May 28, 2024

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 Thursday, May 23, 2024 on the audited financial results and operations of the Company for the quarter and year ended March 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: 2024.05.28 17:09:22 +05'30'

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

"Honasa Consumer Limited

Q4 FY24 Earnings Conference Call"

May 23, 2024

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. JAY DOSHI - KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Honasa Consumer Limited Q4 FY'24 Earnings Conference Call hosted by Kotak 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jay Doshi from Kotak Securities Limited. Thank you and over to you, sir.

Jay Doshi: Thanks, Rico. Good evening, everyone. On behalf of Kotak Institutional Equities, I welcome you all to 4Q FY'24 Earnings Conference Call of Honasa Consumer. We have with us Mr. Varun Alagh, Co-Founder, Chairman and CEO; Ms. Ghazal Alagh, Co-Founder and Chief Innovation Officer; and Mr. Ramanpreet Sohi, Chief Financial Officer.

I'll now hand over the call to Varun for opening remarks. Over to you, Varun. Thank you.

Varun Alagh: Hi, thank you, Jay. Hello, everyone. Good evening to all of you. We welcome you to the quarterly performance update and FY'24 update as well for Honasa Consumer. Like Jay mentioned, we have with us Ghazal, Raman, as well as Mohit who leads the Investor Relations from our team as part of this call.

The way we have structured this is we have a quick presentation in which for the purpose of simplicity, I will take you through what has been the highlights for the quarter. And we will open up for questions post that. So without further ado, let me just jump in and talk about the highlights for the quarter.

To start with, of course, the quarter shaped up really well. While there has been a lot of conversation of consumption slowdown, Honasa Consumer continues to deliver strong growth. We have delivered 23% like-for-like growth with an underlying volume growth of 27% with an EBITDA of 7% and the highest ever quarterly profit of INR30 crores.

We have also generated INR80 crores of free cash in this quarter. At our FY'24 level, we have grown at about 31.5% like-for-like and our EBITDA is about 7.1%. For the full year, we have generated INR111 crores in PAT and from a UVG perspective, we have grown 41%, which is significantly ahead of our value growth.

And we have generated free cash of INR224 crores this year. And this year, like we have mentioned in the past, we have demonstrated significant improvement over last year in terms of our bottom line. Last year, Q4, we had a negative EBITDA. From there, we have moved to a 7% EBITDA this quarter.

Last year, for full year, we had a 1.5% EBITDA to which we have moved to a 7.1% for full year this year. This is driven by combination of efficiencies in A&P, opex, leverage and other costs, which we continue to work on to make our business more efficient by not compromising on building our brands and taking share.

Coming to the core business updates, I think let me start by talking about a project which we have been executing and talking about in the last couple of quarters as well. We clearly realize that omni-channel distribution and offline distribution is going to be a critical part of how we build this company and capture the beauty and personal care market share. In that regard, we have started the journey of building this channel about four years back.

When we started this, we were largely an online company whereby we only had two locations for distributing our products to warehouses. We did not have any offline business because of which we had to go in for a distribution infrastructure where we had super stockists which acted as bulk breakers. Then the super stockists appointed distributors whose quality was not as good as we would have liked them to be from an FMCG perspective.

Hence, we have taken this project to create a stronger direct distribution infrastructure with strong visibility in technology implementation as a part of which there are three pillars that we have been executing. One is a transition from super stockists to direct distributors, especially in top 50 cities, onboarding high-quality FMCG distributors with strong direct distribution reach as well as implementing a customized version of DMS and SFA, which is a distribution management system and sales force automation system that we have built over the last one year along with our partners across all of these distributors.

We started this journey in Q3 of FY'24. In Q4 FY'24, we have expedited this journey and made sure that the execution is up and live across the top 10 cities. Over the next three quarters, we will continue to execute this project.

This has had a primary impact on our growth for last quarter by about 200 basis points. We do expect some of that impact to continue over the next three quarters. But given it is a right move from a long-term perspective as well as a financially proven move given super stockists do contribute to a 5% extra cost of distribution, we are actively transitioning.

But the good thing is that from a consumption and optics perspective, our brands continue to do very well. Mamaearth, if you look at the Euromonitor 2023 data for the calendar year '23, it has grown as the fastest brand amongst the top 15 BPC brands in the country, where average the top 15 BPC brands have grown by 7% while Mamaearth has grown at 21% according to the Euromonitor data which is also visible in the AC Nielsen shares that we captured.

According to Nielsen, we have gained 120 basis points in face wash category last year. And we have gained 40 basis points in the shampoo category last year. And even in the same stores where we are present, the share amongst handlers has actually gone up even faster, so 150 basis points increase in share amongst handlers for face wash and 65 basis points increased in shampoo with a gain in distribution as well.

So Mamaearth continues to be loved by consumers and continues to drive those transactions in core categories across core markets. And of course, this year, we've been also able to demonstrate our ability to build large size brands outside of Mamaearth. The Derma Co has hit ARR of INR500 crores last quarter while being profitable.

And this is a net sales value ARR in terms of GMV, this will be close to INR900 crores. And this is just in four years, we launched the brand in March 2020. This is also a brand which is shaping a new proposition, which is the active proposition that we were able to recognize very early and launch the right categories with the right mix, which has been loved by consumers and demonstrates our potential to build large scale brands in newer evolving propositions as well.

Looking at the portfolio, clearly the House of Brands that we have, we are very excited to see the opportunities and possibilities in those brands. And over the next three to five years, we do believe Derma Co will enter INR1,000 crores club, Aqualogica and Dr. Sheth's will enter INR500 crores clubs and BBlunt should enter a INR250 crores club. And this whole House of Brands strategy is also helping us dominate a few categories.

And I would like to take an example of category like sunscreen, which is a category which is also growing really fast. But at Honasa, we have been able to use the power of House of Brands to provide different kind of differentiated propositions in this category, whereby there is a made safe natural proposition in Mamaearth, an active based proposition in Derma Co, a hydrating lightweight proposition in Aqualogica and a bioactive proposition in Dr. Sheth's. Ccombination of this has led to us being able to gain more than 30% market share in Honasa across the e-commerce platforms that we are present in.

And now we're going to use the same strategy to get into modern trade and then offline to capture this market. This is evident in the ranks that you see on most of the channels like Amazon and Nykaa, where amongst the top five, at least three ranks are held by our brands and that's something which we're going to demonstrate in different categories over time.

Our focus on R&D and innovation, of course, continues to be loved by consumers. This is at the heart of the organization, being able to understand the consumer needs and using our understanding of the Indian skin, Indian weather, being able to craft the right kind of products, which then are loved by consumers. We continue to be on that path last quarter as well and launch some very exciting launches, including Hibiscus range for Mamaearth, a new Sunscreen VIS for Mamaearth, a new technology in sunscreens, whereby long-lasting sunscreens, which have six hours stay, which is clinically proven, are a few of the things that we've launched last quarter.

And NPD has contributed about 18% to the FY '24 revenue from operations. We also use this strength to get into newer categories and hence, enhance the TAM that is available to the company. With Mamaearth, we have entered into personal washing with a differentiating product, which is moisturizing lotion soaps, a Grade 1 Made-Safe certified formula, which is something that we are executing this summer.

And also looking at the opportunity in colour cosmetic space. We have entered into that area with a different brand called STAZE, which is focused at Gen Z. And again, providing innovative products. We have 3-in-1 lipstick that we have launched under STAZE, which actually has three shades in one lipstick. This is actually a new-to-world innovation that we've brought to India, knowing that Indian consumers seek value in products that they look at. And we've also launched Tubing Mascara, which is another innovation that we have brought to this academy.

And to further strengthen our R&D and our product development expertise, we're glad to announce the acquisition of Cosmogenesis Labs. This acquisition brings in the expertise of Ms. Rohini Manoj, who has been the founder of this company for the last 25 years and brings in very strong industry experience in cosmetic formulations. She and her team have built more than 5,000 formulations in the beauty and personal category over the last few decades.

And as a part of the transaction, we'll also be acquiring, apart from the formulation expertise, the R&D labs, as well as our nano-manufacturing facility. And this is something that further strengthens our ability to innovate and bring the right kind of products to the consumers. Rohini will be joining us as VP of R&D, reporting to Ghazal.

This deal is likely to be closed in the next four to six weeks. And of course, while the business has been good, we've also been spreading a lot of goodness. And we have released our first impact assessment report, whereby all the brands and the impact that their purpose programs have had has been captured.

For example, for Mamaearth, over 600,000 trees have been planted across 3,800 acres of land, which has been green. These are all fruit trees, which we plant alongside farmers. So these will generate 12,000 tons of fruit over the next decade and about 20 crores in income for these farmers.

And of course, 500,000 tons of oxygen to the environment will be generated because of this. Our Derma Co runs a young scientist program, whereby we have run multiple science classes in schools across Bangalore and Chennai. More than 20,000 students have been engaged in this.

Basis quiz, we have understood that their knowledge has been improved by 42%. In Aqualogica, it is a younger brand, but we're deploying fresh water plants across villages. And we have now deployed it across 500 plus households who have access to this.

And we're saving 400 hours daily for women who had to travel hours to get access to fresh clean drinking water. And under BBlunt Shine Academy, we've now certified over 10,000 women in salon and styling courses across 11 states. This is something very close to our heart. And as our brands grow, our impact also grows.

With this, I would come to the close of our presentation. Thank you so much for listening in. We would love to answer the questions that you have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhiraj Mistry from Antique Stock Broking. Please go ahead.

Dhiraj Mistry: Hi and very congratulations on good sense of number and improvement and profitability. So my first question is on distribution expansion, which you are a distribution expansion strategy, what you have implemented? What kind of impact we are seeing in the short term? And what are the likely benefits, like what kind of margin it can be over the long term period, let's say from two to three years period?

Varun Alagh: Hi, thank you for asking the question. So firstly, I think in the short term, the impact that we are seeing is in our primary sales, which is what I talked about, for example, last quarter, about 200 basis points in primary sales is the impact over the next three quarters, we believe 50 to 100 basis points every quarter will be the impact on this, Because the transition involves reducing inventory, which is there in the system, given the super stockist is holding a higher level of inventory compared to direct distributors.

From a long term perspective, it is, of course, beneficial from three ways. And one, like you rightly said, the super stockist left, charges about 5% incrementally in distribution. It is currently at about 50% level that we end this quarter. And our objective will be to take it down to 30% levels over the next three quarters. And hence, that's the financial benefit. But more importantly, the benefit is in increasing direct distribution and quality of execution in the market.

Any store which is covered well by a direct distributor, their frequency of visit and also proper leads results in better share gain compared to what is captured by indirect distribution. And that's the business benefit that we are expecting to see over time because of going direct and building these direct distribution platforms.

Dhiraj Mistry: Got it. And as per your current sales, this 50 cities will be contributing what percentage of your sales?

Varun Alagh: About two thirds of the GT sales is contributed by 50 cities.

Dhiraj Mistry: And yes, second question is, what will be the contribution of offline channel and online channel during the quarter and for the full year?

Ramanpreet Sohi: Yes. So, at an overall level, offline contribution is about 25% and online, of course, is the balance.

Dhiraj Mistry: 25%. I heard correctly?

Varun Alagh: No, again, one third would be offline.

Dhiraj Mistry: Got it. And this is same for the full year as well?

Varun Alagh: Yes, this is full year.

Dhiraj Mistry: And how do we see that the margin trajectory in terms of A&P spend is definitely one of the lever which we can always play for the margin expansion. How do we see that the A&P spend when we are focusing much more aggressive growth for Aqualogica, the Derma Co and all, as a percentage of sales when you would like to start playing lever of reducing A&P spend for margin improvement?

Varun Alagh: We've already been doing that actively over the last 3 years. So, for example, in case of a Mamaearth it is significantly lower compared to what it was for younger brands. Now, this year, for example, for a Derma co it has come down as the brand has scaled and every year the objective will be to get better efficiencies while continuing to grow and build the younger brands.

Dhiraj Mistry: Got it. Okay. I will come back in a queue if any question.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Hi, Varun and team. A few questions. First is, Varun, what is the outlook on FY25, let's say both on growth and margins?

Varun Alagh: So, Vivek, as we have also mentioned in the past our objective will be to continue to grow at 20% plus CAGR over the next 3 years and that's the growth that we would want to hit in FY25 as well and that's the plan that we have in place and from a margin perspective our objective will be to improve compared to last year, at least by 150 basis points is what we are aiming in FY25 in terms of improvement over FY25.

Vivek Maheshwari: Got it. And in that context we are hearing a lot about, so I think D2C competition, digital first competition was always there, but we are hearing even the traditional companies are focusing quite a bit on the online side of things. Have you seen competitive activity picking up quite a bit in the last 3-4 months and how does that impact both from a growth and margin standpoint at least in the near term?

Varun Alagh: So, Vivek we actually had talked about this last time as well that we have seen incumbents being more competitive, more competition from incumbents on the online space and it is largely in the form of significantly higher discounting that we have been noticing. This is a category where the consumer beyond a certain level chooses brands that they love and you cannot skew too much beyond a certain level basis price because of which we feel confident that even in face of the competition, we will be able to deliver the goals that we have set for ourselves.

Vivek Maheshwari: Interesting. The other question is on STAZE. So, look you are entering into new categories and this one is along with the brand. So, category wise I'm guessing that you will keep exploring more white spaces, but from a brand standpoint do you think the architecture is in place that whichever category that you want to get into you have the architecture or you still think that there are white spaces and you may have to have a couple of more brands? How do you think about that?

Varun Alagh: Vivek, I think the way we are thinking about this is the market in Indian consumer is evolving very quickly. In the past, we used to talk about that something that happens in the US or other countries it takes about 5 years for it to sort of come to India and hence category evolution in India is slower. Now with digital evolution, Indian consumer is becoming very connected and they're also looking at what's happening outside the world, they're getting educated far more quickly compared to what used to be the scenario in the past where category education used to take a lot of time.

Now with influencers and digital availability, category education is also becoming quick and trends are getting captured very quickly. And Derma Co is a great example of that nothing existed and now there is so much action happening in the active base brand So I think as a company, we would want to keep a very close watch on our consumers. We would want to clearly see what kind of trends are emerging, what kind of needs are emerging and how they are looking at different categories or spaces.

And if there is an opportunity to disrupt, and that disruption cannot be done by one of our existing brands because of the because of the sharpness or architecture required to do it then we would surely look at newer brands to cater to that because we have proven our ability to create value by building a newer brand.

Vivek Maheshwari: Okay got it. And if I may a couple of more, one is on the acquisition R&D capability Cosmogenesis, can you just elaborate you mentioned, but the comments for a bit brief, can you just elaborate Varun what is from a capability standpoint, what is the outcome that you are looking at with this acquisition?

Varun Alagh: So, Vivek, as we have mentioned innovation is critical to the company and one of the things that we take pride in is the fact that we're a company which is crafting for Indian consumers, for Indian weather and we were seeking to further strengthen our product development expertise and we of course currently have a team of over 50 members in our innovation and R&D function.

But we wanted to further strengthen our expertise in the crafting for India domain by bringing in a team who has been developing formulations for Indian consumers and Indian brands for some time. So I think the expectation is to further improve and work on the products that we have to, to increase the acceptance and love amongst consumers to further enhance our understanding of how to craft for India even better across our newer brands, as well as the purpose would be to further increase the pace and quality at which the company is able to aim.

Vivek Maheshwari: Okay, got it. And the last one, Varun, is this direct distribution changeover, you have quantified its impact on top line. Does it also have any impact at the EBITDA level?

Varun Alagh: No significant impact, Vivek. We have taken some increased provisions for inventory based on the return stock that comes in case of transition, but the impact is in less than 50 basis points.

Ramanpreet Sohi: Yes, in fact, just to add there, Vivek like Varun mentioned earlier as we move more towards direct distribution, we'll unlock some bit from super stockist margins. So it will balance per years. So we don't see any incremental impact to our targets of incremental margins per years.

Vivek Maheshwari: My question was for this quarter does this have any to call out in this quarter from a margin standpoint?

Ramanpreet Sohi: So, for the current quarter I think we would have expected a little more leverage to begin given that we've had some impact on the primary like you mentioned earlier. So, there were some leverage impacts given as a percentage of sale of the business because we had a lower primary as compared to what we could have actually delivered.

Vivek Maheshwari: Got it. Perfect. Thank you. And all the best.

Moderator: Thank you. The next question is from the line of Percy from IIFL. Please go ahead.

Percy: Hi Varun, Raman and team. My first question is on Mamaearth. So if I do some back calculation, it seems that Mamaearth brand at a net sales level has probably grown in single digits this year, partially because of your primary reduction or any other reasons. Just wanted to know your sort of realistic estimates for growth on this brand next year and in FY'26.

Do you feel that it is a realistic target for us analysts and investors to sort of build in a double-digit growth in the Mamaearth brand? And if so, what are the pluses and minuses to the number versus what we have done this quarter? Sorry, this year. So, what will accelerate it from this year? What are the factors for the acceleration? And if there are any sort of decelerating factors which were not there this year and will come through next year, if you can enumerate that also, the pluses and minuses?

Varun Alagh: Hi, thank you for asking that. So you're correct, there has been on the primary impact which has been there. And this is all on Mamaearth because that's the brand which is distributed offline over the last two quarters. Now, from a last year perspective, the UVG growth you talk about, last year till Y-T-D we were in double digit growth. From our last full year perspective, the brand is at a mid-teens UVG growth in FY'24. And FY'25-FY'26, our plan is to make sure that the brand grows in double-digit in terms of value growth as the company growth is about 20% in general.

Percy: So just help me understand if the UVG growth is around 15, what is the reason that the value growth this year is probably a little shy of 10?

Varun Alagh: So between UVG and value growth, the one big driver is because of the transition between B2B and B2C channels. In B2C channels, the per unit revenue recognition is far higher. While in B2B channels, because of the margin etc, on top, the per unit revenue recognition is relatively lower. And hence, as the brand is moving towards B2B and the growth is coming from GT and modern trade. And there is more number of units which are required as well to deliver the same amount of revenue growth, so which is the biggest reason between the gap in the UVG and value growth, UVG being higher.

Percy: Understood, but won't this headwind continue into next year as well? And would you see a scenario where even next year you have a double digit UVG, but then the value growth again falls short of 10?

Varun Alagh: The other thing that you mentioned, for example, the impact of deceleration in primaries, which is there in the distribution piece, almost 50% of that is done in the last two quarters. And over the next three quarters, the balance should come in. But once that is done, then that deceleration impact should move away, and which gives us confidence that over the next two years, we should be able to do a double-digit value CAGR.

Percy: Got it, got it. Another question I had was on margin. So, you mentioned that you would be targeting somewhere maybe around 8.5% to 9% for FY'25. My question is, and sorry if I'm splitting hairs here, but do you think it will sort of gradually ramp up over the four quarters? Or do you think that for all the four quarters, the 8.5% to 9% target would be roughly sort of there across all four quarters? Or do you like start off at 7% and end up at like 10% and therefore the average comes at somewhere around 8.5% to 9%?

Varun Alagh: I do agree on the splitting hairs bit. But no, so my view would be that we would be in a range, and we would address these 50 basis points here and there in terms of quarterly sort of averages. There are quarters in our case which are more seasonal quarters, and hence our media plans are slightly more skewed on those quarters. We like to also start strong because of summer season and before summer categories. But overall, from a year's perspective, I believe the variance would be in that 50-70 basis points.

Percy: Got it, got it. And last question, if I may, on Derma Co. So how do you measure the relevant market share for Derma Co? See, the overall skincare space is really huge, right? But that's not your relevant target. So, maybe the relevant market share would be that out of all the brands which are active-based brands, what is your market share there? So do you look at it that way? And if so, can you give us some idea how big you are relative to that relevant market, and also that relevant market which is active-based sort of solutions? What is the industry growth of that sub-segment of skincare?

Varun Alagh: So, actually, we'll be able to give you a directional response on that because there is no third party which measures these propositions and these brands. And given most of this growth of the proposition, almost in fact 90% contribution of this proposition, which is active-based, is actually lying in online.

There is no share-based panel as well which comes for it. But giving you a directional view, our view is that this subcategory is already about INR2000-odd crores in ARR, and of which Derma Co and Dr. Sheth, between the two of them, we have about 33% to 35% odd share, which largely lies in two core categories, that is face serums and face sunscreens.

And now we are also seeing face washes and moisturizers grow very strongly in this proposition. So that will be another driver. I think overall, this proposition has gone largely from zero to INR2000 crores between the year 2000 and 2024. And the growth continues to be very strong for this proposition in the category.

Percy: Right, Varun. That's all from me. Thanks and all the best.

Varun Alagh: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Gupta from Emkay Global. Please go ahead.

Nitin Gupta: Yeah, thanks a lot for the opportunity. I just wanted to check, like, will you be able to share revenue split across brands?

Varun Alagh: Sorry, Nitin, we don't share the revenue split across brands.

Nitin Gupta: Okay, okay. That's perfectly fine. I just wanted to check, another question is with respect to the BPC category, sort of, we have a fair presence across most categories. So, in terms of any new category, like how the thought will evolve, like how you want to expand across categories? Will we be open to get into categories like oral care, where we see healthy margin profile, or getting into a home care category ahead?

Varun Alagh: So BPC is the core category that we have. We have chosen to focus on, from a medium term perspective, that's the category where we are building organizational strengths, in terms of understanding the consumer and their skin, hair needs far better. And as well as in strengthening our R&D and marketing playbooks as a company. Now, within that, we -- there is, there are still, some subcategories, where we are not present in -- we would probably evaluate them in the future.

But outside of that categories, like home care, is not something that we would look at. Even categories like oral care, at least in the short term, we are not looking at, but from a medium term perspective, even if you look at that category, you would look at it from an angle of beauty, which is finally your smile is what makes you beautiful. So, if that sort of, that's how we would look at possibly the category in the long term, but not in the short term.

Nitin Gupta: Thank you. And the last question, with respect to the baby products, so like we have put out an excellent ad yesterday. So, just wanted to know, how is the salience for baby products?

Varun Alagh: So, baby product category continues to grow well for us and continues to be a strong driver of equity for Mamaearth as a brand. That's the, that's the brand in which baby care is present. And for Mamaearth, the salience continues to be about close to 10%.

Nitin Gupta: Can you repeat the last line?

Varun Alagh: For Mamaearth, baby care continues to have a salience of about 10%.

Nitin Gupta: Okay. Okay. Thanks a lot. Thanks.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Hi, Varun, Ghazal and Raman. Thank you for the opportunity. My first question was on the margin expansion of 150 basis points that you talked about for FY’25. Could you walk us through, the key levers for this? Are we, how are you looking at gross margins? Would remain stable at 70%?

In FY24, we saw employee costs were up, just 3%, 4%, and A&P was up about 25%. So do you think employee costs will continue to grow very modestly, even in FY’25? And any incremental thoughts on, what growth you anticipate in A&P given, the new brand investments that you plan to do? That's the first question. Thank you.

Varun Alagh: Yes, Latika, so like we mentioned, the combination of all of these levers is what would help us get to that 150 basis points improvement. There is slight improvement, which we expect in gross margins as well, because given younger brands are growing faster, younger brands have actually got a better gross margin profile.

And that makes change as well as sort of, contributing towards GP and GM expansion. And then the second lever, of course, is A&P. While we do continue to invest strongly in our brands, but as the brands scale, we have clearly seen that the percentage A&P on that brand sort of continues to come down. We have seen that now in Mamaearth and in Dermaco.

We expect to see that in other brands as well. So that's the second unlock. And of course, the third unlock is leverage, where we expect, be it in terms of opex and other costs to grow slower than where the company is growing. So I think combination of those three will help us get that.

Latika Chopra: Okay. The second bit was just clarifying on, underlying volume growth definition. They were referring to tonnage growth or you're referring to number of units, growth.

Ramanpreet Sohi: Sorry, complete your question. Sorry, Latika, please go on.

Latika Chopra: And the other thing I wanted to check was, are you air-drafting this for Mix?

Ramanpreet Sohi: So our, UVG basically is tonnage growth on previous base periods realization. So it sort of calculates constant turnover based on previous years' realization, which is the typical way of calculating UVG. And hence, the price is taken off, it's pure volume in tonnage terms.

Varun Alagh: And it takes care of the mixes.

Latika Chopra: And the last bit was, any flavor on, how the overall revenue mix is now trending, in terms of key segments, skin, hair, colour cosmetics, you've talked about how sunscreens are growing quite fast, but any rough flavour on, the shampoos, in the overall revenue mix are trending amongst key segments?

Varun Alagh: So, Latika, skin continues to be the largest segment for the company. More than 60% of the value for the company is coming from skin now. And it is also the fastest-growing segment for us. Followed by hair, followed by colour, followed by baby and followed by body.

Latika Chopra: All right. Thank you.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead. Mr. Chintan Sheth, may I request that you unmute your line from your side, please? Mr. Chintan, may I request you to unmute your line? Your line has been unmuted.

Chintan Sheth: Hi. Thank you for the opportunity. I hope I'm audible.

Moderator: Yes, sir. Please go ahead.

Chintan Sheth: Yes. Thank you. Congratulations, Team, for this great set of numbers. Couple of questions. One is on the Mamaearth growth. You mentioned the Euromonitor data, the secondary one growing at 21% for the Mamaearth brand. But for the full year, it looks like a single-digit or 9% to 10% growth. The gap you explained partly because of the distribution change. But if we just look at the expectation-wise, whether the brand can grow at a high 18%-20% growth rate or do you feel there is the online softness also coming through, the base is also hitting, which is reflecting in the softer number for us?

Varun Alagh: So, Chintan, as we have talked about, I think from our next three perspectives, we are looking at a double-digit value growth for Mammoth as a brand. But at a company level, we plan to grow at 20% plus value growth CAGR, because our brands will grow faster. And of course, Mamaearth has a large base attached to it. It is, like I mentioned, amongst the top 15 BPC brands.

If you actually remove the soap brands from that, it is actually on the top five BPC brands in the country, ahead of brands which have existed for almost two years. And hence, there is the base effect as well. And this is how we are expecting the brand to grow over the years, whether the company grows by our actions in different categories and situations.

Chintan Sheth: Right. Okay. The second was on the acquisition, this R&D side. There was some concern, you know, that the way we were launching new products, the timeline and the speed at which we were launching new products, the timeline for doing effective, what would you say, the quality-based testing, whether this helped us to kind of overcome that aspect for launching new products. Because there were certain media concerns on the way we were launching new products at a quick succession. The issue was that whether we are kind of you know, overpassing certain quality checks or the regulatory checks, not the regulatory checks per se, but on the quality aspects that it is not given a due required timeline to complete that quality check?

Varun Alagh: So, Chintan, I would like to clarify. We are paranoid about quality in this company. We started as a baby care company, we used to make products for our own babies. And we still continue to test everything ourselves as well. Every launch in our company follows the full quality protocol and testing, which includes all kinds of NABL lab testing, it includes dermatologist testing for sensitivity and includes our internal lab testing. In fact, we are one of the very few companies which even today does batch level production, batch level external lab testing.

So last year, we have done more than 20,000 tests on each of our batch that we have manufactured for quality. And hence that is an area where we are already very, very strong and we are very cautious of. And there is a reason why consumers love our products. There is a reason why we've been able to scale these brands in such a competitive environment. And that is our focus on quality. And this acquisition allows us more knowledge and more idea into commercial formulations, which the team has done, the ability to get into newer categories, which you might not have had earlier, as well as getting into more depth and further improving our products. But quality as an area has continued to remain a very high priority area and will continue to remain.

Chintan Sheth: So do we have quantitative targets for this acquisition that this number of particular products which will likely or categories which will likely to get into with the help of the already set up R&D setup over the next couple of years?

Varun Alagh: So overall, the acquisition is supposed to help us deliver our goals that we have set for ourselves. And hence, there is no different targets. The innovation targets that we have internally in the company, this acquisition is supposed to further ensure that those targets sort of get met because of the capabilities that we acquire.

Chintan Sheth: Sure. And last question on this, the Saudi distributor thing. We already released the press note a couple of days back. What will be the timeline or how should one track this? We are going to the upper court.

Ramanpreet Sohi: Yes. Hi. So we have 30 days to file an appeal. And given that, you know, the judgment that was passed by court of first instance earlier did not really pick up the merits of the case. So we're going ahead and I think we're very confident of reversing this at the next court of appeal.

Chintan Sheth: Sure. Okay. So next hearing will be or next appeal will be in the current quarter?

Ramanpreet Sohi: No, it will be filed within 30 days and then the court will give a date after that.

Chintan Sheth: Okay. So it will take time. Okay. Great. All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Amit Purohit from Elara. Please go ahead.

Amit Purohit: Yes. Thank you for the opportunity, sir. Just two questions. One, you highlighted your initiatives on direct reach in top 10 cities. So one query I had is more on a customer thought process. I mean, why would a consumer move from an online to an offline in these top 10 cities, which are already have a good access in terms of internet and now quick commerce as well? Just your thoughts on that? This is the first question.

Varun Alagh: So our view is that consumers in all of India, of course, in top 10 cities as well, prefer to buy in their channels of choice. I mean, there are consumers, let's say in Delhi, who prefer to buy on Amazon or D2C or e-commerce. And then there are consumers who still prefer to take their shopping to a D-Mart or a Reliance store or to a GT store nearby.

Because of their higher trust in that channel, because of their wanting to discover and feel products before they buy. Overall, as we see today, still almost 90% of the category sales continue to be in the offline channels. And that consumer is now looking for our brands. And hence, our role will be to provide the brands at the channel of choice where they want to buy products. And hence, it's a mix of different consumers, even in these cities that we're trying to solve.

Amit Purohit: So these would be assuming to be a unique kind of consumers rather than the existing cohort, is that what the assumption is?

Varun Alagh: Yes.

Amit Purohit: Okay. And second is more on to understand your clarification with respect to your comment on active based products. And you said that largely these are dominant in the online channel, right? Much of the market is online when you say DermaCo and Dr. Seth as a market as such, not just these brands for us. So in that context…

Varun Alagh: Yes, they…

Amit Purohit: Sorry, go ahead, please. No, sorry, go ahead.

Varun Alagh: No, please complete your question. I'm sorry.

Amit Purohit: No, no, I just --so if yes, then the thought process was this that I wanted to know is that if that's the case, then which are the brands which you expected to bring it offline, because now you will have a distribution base and a direct reach and that would require a throughput to be much more viable. Would it that kind of give you a thought of entering into some of the mass categories as well and not just restricted to masstige and the above segment?

Varun Alagh: So firstly, yes, the market for these products from a direct-to-consumer perspective largely lies in online. Some of these products and categories have existed but, in the past, as well, but they've largely existed in the pharma kind of channels recommended by dermatologists, but now it's becoming direct to consumer, and that market largely lies in online. From my ability to take it offline, I think we already with Mama Earth present in the right kind of stores where some of these categories and brands will also go, especially pharma and modern trade channels. And we will ride on that distribution that we have already built to take these brands to those channels as well.

Amit Purohit: Sure, and just the point on the viability of this direct reach, which should be good enough for us to not, or we would have a thought of entering into a mass or some other segment.

Varun Alagh: Yes, no, we don't have such plans. Okay, thank you.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead, sir.

Manoj Menon: Hi, team. First of all, an observation and a clarification. Congratulations to the team for the UVG metric starting this quarter. I do vividly recall the conversation last time. It's an absolutely excellent metric to follow. Good luck to you. Secondly, on the offline journey, Varun and team, look, you're a young company, started extremely well in online, and in fact, has started off even better in offline. For example, when I think about, let's say, demand forecasting, you are starting on a fresh slate, and you have done and executed largely, I would say, impeccably. So just help us through your last 12, 24 months of your offline journey.

What are the learnings? What are the hits and misses? And how do you see those templates, let's say, helping in the next, let's say, few years? Thank you.

Varun Alagh: Thanks, Manoj. You're right. We did discuss the need for a UVG metric, and we've worked on it based on that feedback. On your second point, I think, firstly, the realization has been around how we are a very data-oriented company, where we like to take almost every decision based on a set of clear data. And hence, the realization was that if we want to execute well in offline, we need to have almost as much data as we collect in online to be able to make even more relevant decisions.

And in that light, the kind of partners that we need should be the ones who understand the power of executing the tools that we provide, as well as in terms of the sales team that we work with, should also appreciate and execute basis that process. And I think that was one of the biggest learnings. And we've in the last year, be it from the right team leader's perspective, bringing in the right leadership.

And then, from that down, building the right kind of team which has this process and data orientation is an action that we have taken. Second realization, like I talked about, has been about the fact that the more direct control you have over your distribution, in the lesser the layers exist between the company and retail, the better is the quality of in-store execution, which of course leads to better shares. And that's something that we have implemented in the project that we talked about.

And we'll continue to focus on that in FY '25 as well. I think the third big learning for us has been working with modern trade accounts. And modern trade, like Dmart and Reliance, continue to grow really well in the country and expand presence. And last year, we have actually been able to engage very deeply with our modern trade customers. And whereby now, we have relationships where we collaboratively work on newer opportunities in terms of propositions, pack sizes, categories, which we think is going to allow us to take better shares in the modern trade environment as well. And so I think those would be the key learnings that we have had.

And we continue to learn, though I don't think the learning journey has stopped. In fact, as a team, every quarter, almost 50 managers for the company go and meet distributors, do market visits together. And then we come back and do a degree from the same to further enhance our learning. So we'll continue to be on that learning journey.

Manoj Menon: Sure. Thank you for a very detailed response. Just two quick follow-ups here. One, just around 200,000, let's say, outlets reached in GT currently in offline. Realistically, what's the TAM which you have for the current portfolio? I do understand that every end outlet may not be the same throughput. But just from a market love, simple narrative template, what should be the TAM in terms of the offline outlets, let's say, for Ceteris Paribus, which you should be having today, subject to execution?

Varun Alagh: So for two categories, face wash and shampoo is where we capture this through NAC Nielsen, where we know we are in about 50% value-weighted outlets for shampoo and face wash. And hence, probably for those categories, we can say that these contribute to 50% of the category sales according to Nielsen. But even in these stores, almost 150,000 of this 200,000 is indirect distribution.

And we've realized when you go from indirect to direct, you're able to make a significant impact and your SAH sort of improves significantly. So that's the second flavour to that. Hope that answers.

Manoj Menon: Yes, very clear. And lastly, a while back, I do recall the conversation about the opportunity for you, from your lens, the low unit price pack opportunity, which I don't think you've really dialled up as yet. So where are you at this point in time in terms of the LUP opportunity thought process and execution?

Varun Alagh: Manoj, I must clarify that our LUP is largely actually categorized as MUP. Because we will not get into sachets as a company, given we have aspirational brands, and we would like to maintain that aspiration. But we want to get into smaller packs so that put-down price, like you rightly said, for our brands becomes lower.

And in line with that, this year, our objective will be to scale up our INR99 price point packs in shampoo and face washes and take that direct distribution higher. And probably next year, we'll look at an even lower price point of the 49-50 levels and scale that up.

Manoj Menon: Very clear. Thank you so much, and good luck.

Varun Alagh: Thank you.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Hi, thanks for the follow-up opportunity. A couple of bookkeeping questions. The first one was, is it possible to share the ARR for, Aqualogica and Dr. Sheth? You have INR500 crores for Derma company in Q4.

Varun Alagh: Latika, as in when the brands hit a newer interesting milestone, we will keep coming and celebrating that with you. The last we disclosed that both the brands were in the INR150 crores-INR180 crores kind of area. Of course, they have grown from there on. But possibly soon, we'll come up with as they hit a new milestone.

Latika Chopra: Okay. The second one was on other income in the quarter. This was about INR19 crores. In the previous quarter, it was about INR11 crores. Could you let us know what is the expected run rate on this number? This seems higher in this particular quarter.

Ramanpreet Sohi: Yeah, Latika. So, you know, this is largely the impact of IPO proceeds for the full quarter. We've obviously we've started utilizing it to a certain extent, but not completely. So, from a run rate perspective, give or take a few crores is the quarterly run rate.

Latika Chopra: Okay. And the last bit was on your distribution channels. You said 1/3 of the business is, you know, offline. Could you help us with, you know, how is the salience of modern trade, if it's possible to get some colour on, what's the salience of that in your revenue mix today? And any thoughts on or anything that you want to share on how you're participating in the Quick Commers channel? Thank you.

Varun Alagh: So, Latika, from a modern trade perspective, within offline, our modern trade and institutional business would be about 40%, you know, and GT would be about 60%. Quick Commers is growing very fast for us. It, of course, relative to some of the other, e-comm platforms, which are much larger in terms of contribution, as of some, it has already entered top five. But in terms of growth, Quick Commers is growing much faster compare to other commers partners.

Latika Chopra: Thank you. And is this channel, you know, from a profitability perspective, how does it stack up versus other e-commerce, the mainstream e-commerce channel for you?

Varun Alagh: Relative to mainstream e-commerce channels, it's more profitable for us.

Latika Chopra: Right. Thank you.

Varun Alagh: Thank you.

Moderator: The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Hi, team. Thanks for the opportunity. There's a follow up on, you know, TDC, Aqualogica and Dr. Sheth's. What would be the offline contribution for all these three brands put together today? I know it's insignificant. And, you know, currently your reach for Mamaearth is about 188,000 outlets. What percentage of the outlets, either on a weighted average basis or, on an absolute numeric basis, do you think are essentially ready to onboard these brands?

Varun Alagh: Thanks, Jay. So, you're right. Currently, between Derma Co, Aqualogica, and Dr. Sheth's, the contribution will actually be in low single digits for offline. This is the year FY '25 where we're taking especially Derma Co, which has reached a scale and is now seeing demand into the offline space. Our first port of call will be combination of modern trade and chemist channel stores. And we would actually want to grow incrementally.

And by first putting in the right set of imagery stores, right, seeing the traction there, then adding, another set of stores and making sure that wherever we put the brand, the brand is sort of moving out. So I think plans are there. And we hope this year for Derma Co and we are able to take the contribution of offline to high single digits and then move on from there.

Jay Doshi: Sure. Second is how do you internally track, the repeat offtakes? And is there a, qualitative or a quantitative sort of colour you can give on some of your three, four-year-old ranges such as Onion Range, Vitamin C?

How have these ranges performed versus, you know, the Mamaearth brand, or in FY '24 or over the last two years? So are you seeing far healthier growth in some of those core ranges and the slowdown that we've seen for, you know, the flagship brand is largely because of the long tail sort of, lower repeat offtakes there? So how do you sort of internally assess this? And if you can, you know, help us understand it better. Sure.

Varun Alagh: So Jay, given our, we are expanding, especially for Mamaearth, the growth is now coming from offline and modern trade where we're expanding. And offline and GT and modern trade are, you know, channels where you're able to execute a few SKUs well rather than execute a long tail. And hence our hero SKUs like Ubtan Face Wash and Onion Shampoo had actually grown in high double-digits in value last year.

And they continue to do well. Vitamin C is in the zone of high double-digits. These are all sort of new ranges and hero SKUs which are present in and are driven in the GT and modern trade ecosystem. We will continue to see strong growth from those.

Jay Doshi: Understood. And the final one, innovations contributed 18% to full year growth in FY24 and overall growth was about 30% odd. So, how will this construct sort of be over the next one or two years when you're guiding 20% plus growth, how much of that increment growth you expect to come from innovations that will launch during the course of year and how much will be from your existing portfolio?

Varun Alagh: Jay, firstly, one must also understand that in this same growth, there is also the younger brands, which are included, right. And for younger brands, for example, if something is two year old or one year old, it's still in the stage of range building. It's still in the stage where a lot of innovation drives that growth. So, that is also included in this. But from a future perspective, if you're looking at it, we will continue to look at least 40% to 50% of that being driven by innovations.

Jay Doshi: Sure. Thank you so much and wish you the very best for FY'25.

Varun Alagh: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference over to the management for closing comments.

Varun Alagh: Thank you so much, everyone, for asking these questions and your best wishes.

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