February 19, 2025

To,
Listing Department
**NATIONAL STOCK EXCHANGE OF INDIA LIMITED**
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051

**Scrip Symbol: HONASA**

To,
Listing Department
**BSE LIMITED**
P. J. Towers,
Dalal Street,
Mumbai – 400 001

**Scrip Code: 544014**

**Sub: Transcript of Investor Call**

Dear Sir / Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, copy of transcript of the Investor call held on Wednesday, February 12, 2025 on the un-audited financial results and operations of the Company for the quarter and nine months ended December 31, 2024, is enclosed.

The said transcript is also available on the Company's website at www.honasa.in.

This is for your information and records.

Thanking you,

Yours faithfully,
For **HONASA CONSUMER LIMITED**

DHANRAJ DAGAR Digitally signed by DHANRAJ DAGAR Date: 2025.02.19 14:51:31 +05'30'

**DHANRAJ DAGAR**
**COMPANY SECRETARY & COMPLIANCE OFFICER**
Encl: a/a

# "Honasa Consumer Limited

# Q3 & 9M FY25 Earnings Conference Call"

## February 12, 2025

**MANAGEMENT:** **MR. VARUN ALAGH – CO-FOUNDER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER – HONASA CONSUMER LIMITED**
**MS. GHAZAL ALAGH – CO-FOUNDER AND CHIEF INNOVATION OFFICER – HONASA CONSUMER LIMITED**
**MR. RAMANPREET SOHI – CHIEF FINANCIAL OFFICER – HONASA CONSUMER LIMITED**

**MODERATOR:** **MR. SUMANYU SARAF – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Q3 and 9 months FY '25 earnings conference call of Honasa Consumer Limited, hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumanyu Saraf from JM Financial Institutional Securities Limited. Thank you, and over to you.

**Sumanyu Saraf:** Yes, thank you. Good evening, everyone. On behalf of JM Financial, I welcome you all to Honasa Consumer Limited's Q3 and 9M FY '25 earnings conference call. From the management, we have Mr. Varun Alagh, Co-Founder, Chairman & CEO of the company; Ms. Ghazal Alagh, Co-Founder and Chief Innovation Officer; and Mr. Ramanpreet Sohi, Chief Financial Officer.

I will hand over the call to the moderator, and we can start with the Q&A. Thank you.

**Moderator:** **L**adies and gentlemen, we'll take our first question from the line of Dhiraj Mistry from Antique.

**Dhiraj Mistry:** So one question is, on our -- where are we in our journey with our inventory correction in general trade channel, and when do we see that -- in how many quarters it should be done and we can see normalized growth going ahead?

**Varun Alagh:** Dhiraj, thank you for asking the question. Hello everyone. Welcome to the quarterly call for Honasa Consumer. Dhiraj, to answer your question, the inventory correction that is happening is happening in our distribution system, not in the retail system. And like we had said last time, majority of the correction, almost 85% plus was already taken care of in the last quarter itself. Now the journey has been to gradually scale up the new distribution system, which is something that we have been actively doing.

And our view is, this is the quarter where we have at least been able to, in top 50 cities, appoint the Tier 1 distributors, and we're also seeing direct distribution scale up starting to sort of happen. Over the next couple of quarters, we believe that the full effect of this transition will start coming into play, and the GT system should start coming back.

**Dhiraj Mistry:** And sir, second question, if you can split your growth, I understand that the Mamaearth is one of the brand which has been largely impacted because of this transition, what kind of growth we have witnessed in non-Mamaearth brand, The Derma Co and all? And how is the growth rate compared to the previous quarter whether, where other FMCG companies been reporting there has been very muted demand in the urban market? And how do you see that panning out for your brands, for the non-Mamaearth brands?

**Varun Alagh:** Dhiraj, so for non-Mamaearth brand, the growth continued to be solid. In fact, we have talked about that in our presentation as well, that the younger brands continue to grow at 30% plus growth at a YTD level. And that's the kind of growth that we've seen during Q3 as well, and these brands have continued to also gain on contribution. Now more than 40% of the company's revenue is contributed by the younger brands, and we're quite happy with both the execution and scale up of these brands.

**Dhiraj Mistry:** So 30% growth rate continues for non-Mamaearth band during the quarter as well, is my understanding right?

**Varun Alagh:** Yes.

**Dhiraj Mistry:** And third and last question from my end that the FMCG company has been reporting that there has been slowdown in the urban market, and it may take some couple of quarters for them to recover in terms of urban market demand coming back. Have you witnessed similar thing or anything different for your brands?

**Varun Alagh:** See, this is because we are going through our internal transitions. I wouldn't sort of comment as much on the demand scenario. Of course, the metros have been affected by both the combination of wage inflation gaps as well as because of the distribution change driven by quick commerce et cetera. And we are all watching that out, but I would rather not sort of attribute some of the actions that are happening internally to that. What we are doing is largely absolutely by design from a long-term play and fundamentals perspective, and we are focusing on just getting our playbooks right. And for us, share gain is the big agenda, and we believe that the right fundamentals we want to continue doing that for years to come.

**Moderator:** Next question is from the line of Nitin from Emkay.

**Nitin:** Just want to check like, what I can see is like under project name, we have achieved 100% distributor appointment in top 50 cities, which is actually reassuring. Can you please help me with the distributors count now in top 50 cities? Also, how many have been appointed in last 1 year? And wanted to gauge your comment, like, if the growth remains slow, do you see any risk of attrition here?

**Ramanpreet Sohi:** So I think in the top 50 towns, we've appointed 150+ distributors in the last 6 to 7 months.

**Varun Alagh:** Nitin, since these are new partners and the quality of business in terms of being the FMCG distributors, they've been appointed largely over the last 6 to 9 months. So, we can assume almost 80% plus of them would be new partners for us.

And these partners, the ROI mechanisms that we have, right, are actually fairly strong because of both the margins and now the inventory levels as well as the credit extended by the company, and we are making sure that we continue to focus on scaling businesses with them quarter-on-quarter, which will give them the comfort of both growth and strong return in their investment. We are going to closely watch and ensure that these partners grow along with us.

**Nitin:** Next question is, again, offline channel, so I just wanted to gauge like how much of our revenue is coming from premium beauty outlets. So this is supposed to be a big channel where, like we had, or we have been having a BAs to drive growth faster. So in this lens, I want to check how are we strategizing to drive growth and profitability in this channel? And plus, wanted to gauge how big is premium beauty channel for us?

**Varun Alagh:** If I understand correctly Nitin, by premium beauty, you are largely talking about those fancy cosmetic counters?

**Nitin:** Yes, the counter where we have our BAs, beauty advisors.

**Varun Alagh:** Yes. So actually, in general trade, BA channel is not a very large sort of channel for us. We only have close to, actually less than 500 BA counters, which exist, and they contribute to less than 20% of the GT sales. Rest of the sales comes from -- so chemist is a very important channel for us, new modern trade et cetera.

And we're focusing on all of these channels. Of course, modern trade is an important channel for us. So the growth in action is fairly distributed across these. And of course, our focus from next 3 to 4 quarters perspective is on top 200,000 stores in India, of which also 20,000 are far more critical from premium skin and hair care battle perspective. So we have been watching and focusing on them closely and ensuring that we end up giving share in all of them.

**Nitin:** And last question is with respect to quick commerce. So last quarter, you had highlighted 4% to 5% of sales coming from quick commerce. So I just want to know, like, how much is the contribution now, given the fast growth happening in this channel? And by any measure, we have any market share data, like, how much of the market share we command in the quick commerce space?

**Varun Alagh:** Nitin, see, now basis last quarter, we could say that it's grown to about 7% to 8% of our business. It's the fastest growing channel for us as we speak. The market share data we have, but they're more internally measured, but that's a metric that we are very closely chasing. On market share, the data that we have is based on our internal relationships and it is a nondisclosure data, we cannot share that. That said, we very closely are watching that data, and our goal is that our quick commerce market share should be higher than our e-commerce market share, and that's the vision in which we're sort of approaching.

**Moderator:** We'll take our next question from the line of Mehul Desai from JM Financial.

**Mehul Desai:** First question, obviously, last quarter you did mention that several initiatives will be taken as far as changing the brand strategy, as far as Mamaearth is concerned. I know, it's a short period since then, but anything that you would like to call out as to if you have done any test marketing or any SKU changes, or any initiatives that have been taken, as far as Mamaearth is concerned? And if any kind of results or qualitative comments that you would like to give in terms of the output that is coming from those changes?

**Varun Alagh:** Mehul, thanks for asking the question. Mehul, that's absolutely an area of very, very strong focus for us in Q4 and the 3 areas where we are executing those changes have been areas of product, messaging and media mix. And we'll recognize these areas as well as specific actions that we need to take in quarter 3, and then started work on development of newer differentiated communications and started work on further improvement of our formulations to deliver like best winning products and as well as to design the right media mix experiments, which can only be done once the messaging et cetera is ready.

All of that pre-work has been done over the last sort of 90 days. It's only in the last couple of weeks that we have now started mounting these pilots, so very early to comment on the outcomes of the same. I think, when we meet next time, we would have more structured learnings that we will be able to share with you.

**Mehul Desai:** And lastly on the margin side, obviously, one of the strategies is also to increase spends obviously, and increase more focused spends on Mamaearth and on SKUs, do you think A&P spends will increase in coming quarters because now the prework is done, and now maybe you will -- the A&P spends might go up in coming quarters? Or you think this 5% EBITDA margin that we have registered in this quarter, this is the base case -- I mean, it should not go below this in case of in the coming quarter?

**Varun Alagh:** So Mehul, in Q4 specifically, because we are doing a lot of experimentation and these experimentation will involve some wastages because that's what you're trying to check what does not work and what works. So in Q4, we do expect the marketing spends to be higher and more aggressive. And then Q1 onwards, they will again start to normalize. So Q4, it should be seen as in a quarter where we will be doing slightly increased investments to ensure that we are able to learn. And then Q1 onwards, we should be sort of back to the trajectory and start improving so

**Mehul Desai:** Understood. And lastly a bookkeeping question. Raman, what is the tax rate that one should look for FY '25 and FY '26 going ahead?

**Ramanpreet Sohi:** Yes, Mehul, so I think this quarter, we have a deferred tax credit. Actually we have taken a deferred tax asset of about INR 5 crores, which is basically coming in from our subsidiary, Fusion Cosmeceutics, which is basically -- that subsidiary is actually merging with our business. We're expecting that to come through by April, May of next year. Also, given the reasonable certainty of profits on that subsidiary, we'll be able to set off the accumulated losses against the future tax number has come in, in the quarter. But otherwise, we'll move back to normal tax rates that you witnessed so far in the previous quarters.

**Moderator:** We'll take our next question from the line of Percy Panthaki from IIFL Securities.

**Percy Panthaki** I'm sorry, I joined late, so apologies if this has been repeated. But can you throw some light on the Mamaearth brand in terms of the sort of performance YoY? Is it in the same ballpark as what we saw in Q2 adjusted for the one-off?

**Varun Alagh:** Yes, Percy, it's in the same ballpark because no different actions were taken in Q3. Q3 was a time when we understood and analyzed both from a consumer and our internal investment perspective what was happening and what was going wrong, based on which the pilots and the revised strategies have been built into Q4 where we are testing some of those to understand what to scale. And hence after Q4 and Q1 is when we will be able to sort of, we believe we'll be able to come back on a sustainable sort of trajectory based on the refined playbooks that we learn from this. So Q3 is very much similar to H1...

**Percy Panthaki:** And within the Mamaearth brand, again, the different channels are also at a similar level like GT, for example, was the main issue last quarter in Mamaearth, which saw a big decline, whereas modern trade had seen a decent growth. Online was maybe approximately flattish or something like that. So do those trends channel-wise also remain the same?

**Varun Alagh:** Very similar. And so I mean online continues to be flattish while modern trade we have grown in offtake as well as in shares, and general trade continues to be the place where we declined most.

**Percy Panthaki:** Understood. And distributors that you have, have you seen any attrition in the distributors? Are any of the distributors sort of have given up their distributorship or anything of that sort?

**Varun Alagh:** Percy, since the new distribution system is something that we have put into place only over the last 6 to 9 months. So I mean, business as usual, there is no major sort of attrition. In fact, like I was mentioning earlier, our terms of trade with our distributors, be it in terms of the credit extended or the margins is actually much better than industry. And we are confident that as we scale this system, our partners will end up making much better return on investments compared to the industry.

**Percy Panthaki:** Sure. And just delving a little deeper into this, the GT decline that we are seeing, is it significantly higher on a primary sales basis rather than a secondary sales basis in the sense that are the distributor days coming down and that is why we are seeing this sharp decline? Or is it that even on a secondary sales basis, the decline is the same as the primary?

**Varun Alagh:** No, Percy, secondary is better than primary.

**Percy Panthaki:** Okay. But still at a decline YoY, right?

**Varun Alagh:** Actually, the problem is because Project Neev was instituted largely from Q4 onwards, which is when the DMS implementation was rolled out right across the system. And hence, the secondary sales data for the system is not comparable…

**Percy Panthaki:** What is the other way if I look at the number of distributor days that you have in the system as of December, how many days is that? And is it different from what you had at September end?

**Varun Alagh:** It has gone down. It is now in the range of anywhere between 30 to 40 days.

**Moderator:** We'll take our next question from the line of Mudit M. from M3 Investment.

**Mudit M.:** I wanted to understand what's your quick commerce strategy given your earlier e-com strategy was to play long tail and keep innovating for new products, whereas quick com is more of a limited SKU business model where repeat purchases drive sales. So how are you going to play this? And what's your take on that? And correct me if I'm wrong, if I'm...

**Varun Alagh:** So you are right. Quick commerce is a more focused assortment play. That said, quick commerce is also a platform where consumers are discovering new brands. And we have very strong and healthy relationships with our quick commerce partners. We still continue to strongly believe that brands are built in the minds of consumers and purchased on platforms. And I think our focus continues to be on the consumer and using the right mediums to build our brands in their minds. And on platforms, our focus is to ensure that our market share continues to sort of be strong and increase on quick commerce as they also continue to grow

**Mudit M.:** Sorry to harp on the Mamaearth's growth again. Just wanted to understand if your rest of the business has grown by 30%. What exactly is the growth rate in ballpark figure for Mamaearth? And how do you see that shaping up?

**Varun Alagh:** So like I mentioned, it continues to be in the same zone as H1, it is on a decline, not a growth rate for the 9 months YTD. Over the next couple of quarters, we are refining the strategy. We are very confident that we will be able to unlock the right investment allocation media and messaging combinations, which will help us sort of get the brand back to sort of growth levels, but will take a couple of quarters for us to sort of…

**Mudit M.:** Right. And continuing on previous participant's question on the distributor level inventory and we -- can you share some qualitative colors on, have -- are there being reorders and the quantum of reorders from the distributor, which gives you reassurance that the secondaries are happening? And could you show -- share some colors on reorders and repeat purchase eventually by end customers?

**Varun Alagh:** I think the best indicator of end customer demand from retail would be the Nielsen share data that we have provided. If you look at the Nielsen share data we -- in our core categories, we continue to gain share as well as if you look at the STO, which is the sales turnover ratio, actually, it is lower than the category and has further decline, which means that our stock rotation is faster than the category average and our stock pressure is lower than the category average, which is again a healthy sign from a brand perspective. And of course, the distributors continue to order on a regular basis.

**Moderator:** We'll take our next question from the line of Venkat from 3Sigma Financials.

**Venkat:** And a good set of numbers at least in this challenging market for all other FMCGs. So my question is in the last call, you mentioned that the sales organization is going to be kind of like revamped. And you just mentioned that the trials are happening and you are evaluating. So at the end of this particular what you call execution, would we see -- are we going to see some improvement in EBITDA and PBT? And what -- can you quantify those numbers?

**Varun Alagh:** Venkat, thanks for the question. So all the efforts that we are sort of doing is in line with our long-term plans. And we genuinely believe that these pains that we are taking are going to pay off handsomely in the long-term. And our -- the benefits of this, of course, will take time to show. But on channel EBITDAs, on profitability et cetera, the impact of these should be fairly large.

**Venkat:** My next question is on -- I'm hearing that there was a Nielsen report recently that the rural sales have started improving. Are you seeing any improvement in sales if you compare with urban and rural sales mix? Are you seeing any uptick in that? Or is it like flat similar to what it used to happen?

**Varun Alagh:** Venkat, unfortunately, we are an urban only business largely, almost more than 80% of our sales comes from the top 100 cities, top 200 cities. And hence, we would not be able to comment on the rural sales.

**Venkat:** Yes. I was interested more from like e-commerce. You don't see those pin codes happening actually from rural, you don't see the demand coming, right?

**Varun Alagh:** Yes. I mean what is defined as rural in HCCA and NCCS that's actually a very deep pin code against the contribution from those pin codes for our business is very less. And I don't think we should be sort of used as a benchmark for growth there.

**Moderator:** We'll take our next question from the line of Agam Shah, an individual investor.

**Agam Shah:** Sorry, I just missed your opening question. So majority of my questions have been answered. But just a quick maybe follow-up, you might have answered. But on the distribution front on the various strategies and whatever steps you have taken from last quarter. So where are we there? I mean, can we say you're seeing green shoots and are we done with it? Will we be done with it or maybe another couple of quarters more?

**Varun Alagh:** So from a setting up of the fundamentals is what I'd say, yes, we are there. But from a scale up perspective is what we are seeing happening over Q4 and Q1. So it will be right to say that it will take a couple of quarters for us to sort of get into growth mode in that channel.

**Agam Shah:** So when you say growth mode, so in your presentation, when you said, when the margins from 8% gone to 5%, so when this strategy everything is over, so that time we should get the 8% levels with operating leverage? Or is it fair to assume that, or no?

**Varun Alagh:** So the timing is something that I would not be able to comment, but fair to assume that within FY '26 itself probably towards H2, we will be able to hit those levels.

**Agam Shah:** And also, on the breakup -- so how much is Mamaearth of the contribution of INR 500 crores?

**Varun Alagh:** Like I mentioned, younger brands are now contributing more than 40% to our business. So that's how you can only tell.

**Agam Shah:** And what was this number YoY?

**Varun Alagh:** So last year, this number would be in the 35% zone.

**Moderator:** We'll take our next question from the line of Mudit M. from M3 Investment.

**Mudit M.:** I wanted to understand given your direct competitor in actives has been acquired by global giant. So would you comment about how would you see this competitive intensity shaping up? And in general, how is the competitive intensity shaping over the younger e-com guys and -- because I have seen the heightened competition of like INR 1,000 to get 8 products and things like that. So could you comment on that, please?

**Varun Alagh:** Yes. Firstly, I would like to congratulate the Minimalist founders for building a great brand that got a very good outcome with the acquisition. In our case also, Derma Co has had a phenomenal journey. In fact, Derma Co is larger, faster growing as well as better at the top levels compared to sort of where Minimalist is. It's a good performance by both the brands.

Apart from that, competitive intensity in this category is something which is sort of always remained high. It increases in the cycles of, sort of, funding and then sort of becomes more strenuous later on. That's something that we worry less about.

Our focus is always on consumer because we genuinely believe that if you do the right things by consumers, they will reward you, sort of, for our efforts. So, I think our focus continues to be on getting our consumer prework's products proposition right.

**Mudit M.:** Understood. Also, if you could -- how do you aspire to grow like in medium and long-term, say, 5 -- 3, 5, 10 years? I mean what's your aspiration? Because earlier, you were tracking growth of like 2x the industry. Now your -- so what's your long-term aspirations given that you will have a certain portion of mature brands and you'll always keep seeding the new brands. So what's the growth rate that you aspire maybe after fixing all the teething issues? What's your medium to long-term view for the business and your aspiration?

**Varun Alagh:** Thank you so much for asking that question. It's rare that we get asked about our long-term goals. Our long-term goals remain absolutely intact. We are very confident that after these transitions and figuring out the fundamental playbooks, we will get back to the industry breathing growth that we have talked about.

We are very clear that we need to continue to remain in market share gain mode, especially for the 5 core categories that we have pointed out. And our -- towards the end of the decade, we would like the company to be more than INR 4,000 crores in revenue.

We would like the company to sort of double from here on. We would also like to see Honasa being nationally, sort of, top 1 or 2 player in multiple of the focus categories that we have identified. So all of those completely remain intact

**Moderator:** We'll take our next question from the line of Kimberly Paes from Envision Capital.

**Kimberly Paes:** Sir, just a follow-up on the margins. Like you said that next quarter, we expect some aggressive marketing spend. But just what is the longer-term outlook or aspiration on the margins, say, for FY '26, FY '27 once most of the Mamaearth playbook reinventing is sort of done?

**Varun Alagh:** So from a '26 perspective, we believe we should be back to the '24 levels if you look at the overall year. And then from '27 onwards, we should start sort of improving on that base as we had sort of pointed out.

**Kimberly Paes:** And sir, this INR 4,000 crores kind of aspiration -- revenue aspiration that you have, do you think that we could get to a double-digit margin by then?

**Varun Alagh:** Yes, Kimberly, that will be the plan and ambition.

**Kimberly Paes:** And just one more question. What would the ARR on the makeup brand space right now? I think last quarter, you mentioned it was around INR 25 crores.

**Varun Alagh:** Yes, it continues to be in the same zone. It's a PMF stage brand, so we are still sort of tweaking what part of the brand, which subcategories, what model because it's also a lower priced brand and hence it is a newer play for us and newer category for us. So we're still sort of establishing PMF on that.

**Moderator:** We'll take our next question from the line of Binoy from Sunidhi Securities & Finance Limited.

**Binoy:** Can you just help me with the sales mix between the offline and the online channels? And within the offline channel, how much does GT contribute?

**Varun Alagh:** So actually, the mix varies for different brands. And for younger brands, of course, the contribution of online is more than 90%. And for Mamaearth, the contribution of offline is almost 45%. And of which 40% is modern trade institutions and 60% is general trade.

**Binoy:** I have a follow-up. Between the channels, online as well as offline, are you -- EBITDA break-even in the offline channel? Or is there some burn?

**Varun Alagh:** Actually, EBITDA of our offline channel is actually very good. It's actually better than the online business because the allocation of digital marketing media happens largely in the online business. So it's actually better than online business.

**Moderator:** We'll take our next question from the line of Pooja Kubadia from JM Financial.

**Pooja Kubadia:** I just wanted to understand what were the margin levers for the gross margin expansion we saw this quarter? Was it driven by the transition that's happening in the distribution channel? Or are there any additional levers?

**Varun Alagh:** So it is actually largely the brand mix change, right? Because the younger brands is -- which are growing faster also have a better gross margin given we are focused in skin care category. So that's the largest lever of gross margin expansion.

**Moderator:** We will take our follow-up question from the line of Binoy from Sunidhi Securities & Finance Limited.

**Binoy:** Once your distribution related changes settle down and the sales are back to normal, which is pre-project Neev related changes, right? Where do you think the EBITDA margin in offline channel would settle?

**Varun Alagh:** I think better to look at some of those things from an overall company perspective. Like we have talked about how that journey should be starting next year to the long-term journey over the next 5 years to get to double-digit margins. I think that's what we would like to focus on. In general, like I mentioned, offline is better sort of margin channel comparatively. So growth in that should be one of the levers which will lead to improvement in the overall company as a result.

**Moderator:** As there are no further questions, I now hand over the call to management for closing comments. Over to you.

**Varun Alagh:** Thank you so much for patiently asking questions and listening to our responses. We'll continue to work on our fundamental levers and make sure we are able to sort of deliver a long-term vision. Thank you. Thank you so much.

**Moderator:** Thank you. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines