy channel of ZWL and strong grocery channel of acquired HIPL can complement each other, thereby enabling distribution level synergies.

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Established marketing and distribution network: After the acquisition of HIPL, ZWL's marketing and distribution network has expanded to 46 ambient warehouses, 20 cold chain warehouses, around 65 C&F agents, over 1,500 distributors, over 2,000 field force and over 2 million customer touch points all over India. Also, presence of HIPL in the neighboring countries provides opportunity to ZWL to push its product through the same distribution channel. ZWL is working on supply chain management to rationalize its warehouses and distributor count without impacting its overall reach to gain maximum synergy benefits.

Low leverage: ZWL's leverage remains low marked by an overall gearing ratio of 0.46 times as on March 31, 2019. During FY19, ZWL acquired HIPL for a consideration of around Rs.4,600 crore. ZWL issued NCDs of Rs.1,500 crore to part-fund the acquisition. However, promoters along with institutional investors infused equity share capital of around Rs.2,575 crore which led to strengthening of the tangible net-worth base to Rs.3,365 crore as on March 31, 2019 (including acquired goodwill of Rs.3,797 crore as on March 31, 2019). Leverage of ZWL is expected to remain healthy as the company does not envisage any debt-funded capex in near to medium term.

Key Rating Weaknesses

Lower than envisaged total income and profitability during H1FY20 along with modest debt coverage and return indicators: Total income of ZWL grew by 216% during H1FY20 over H1FY19 mainly due to additional revenue from the acquired brands of HIPL. On a full-year basis for FY20, the total income of ZWL is expected to remain lower than what was previously envisaged. Moreover, the PBILDT margin also remained lower than envisaged at 15.67% during H1FY20 which was mainly due to one-time expense of around Rs.38 crore related to the acquisition of HIPL and increase in the raw material prices (i.e. milk and palm oil) which the company was unable to fully pass on to the consumers.

Further, due to decline in profitability, ZWL's debt coverage indicators are expected to remain moderate marked by interest coverage and Total debt/PBILDT of around 1.71x and 6.25 years respectively during FY20. Return indicators marked by ROCE is also expected to remain modest at around 4% to 5% respectively during FY20 due to lower blended profitability post acquisition which led to large addition in the total capital employed during FY19. However, comfort is derived from the fact that as per the terms of debenture trustee agreement for the rated NCD, ZWL is required

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to maintain ratio of financial indebtedness net off cash and cash equivalents to PBILDT on a consolidated half yearly (last twelve months) basis at 4.25x and 3.75x as on March 31, 2020 and March 31, 2021 respectively and thereafter 3.25x till March 31, 2024 which will entail build-up of liquidity in the company till the moratorium period on the NCD. ZWL is also required to maintained interest coverage ratio at over 2 times.

Susceptibility of profitability margin to fluctuation in raw material prices and intense competition: ZWL faces intense competition in most of its product categories from many reputed Multi-National Companies (MNC) and domestic companies who have presence in multiple product categories. Although the majority of its products have retained their market share, the "Complan" brand has been gradually losing its market share (from 12% in FY15 to 6% in FY19) during last few years. Due to intense competition, the marketing expense of the company is expected to remain high. Palm Oil, Sucralose, Aspartame, Stevia, Milk, Barley and Sugar are the major raw materials used by ZWL. Palm Oil prices and sugar prices are highly volatile and their direction is determined by various government policies. Further, the price of milk also remained volatile in H1FY20 which partly impacted the operating profitability of ZWL during H1FY20. The intense competition restricts ZWL's ability to fully pass-on the increase in the raw material prices to the customers.

Liquidity: Strong

Liquidity of ZWL is marked by current ratio of around 1.29 times as on March 31, 2019, efficient operating cycle along with adequate cash and bank balance of around 170 crore as on September 30, 2019. Further, the repayment of NCDs issued by ZWL starts from January 14, 2022 thereby giving it time to build-up sufficient cash accruals to service the debt. The liquidity of the company is envisaged to be strong on the expectation of its access to timely need-based support from its parent /promoters.

Analytical Approach: Consolidated along with ZWL's strong linkages with its parent, CHL.

CHL holds 63.55% equity share capital in ZWL as on September 30, 2019. Promoters of CHL also held 4.06% equity share capital in ZWL as on September 30, 2019. ZWL is strategically important for CHL to de-risk and diversify its operations. CHL, having a strong credit risk profile, is capable of providing need-based financial assistance to ZWL in a timely manner and the same has been

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articulated by the management of CHL. *The companies considered in ZWL's consolidation are shown in **Annexure-4**.*

Applicable Criteria

Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company

ZWL is engaged in the manufacturing, branding and distribution of health food and personal care products. Earlier ZWL operated as a consumer product division of CHL. During June 2006, CHL acquired a majority equity stake in an already-listed entity Carnation Nutra Analogue Foods Limited (Carnation). After acquisition of Carnation, CHL's consumer product division was de-merged from CHL and hived off to Carnation. Carnation was renamed as ZWL in 2009. ZWL sells its products under three brands i.e. "Sugar-Free" (Sugar substitute), "Everyuth" (Skin Care) and "Nutralite" (Table spread) which are well-established brands in their respective category.

In January 2019, ZWL, acquired HIPL, a wholly owned subsidiary of Heinz Italia SPA for a consideration of around Rs.4,600 crore. The deal comprised the acquisition of business of HIPL's four brands Complan, Glucon-D, Nycil and Sampriti Ghee, its two manufacturing units in Aligarh (Uttar Pradesh) and Sitarganj (Uttarakhand) and all operational assets and liabilities along-with associated distribution network. The acquisition was funded through NCDs of Rs.1,500 crore and rest through a mix of equity infusion and internal accruals.

(Rs. Crore)

Brief Financials (Consolidated)	FY18 (A)	FY19 (A)
Total Operating Income	535.51	*863.28
PBILDT	144.86	194.81
PAT	136.51	171.24
Overall Gearing (times)	0.04	0.46
Interest Coverage (times)	85.21	6.47

A: Audited

**FY19 includes only around 2 months of revenue from the acquired brands portfolio from HIPL*

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ZWL reported total operating income of Rs.953 crore and PAT of Rs.68 crore during H1FY20 (Un-Audited; UA) as against total operating income of Rs.301 crore and PAT of Rs.68 crore during H1FY19 (UA).

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments is given in **Annexure-3**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at** www.careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debentures	January 16, 2019	INE768C07017	9.14%	January 14, 2022	500.00	CARE AA+; Stable
Non-Convertible Debentures		INE768C07025		January 16, 2023	500.00	
Non-Convertible Debentures		INE768C07033		January 16, 2024	500.00	

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	1500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (31-Dec-18)	-	-

Annexure-3: Covenants of rated instrument

<table>
<tr><td>Financial Covenants</td><td>1. The ratio of financial indebtedness net off cash and cash equivalents to PBILDT (on a consolidated half yearly (last twelve months) basis shall be as below
<table>
<tr><th>Date</th><th>Net debt/PBILDT</th></tr>
<tr><td>March 31, 2020</td><td>4.25x</td></tr>
<tr><td>March 31, 2021</td><td>3.75x</td></tr>
<tr><td>March 31, 2022</td><td>3.25x</td></tr>
<tr><td>March 31, 2023</td><td>3.25x</td></tr>
<tr><td>March 31, 2024</td><td>3.25x</td></tr>
</table>
2. Interest service coverage ratio (on a consolidated half yearly LTM (last twelve month) basis) shall be maintained above 2 times.
3. The ratio of financial indebtedness net-off cash and cash equivalents to shareholders' fund (gearing) (on a consolidated basis) shall always be under 0.75 times.
The issuer shall pay penal interest at a rate of 0.25% on the outstanding amount of debentures for the breach of the financial covenants.</td></tr>
<tr><td>Other Covenants</td><td>1. In the event of a rating downgrade in the credit rating of the debentures or the issuer below 'AA+' by any rating agency having an outstanding rating on the debentures or the issuers, the coupon of the debentures shall be revised upward by 0.25% for each notch of such downgrade from the date of such downgrade.

2. Upon an event of default, the majority debenture holders shall have right to accelerate the payment obligation of the issuer under the transaction documents, including principal, accrued but unpaid interest, default interest, and any other amount due under the transaction documents.</td></tr>
</table>

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Annexure 4: List of entities Consolidated in ZWL

Sr. No.	Name of the entity	% Shareholding by ZWL as on September 30, 2019	Nature of relationship
1	Liva Nutritions Limited	100.00%	Subsidiary
2	Liva Investments Limited	100.00%	Subsidiary
3	Zydus Wellness Products Limited	98.16%	Subsidiary
4	Zydus Wellness International DMCC	100.00%	Subsidiary

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