August 7, 2024

Listing Department **Code:** ***531 335***
BSE LIMITED
P. J. Towers, Dalal Street,
Mumbai–400 001

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

Re: **Transcript of the Earnings Conference call held on August 2, 2024**

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached Transcript of the Company's Q1 FY2025 Earnings Conference call held at 4:00 p.m. (IST) on Friday, August 2, 2024.

Please find the same in order.

Thanking you,

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

NANDISH PRADIP JOSHI
Digitally signed by NANDISH PRADIP JOSHI
Date: 2024.08.07 19:14:45 +05'30'

NANDISH P. JOSHI
COMPANY SECRETARY

Encl.: As above

"Zydus Wellness Limited

Q1 FY '25 Earnings Conference Call"

August 02, 2024

MANAGEMENT: **DR. SHARVIL PATEL – CHAIRMAN – ZYDUS WELLNESS LIMITED**
MR. TARUN ARORA – CHIEF EXECUTIVE OFFICER – ZYDUS WELLNESS LIMITED
MR. GANESH NAYAK – DIRECTOR – ZYDUS WELLNESS LIMITED
MR. UMESH PARIKH – CHIEF FINANCIAL OFFICER – ZYDUS WELLNESS LIMITED

MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Zydus Wellness' Q1 FY '25 Results Conference Call hosted by ICICI Securities. 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. Manoj Menon. Thank you, and over to you, sir.

Manoj Menon: Hi, everyone. It's a wonderful good morning, good afternoon or good evening depending on the part of the world you are joining this call from. Representing ICICI Securities, it's our absolute pleasure to host the management of Zydus Wellness once again for the results conference call, this time, the Q1 FY '25 results. The company is represented today by Dr. Sharvil Patel, Chairman; Mr. Tarun Arora, CEO; Mr. Ganesh Nayak, Director; Mr. Umesh Parikh, CFO. Over to the management for the opening remarks and the detailing, post which we'll open the floor for Q&A. Thank you. Over to you, sir.

Tarun Arora: Thanks, Manoj, for the opening remarks and opening and sharing the introductions of the people joining. Good evening, everyone, and welcome to the post results teleconference of Zydus Wellness Limited for quarter 1 financial year 2024-25. And as Manoj has already introduced, we have from the management, Dr. Sharvil Patel, Mr. Ganesh Nayak, and Umesh Parikh with me.

During the quarter, demand continued the positive momentum, with growth across various categories. Rural demand outpaced urban growth narrowing the consumption gap. The Country also witnessed harsh and prolonged summers which helped boost the consumption of seasonal products like Glucon-D and Nycil.

As a result, the Company registered exceptional growth regarding its highest ever sales with a consolidated net sales growth of 20% on a year-on-year basis, of which 17.1% is due to volume.

The Personal Care segment registered a whooping double-digit growth of 41.8%, thereby continuing its double-digit growth trajectory over the last few quarters. Growth was driven by strong consumer preference for the brands, further boosted by a favourable summer season.

At the same time, the Food & Nutrition segment also registered a good double-digit growth of 15% for the quarter riding on the back of brand Glucon-D, while Complan and Sweeteners portfolio continued to hold the fort. Nutralite brand showed a single-digit volume growth; however, value growth trailed volume due to market driven prices.

The company's research endorsement capabilities continue to be at the forefront, helping the company to launch new products and extensions, namely:

Complan's foray into immunity space with a new launch of Complan Immuno-Gro product in select states.

Everyuth pink clay & charcoal infused antipollution face wash, scrub and face pack.

Nutralite professional mayonnaise with Tandoori range.

Nutralite Retail Mayonnaise with carrot & cucumber sandwich spread.

The Company launched Nycil soap in international market, introducing 4 distinct variants, which include aqua mint, neem & aloe, lime and sandal.

Beyond these five launches, the Company plans to launch four more innovations in the coming quarters.

Amidst the headwind of inflation and commodity prices, the gross margin further continues to be resilient, showing its upward move to 114 basis points on a sequential basis and 314 basis points on a year-on-year basis, driven by strong performance of product portfolio, favourable product mix, calibrated price increase taken earlier and inefficient hedging strategy for key commodities.

During the quarter, the company repaid its debt in full, thus deleveraging its balance sheet and yet retaining its strong cash position as of the quarter end.

Let me take you through some other highlights of the consolidated financial performance of quarter 1 financial year 2024, '25.

Our net sales grew by 20% to INR8,391 million.

We reinvested some part of our gross margin expansion into brand building, as a result of which advertisement expenses grew by 19.1% year-on-year on a lower base of brand investment last financial year.

Other expenses grew by 27.7% year-on-year basis, driven up by the cost of strategy consultant to co-create long-term growth plans. Excluding this cost, other expenses grew by 6%.

EBITDA grew by 33.3% year-on-year to INR1,553 million.

Other income net of finance cost has turned positive.

Net profit after tax grew by 33.8% to INR1,477 million.

The adjusted PAT grew by 39.6% on a year-on-year basis after eliminating exceptional items and onetime deferred tax effects from the comparable quarter of previous year.

With that, let me share some of the highlights of the operations for the quarter gone by, which will also cover category growth and market share numbers as per the MAT-June 2024 report of Nielsen and IQVIA.

We maintained a strong focus on marketing initiatives aimed at expanding our categories and enhancing the market share for our brands.

On the Personal Care front, Everyuth brand continues to outpace category growth and has registered a strong growth. The face scrub category has grown by 14.3% at MAT level. Everyuth scrub has maintained its leadership position with a market share of 46.2% in the facial scrub category, which is an increase of 373 basis points over the same period last year. The Peel-off category has grown by 21.1% at MAT level. Everyuth peel-off maintained its number 1 position with a market share of 78.2% in peel-off, which is an increase of 200 basis points over the same period last year. Everyuth brand holds fifth position with a 6.6% market share in the overall facial cleansing segment level.

Nycil brand has witnessed robust growth, favourable summer season and consistent media visibility. The prickly heat powder category has grown by 20.2% at MAT level. Nycil has maintained its number one position with a market share of 34.9% in the prickly heat power category. Nycil has recorded a consistent increase in household penetration in line with our strategy of recruiting new consumers.

On the Glucon-D front, the brand has achieved strong growth, propelled by sustained marketing efforts and favourable summer conditions. To amplify market penetration in strategic states, the brand implemented additional micro marketing initiatives. On the digital front, innovative campaigns, included launching 4 new digital films targeting specific cohorts. Brand penetration has increased by 160 basis points versus last year as per the MAT-May 24 report of Kantar Panel. The glucose powder category has grown by 21.3% at MAT level. Glucon-D continues to maintain its leadership position in glucose powder category with a value market share of 59.7% at MAT level.

On the Complan front, the nutrition drink category has continued showing signs of revival across key metrics. Brand penetration has grown by 23 basis points versus last year as per MAT May 24, report of Kantar Panel. The brand is sustained by a TV campaign featuring two popular celebrities, Madhuri and Sneha highlighting the criticality of protein for growing care, supported by a comprehensive 360-degree campaign across all mediums. The category has grown by 4.3% at MAT level. Complan market share stood at 4.3% at MT level.

On the Sweeteners front, sugar substitute category has grown by 5.8% at MAT level. The Sugar Free brand maintained its dominant position in the sugar substitute market with a commanding market share of 95.9%. Sugar Free Green continues to experience strong double-digit growth, driven by increasing volume uptake. We recently upgraded Sugar Free Gold to Sugar Free Gold Plus with a new formulation, Sucralose plus Chromium. Chromium contributes to the maintenance of normal blood glucose level, while removing aspartame helps clarify any doubt in consumers' mind.

I'mlite, a unique formulation of sugar blended with Stevia to offer consumers 50% less calories than regulator has gained a positive response in the market in the quarter immediately followed its launch.

On the Nutralite front, the brand showed a single-digit volume growth; however, value growth trailed volume due to market-driven prices, which is largely a food service phenomenon. The brand was supported by several marketing initiatives, including awareness led digital campaign and summer digital campaign, Bachhon ka Khel with Nutralite, aimed at enhancing engagement for a professional range through social media.

Considering the expected normal monsoon in most parts of the country, we anticipate stable demand going forward. We intend to support this momentum through brand-led marketing initiatives and strengthen our supply chain capabilities, including the recent implementation of hub-and-spoke model for the suppliers. The company remains committed to ongoing innovation to align with evolving consumer preferences. Better macroeconomic indicators, combined with company's robust operational foundations are poised to support favourable growth prospects for our brands in the upcoming periods.

Thank you and we'll now start the Q&A. Over to the coordinator.

Moderator: The first question is from the line of Rishi Kothari from Pi Square Investments.

Rishi Kothari: Congratulations on good set of numbers. However, I would like to know our future prospects of the current plan that you are into. So what's the future outlook for us from here on? What type of growth rate we are looking at? And is there any margin exposure that we look at because right now demand is, margins over the years have gradually decreased for the company? So are we bottoming up of margins? Are we looking at an expansion of margin from here on?

Tarun Arora: Thanks for the question. I think our revenue growth expectations, like we've said in the past, we continue to focus on a double-digit growth trajectory and that's what we will -- when we -- is what we envisage going forward. From a margin, we do believe that we should be looking at expansion of our EBITDA margins and like we've also said in our last investor call, we are looking at over the next couple of years going back to a 17%, 18% kind of EBITDA margins through the journey, largely supported by gross margin improvement, which we've already seen and some operating leverage with growth...

Rishi Kothari: Okay. And this expansion of [OPA] margin by what time period are we looking at because right now, we are running at 13%, 14%. So the 17%, 18% will achieve in what, 2, 3 years' time period or is there any time line for that?

Tarun Arora: Exactly. I think next couple of years is what we've talked about.

Rishi Kothari: Okay. Okay. And my next question is in terms of the capex, what capex are we planning for FY '25?

Umesh Parikh: Yes. Currently, the capex is the maintenance line capex. And what we had on the depreciation, except the few balance sheet demand that we might have to procure.

Rishi Kothari: Sir, I was not able to get the amount that you said. Any amount...

Umesh Parikh: So in the range of INR30 crores, INR35 crores.

Rishi Kothari: Okay, INR30 crores to INR35 crores. And this will be purely -- where it will be deployed?

Tarun Arora: So it's largely a maintenance capex and some capacity expansion equipment that we may need, no large capex that we envisage.

Rishi Kothari: Okay. And just are we planning to deploy – to source it from the current cash flows that we have or is it true we are planning for debt increase?

Umesh Parikh: Yes. I mean, we plan to have the capex or the equipment deployed only through the current cash flow that we have.

Rishi Kothar And we are also planning for the borrowing reduction eventually to go and achieve a debt-free company status?

Umesh Parikh: Yes, of course, unless there is some acquisition opportunity in the future.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark Institutional Equities.

Tejash Shah: Thanks for the opportunity and congrats on a good summer, and good overall numbers. Just if you can help to slice and dice the number in terms of summer portfolio and non-summer portfolio and the overall volume and value growth to start with.

Tarun Arora: Tejash, thanks for this. We don't break it down with summer, non-summer. As we've started over the last five quarters, we started with food and nutrition and personal care, which you've shared. So that's really what it is. But Volume, we've had a 17.1% growth so out of 20 overall growth. So remaining will be valued. No specific price increases right now taken, but it's all price which has already been taken...

Tejash Shah: Sure. Sir, the reason to why I asked on summer is we all know that there was a huge tailwind for demand in general for because of the heat wave. So just wanted to know, let's say, hypothetically, if next year, we don't get this tailwind, how should we think about is there a genuine demand uptick? Or you believe that irrespective of that or irrespective of the heat wave we would have done this well or slightly, let's say, in ballpark around this number only.

Tarun Arora: So Tejash, let me explain. I think clearly, this summer is a very important part of our portfolio, and this does contribute to the numbers. And the numbers won't be the same if the season is not as it was. But over any 3- to 4-year period of time, we do expect a consistent -- sorry, double-digit growth across the portfolio. Now if a bad season happens like last year, that can happen, but that doesn't put us out too substantially, but we believe our double-digit growth for the entire portfolio is on a consistent basis is how we continue to look at from our outlook.

Tejash Shah: Perfect, sir. Very clear. Sir, we also kind of witnessed tailwinds on margin -- gross margin front. So was it largely led by commodity deflation or there was a premiumization also which played a role here?

Tarun Arora: So everything else, you're right. There is a bit of commodity support, but there is also, in recent months, some of the products -- some of the commodity has seen a substantial increase. But we are well equipped for that. So we have taken time the price increases and premiumization across our portfolio. Action across our portfolio where we have acted on some premiumization.

Tejash Shah: Sure. And sir, you also highlighted in your opening remarks that we reinvested some of these benefits in A&P and other expenses, which also has a sort of a one-off item in terms of some consultancy charges. But employee cost also jumped substantially. So any one-off there or this was just a regular uptick, which happens every year?

Umesh Parikh: So employee cost has gone up largely because of 2 reasons. One is that there is occupancy increase. So it's about 1.5% occupancy rise. And secondly, the reason is a one-off that we are transitioning from the private PF to government-based PF. And therefore, we had to make some shortfall there and therefore, you see a hike of 25%, which is not a normal hike.

Tejash Shah: So Umesh bhai, should I annualize this number? Or this is -- this quarter run rate is abnormally high to kind of bridge for the deficit...

Umesh Parikh: This is an abnormally high number and we should not evaluate bridges.

Tejash Shah: Okay. Okay. And last one, sir. So just wanted to know what percentage of our revenue now comes from -- quick commerce and what kind of trajectory of growth or relevance we are seeing in that channel?

Tarun Arora: So typically, the organized trade is 1/5 of our business, which includes small trade and e-commerce. And e-commerce like we have explained in our presentation also is e-commerce is overall about 9% to 10% kind of a 9.5% range. And it is growing at a much faster pace than other channels. But of course, last quarter, we've seen a good growth led by across all channels, but and quick commerce is growing portion of the overall e-commerce space, which is how the category is. Fortunately, for us, our market shares across our e-commerce platforms that we track are also ahead of our general market share. So we are in a good shape to embrace digital consumers.

Moderator: The next question is from the line of Karan Bhuwania from ICICI Securities.

Karan Bhuwania: Firstly, congratulations on good set of numbers. So I have 2 questions. Firstly, on Sugar Free, the change in formulation. Of course, it's good for -- good in the medium term given that there's a saving formulation removing aspartame. But do you envisage any short-term impact in terms of consumption because of the change in formulation of Sugar Free Gold?

Tarun Arora: We have done enough consumer tests, and we will have to finally play out whatever happens. But we expect actually to support consumer recruitment because one of the things there was a perception issue with aspartame, and that's why we've shipped it to sucralose + Chromium, which chromium is known to help maintain glucose level. So we do envisage some improvement in at least for -- overcome the negative perception that may happen. So we don't expect any disruption in any short or medium term.

Karan Bhuwania: Got it. So Sugar Free should ideally revert back to double-digit growth trajectory post this launch? Is that right...

Tarun Arora: Yes. Sweeteners, we are clearly expecting to remain on a double-digit growth trajectory over next year.

Karan Bhuwania: Got it. Secondly, sir, I see that we have done a few launches over the last few quarters. And then you also mentioned in opening remarks that 4 new products launches are expected over the coming quarters. So if you could just highlight what is the share of revenues from new product launches currently? And how do you see that over the next couple of years?

Tarun Arora: So the share of new products will be much smaller because they are at early stage. Typically, we look at share of products over 36 months rather than the same year because they start very small. And one of the things we have started doing in the last 1 or 2 years is also we launched in limited channels first or limited geographies, pilot it, learn it and then scaled it up, which is what we have done in Complan Immuno-Gro, which we've just launched end of last quarter, some of these launches will also go like that.

So I'm not seeing over the next 3 to 4 quarters, the numbers jumping up, but if they go right, we could really build up a much larger scale and our wish list is go up to 6% to 8% of our revenue could come in products from products launched in 36 months. But that's really what will really help us. So it's important to base them right rather than look at only short-term share of business...

Moderator: The next question is from line from Mayur Parkeria from Wealth Managers.

Mayur Parkeria: Congratulations on delivering a good set of numbers. After a long time, we are seeing such kind of growth. And as you alluded to, that while summer is an important element and there is a seasonality over the longest period of 3 to 4 years, we are positioned for a double-digit growth and hope that continues.

With that said, sir, just wanted to understand a few specific things on the recent change in trend in terms of quick commerce. If you look at our products, we'll call them as mass premium, will that be right in terms of Everyuth and other products. So with that, do you see quick commerce to be a big tailwind for us in terms of where we are in terms of growth and the changing trend, which is happening?

Tarun Arora: So quick commerce fits our products very well. They are regular essential use products. So quick commerce works. But I think it's also being relevant to the consumers as consumers are shifting their purchase behaviour across channels and there is an omnichannel world. So a lot of consumers who are buying probably from the neighbourhood stores are calling for deliveries are shifting to e-commerce, who find good traction with this. So our products are fairly well and we are engaging across quick commerce channels to be relevant and partner better with these channels.

Mayur Parkeria: So you're not seeing any additional tailwind in that sense. It is more like just an expansion at the margin in terms of another channel adding up.

Tarun Arora: So this tailwind really works, but it's also available to everyone. So finally, it's the consumer consumption habits, which will drive and where they buy from. Because we are well placed with quick commerce, we definitely think we are better placed and we will gain from it. But eventually, it will be a function of your engagement with them and how this works because finally consumers' consumption habits will drive the larger change at the category level. We're being the leader in most of the categories we operate.

Mayur Parkeria: Sir, one question on Nycil. At the overall -- from a little longish perspective and at an overall category level, talcum powder is a slow or is a diminution category in terms of consumer preferences as we see the newer generation and you know what is happening. So while we are doing all that is required in terms of positioning, repositioning and the brand innovations and freshness, but at a very broad level in terms of where the young generation is and when we see talcum power, it is -- any thoughts on that from a long list perspective, where is it positioned? And how do you see this?

Tarun Arora: So yes, if you look at our overall talc level, which includes sensorial as well as functional talcs, there is obviously some loss in consumers over a long period of time in the past where a lot of people have shifted out of sensorial talcs to a newer formats like the deodorants, perfumes and sprays, but functional talcs has seen a more consistent performance because this has been consumed not just for the fragrancing but for actual product performance against prickly heat, cooling.

Talc is one of the best ways to absorb sweat. Sweat absorption space has not worked in the country. So from a consumer perspective, I think there is still enough opportunity to build on talcs, especially the prickly heat and cooling talcs and at least over the next 3 to 5 years, I'm not seeing a big challenge.

Having said this, we have also piloted the product with the spray format, the mist, spray, which has not got, I would say, a great acceptance in the consumer. So we're still at it. We'll keep experimenting and learning with the consumers. But talc as a format works very well in the tropical climate of India, where the extreme summer and the perspiration is best absorbed by talcs and with the prickly proposition, it's a great match to consumer needs.

Mayur Parkeria: Right, sir. Sir, last question on my side is on the margin front, you have been saying that we'll move to 17%, 18% over a 2 to 3 years period. Last 2 quarters have been put together shows that we are on track. How do we see the little near term? I'm not looking for a number, but what the question is, is the -- are there going to be negative surprises in terms of margins, in terms of the -- as we go ahead on FY '25 because the summer has helped us, the strong tailwind has helped us. Are we positioned to continue to deliver in the next 2, 3 quarters alone. It's from a little near-term perspective. Do we -- are we going to see any -- do you see any headwind or any risk on that side?

Tarun Arora: Typically, quarter 2 and quarter 3 are smaller quarters from a revenue point of view, typically only 1/3 of our revenue comes from these quarters. And because of the fixed cost impact, there's a deleverage which happened. So obviously, you will find the bottom line, the EBITDA numbers or operating margins much lower than quarter 4, quarter 1. Therefore, our near term, if you look at the same level of margin, for sure, it will not play out.

But we think at an annualized level, we are on the right path where we see this trend to be secular unless some big, large disruption happens, which is out of control, we do see that this trend will continue in terms of improving our margin levels. And that's why we are planning for this or hoping to deliver the numbers that we are talking about from EBITDA margins in the next 2 years.

Moderator: The next question is from the line of Devang Shah: from D.D Enterprise.

Devang Shah: I was just like quarter 1 is a very pretty good quarter. I mean we got EBITDA level margins of around 18%. So recently, I heard on the con call, the quarter 2 and quarter 3, that cannot be achievable, like they are the sluggish quarters, correct?

Tarun Arora: I think I won't call them sluggish quarter, typically because the summer brands have a quarter 4, quarter 1, the Jan-June bias because that's how seasons play out. And therefore, our revenue has that bias. But I won't call them sluggish quarters, they will typically be lower and that has a deleverage impact on the overall payment.

Devang Shah: Okay. And sir, does it was like last quarter, like in the last con call also, you had like the price also has been like a price hike was there in some of the products. So is it like they got a good -- appreciated by the market or like the we've seen that on the basis of the prices, the demand has come down or something or the price has been acceptable. What accepted, sorry?

Tarun Arora: So simply put, we are leaders across categories, and we have the pricing power across our brands. Typically, we won't lead with the pricing, especially in a hyperinflation scenario, which happened over the last couple of years, which can lead to also demand drop. But now that extreme high inflation is out of the way, I think we are well equipped to manage with the pricing. And given our brand building and constant leadership, we are able to also get across to the consumer. And that's how we think it will be over the coming quarters as well.

Devang Shah: Okay. Just a small question. Like this -- like this quarter 2 and quarter 3, every year, this is like that only going on, if I'm not wrong, like I have seen that from the last 3, 4 years, right? And after thinking over the Heinz also. So quarter 2 and quarter 3 is not our production like our products are basically majorly been accepted in the quarter 4 and quarter 1 like the demand hike is there. So quarter 2 and quarter 3, does company has bought any of the thing for out of the box, like some of the products or some of the things to add some product, to add something in which quarter 2 and 3, like also like some of the products or anything like after taken over Heinz like is there any plan for the company? To just catch up the consistency, like...

Tarun Arora: So there is the seasonality has a long legacy to it. And we're cognizant of quarter 2, quarter 3 opportunity where we can do a lot more, but we are not built overnight. We do have launched several products like body lotion in Everyuth, which has a bias towards the quarter 2, quarter 3, but they are still very small.

And given the scale of Glucon-D, Nycil, it cannot be overcome by just doing that. So we are working to even out, but this is a reality of the business. So I think we are added to do better in the off season as somebody would call it in a -- against the summer products, but this take a longer period of time. And as long as we know how to manage it, it's fine, we are balancing it...

Moderator: The next question is from the line of Kruttika from Sharekhan by BNP Paribas.

Kruttika: Congratulations on good set of numbers. My first question would be on the demand output. So we are discussing that Q2 and Q3 are generally not feasible for the company but how do you see the demand going ahead in Q3 and Q4 specifically? Are there any specific headwinds that are likely to impact the performance? Or how is the overall demand scenario in the near term?

Tarun Arora: So overall demand scenario, we are only expecting it to get better. Now those -- the tailwinds on summer is out, but that's a separate issue. At the overall demand level, we do expect things to only get better as we have seen over the last couple of quarters. It's only got better. Good monsoon should help us improve the demand scenario. The product mix may change the overall output of the company, but we are still on, I would say, optimistic of how it will play out over the next couple of -- next 2 to 3 quarters.

Kruttika: Okay. So next would be the revenue growth for the current year. So we are eying double-digit growth for the year. So any specifics like in mid-teens or high double digits, any specific guidance regarding that if you can provide them?

Tarun Arora: No, we're not going to be able to do that.

Kruttika: Okay. All right. And my last question would be on the effective tax rate for '25 and '26. So what are we expecting it to be?

Umesh Parikh: So '24, '25 and '25, '26, there won't be any cash outflow as such that we are expecting, though there could be a deferred liability because we'll be utilizing the accumulated losses. So there could be a different liability but no actual tax outflow on that front, cash payment.

Kruttika: Okay. So the effective tax base would be around the same as last year?

Umesh Parikh : Yes.

Moderator: The next question is from the line of Malhar Sanghavi from Bodhi Capital.

Malhar Sanghavi: Congratulations on the good set. And in the presentation, in the first slide, you mentioned that rural demand is now outpacing urban demand. So when do you see this trend sustaining? And what products of our portfolio basically cater to rural demand per se.

Tarun Arora: So rural matters to most part of the portfolio, it's obviously differential numbers across brands. So Glucon-D, Nycil are more than 30% coming from rural and the regular products like Complan, Sugar Free, and Everyuth are in the range of 18 to 25 as a part of rural. Nutralite has much lower rural component though.

So overall, I think rural matters, and rural plays not just a role of direct consumption, it also plays out at the channel impact also because wholesale in all parts of other channels also get that much more vibrant when the rural demand is good. So for us, while we may be a little lower than the typical average industry levels of rural, but it does play a valuable role in building up our business.

Malhar Sanghavi: Right. Okay. And what's the outlook for like when do you see rural demand outpacing urban demand, if you can provide some insights?

Tarun Arora: I don't have any specific number, but we are quite hopeful given the fact that monsoons have been good, and inflation is in better control given what we went through. We do expect that rural incomes will help -- will get better and rural demand will continue to build up because that's really impacted the overall consumption in industry.

Malhar Sanghavi: Yes. Lastly, I may have missed this, but have there been any new product launches in the last quarter? Or is there anything launching in the next coming quarters, which is something about materiality?

Tarun Arora: So maybe you missed it, we've launched 7 new products in the last quarter, which we talked about Complan Immuno-Gro, Everyuth pink clay and charcoal, a couple of products, Nutralite and Nycil soap in international market. We have 4 more products like I explained in my opening remarks, we have 4 more products planned over the next few quarters. So we are quite positive on the new product launches. While some of them are specific to channels or market that we are building on those as we go forward.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark Institutional Equities.

Tejash Shah: Just a couple of follow-ups from my side. Sir, this quarter was slightly tricky to understand the actual underlying consumer sentiment because it got muffled with the heat wave tailwind also. But if you remove those noise from the numbers, how do you see the consumer sentiment? Are we better players than we were, let's say, 2 quarters back?

Tarun Arora: Yes. That's what -- I think we are better placed than earlier quarters from a consumer sentiment and some of our products we thought consumption has -- is looking more positive, but we'll have to see how it plays out.

Tejash Shah: Okay. And just second, you spoke about some consultant engagement that we are doing. If you can elaborate what problem statement are we working on?

Tarun Arora: So we've got a strategy consultant who can work co-create with us to build strength because we believe we are on the right path. We are focusing on the brand building, category building. But given the task we have and we've discussed this earlier also, we are market leaders in 5 of our brands, which means that we are not just fighting for market share, but category building. And therefore, to add bandwidth and focus even more strongly on international market, if I add to that, we believe we're adding bandwidth and more strength to our actions. And that's why we've got them for -- to work and co-create with us this path over the next few quarters.

Tejash Shah: And sir, all the cost pertaining to this has been booked in this quarter? Or there will be some follow-up cost also?

Tarun Arora: No, no. This is a continued engagement. It's not just onetime engagement. So it's not just put a strategy, but work with us on strategy, cocreate and co-own with us with link this to performance outcomes. It will be continued. And therefore, if we do well, it helps them also. So it works for everyone. It's a win-win that we try to work...

Tejash Shah: And this is performance-based or there is a large fixed component also?

Tarun Arora: Performance base, like you said.

Tejash Shah: Okay. And last one for Umesh. Umesh bhai, any guidance on tax rate? And if you can call out the one-off that you spoke about in employee cost, how should we kind of built in coming quarters and for the year?

Umesh Parikh: Sure, Tejash. So on the tax rate, I have just sped out that we will not be having any tax cash outflow in '24, '25 and '25, '26. After that, we'll be a new tax regime. So that will be paying '25 plus etcetera. As far as the employee cost is concerned, I think I alluded earlier also that's a one-off account of the PF transition to government PF that we are doing. And we also -- the occupancy that has been factored in now.

Tejash Shah: But Umesh bhai, how should we build the rest -- if you can call out the number that was one-off in this quarter that will help to normalize the number.

Umesh Parikh: Tejash, I don't have it handy, but I will -- maybe we can circle back on this.

Moderator: The next question is from the line of Lokesh from BOB Capital Markets.

Lokesh: I just had a couple of questions. First one is on your hedging policy, like how much -- like what's the typical hedging period? And how much are you covered for...

Tarun Arora: Sorry, we are not able to hear clearly. I think there is -- we are not able to make out clearly.

Lokesh: So just a couple of questions. First one is on your margins. So what's your typical hedging period? And how much are you covered for FY '25 for your commodities? And what percentage of your COGS do you actually hedge? Just to understand like how much of the inflationary impact is going to have on your margins in the current financial year? That's the first one.

And then the second one is, obviously, you like the FMCG industry is relying on the rural recovery for an acceleration in the sales growth as we progress through FY '25. I wanted to understand your margin profile between rural and urban, whether that's going to have -- like once your sales start becoming more skewed towards rural through the year, then is that going to have an impact on your margins, if you could clarify it by gross level as well at EBITDA level, that would be helpful.

Tarun Arora: So let me just first address your first question, which was on the hedging and buying of commodity. So first of all, we don't do long-term hedge. We take a low to medium risk only on this, where we have a line of sight on certain products, which also allow for a certain taking costs, we do that. Otherwise, we don't risk ourself because our business is actually on brands. We just try to manage and balance our costs. So our hedging is only to be more, should I say, more short to medium term and defensive rather than being very aggressive in hedging.

So the overall direction of the commodities have been helpful and with a little bit of smarter buying leading -- understanding those better and wherever possible to hedge, it's helped us, and we continue to remain focused on that. But we don't lose sight of the fact that our bigger value sits in building the brands, and that's where we are doing. And that's what is helping us improve our gross margin level. if that answers your question or if there's something more to this commodity?

Lokesh: No, that's actually helpful. So you're saying it's actually the mix that you're trying to improve that's impacting your gross margins that what you're trying to imply...

Tarun Arora: Correct. Correct.

Lokesh: Yes. And so just clarifying, I'm sorry. But so you said you don't hedge for long term. So is it 3 months like a good period to think of or is there too much...

Umesh Parikh: Yes. That's right. 2 to 3 months.

Tarun Arora: Second question is on the rural, correct?

Lokesh: Yes.

Tarun Arora : So rural, like I have explained in the earlier question also, it ranges between 20% to 30% across most of the brands from a consumption point of view. But from a distribution -- general trade distribution point of view, the rule in urban splits are almost 50-50 out of 2.9 million or 3 million outlets that we are available. Our products are available in, it's 50-50 between urban and rural.

So obviously, rural plays an important role. But we are also seeing, and we are hopeful that it will continue to build. But we are also seeing a good traction within the urban, which is beyond the general trade in e-commerce and non-trade. So we are not like only depending upon rural, but we hope that we build up right and help the overall mix.

And from a margin point of view, I think we are balanced across channels. We ensure because there are risks of channel conflicts, consumer conflicts. So we try to avoid any margin differences across geographies or channels.

Lokesh: Got it. And do you have any products that are like specifically meant for rural areas like smaller packs or anything like that. So the -- I guess, the price realization might be a bit better over there and the gross margin as well.

Moderator: The next question is from the line of Akshat Haria from Multi-Act PMS.

Akshat Haria: Congratulations on good numbers. So my question was more on the consultant that we've appointed. So if I look at this year -- this quarter's number, it works out to be around INR20 crores, INR21 crores, which is around 2.5 percentage of sales. And as you clarified with Tejash, this is more on a proportionate basis, and it's more recurring in nature. So just wanted to understand, overall, whether there is any fixed element also involved to the consultant cost? And what could be this cost on an annual basis?

Moderator: Ladies and gentlemen, the line for the Chairperson has connected. We will begin the question and answer. Yes Akshat, please go ahead.

Akshat Haria: Yes, so I'll just repeat my question. So my question is around the consultant that we've appointed. So for this quarter, if you work out some rough numbers, the amount comes to around INR20 crores, which is around 2.5% of current quarter sales.

So just wanted to understand a few things, in terms of the nature of this agreement as you confirmed with Tejash that this is more recurring in nature, so I wanted to understand if there is also some fixed element which is involved and for the full quarter -- a full year, what could be the cost overall involved on the consultant side? And also what is the total periodicity for which we've appointed the consultant?

Tarun Arora: So I'll close Lokesh's question, which was cut in between, which was largely regarding – we can address it. Do you want to take Akshat's question first?

Moderator: Hello, Askhat, please go ahead for your question. The management has disconnected. Now it's connected again.

Akshat Haria: Yes. So on the consultant cost for this quarter, it comes to around INR20 crores, which is around 2.5% of the quarter sales. So I wanted to understand on a full year basis, what this cost could be? And also whether there is any fixed element involved in this agreement with our consultant and the overall periodicity for which we've appointed this particular concept?

Tarun Arora: So there is a longer period engagement with a consultant. We can't -- we're not sharing the exact numbers, which at this stage, and there is clearly a performance-linked engagement where there is a smaller portion for the fixed element, and there is a larger portion for the performance-linked element on consultant cost.

Akshat Haria: Right. So this quarter, because we've called out the cost specifically, is it that it has been slightly on the higher side for this particular quarter and going ahead, it would be more streamlined with our overall other expenses or this run rate we should expect it to continue for...

Tarun Arora: No, it's not the run rate. It is also linked to the business performance. And that's why we have accrued it accordingly.

Akshat Haria: Understood. Understood. So we should link it more to sales?

Tarun Arora: Sales and bottom line both. So there is multiple metrics that we are using on this.

Akshat Haria: Okay. Understood. And as you already explained, this is for all the brands. So any particular focused brand for which this consultant is going to focus more of their effort or it is across brands for domestic as well as international. It is equal focus.

Tarun Arora: So we -- this is the fact that, as I've explained earlier, we are looking at a growth across -- I mean, we are a leader, at least in 5 of the categories. Our task is not just market share growth but also growing the categories. We are looking at partnerships or co-creation where we can help build the categories ahead and provides additional bandwidth to the team, which is already focused on doing a reasonably good job, but we could ensure that our sustainable models are built around these growth, which could include both domestic and international and wherever the opportunities are. So it is PAN business approach.

Akshat Haria: Right, right. Understood. And as you explained, it is not just based on a single metric, but it all multiple metrics, which involves profitability as well. It's more so important because the profitability is really higher in the first and fourth quarter, while it is more on the tablet side in the second and third quarter. so.

Tarun Arora: Correct.

Akshat Haria: Okay. Understood. Thank you.

Moderator: The next question is from the line of Lokesh from BOB Capital Markets.

Lokesh: So this -- so yes, I was just saying that do you have a different kind of product profile for your rural areas? Like I imagine if those are like small packs and the move popular in the rural areas, and there might be slightly higher margin compared to the urban areas.

Tarun Arora: So what we're doing is, and I think it's -- what consumers are today buying from multiple channels and places of where they're located and how they are buying. And therefore, the regular channel is now getting fragmented and there is rural consumer, urban consumers, there are also multiple subchannels or retail environments, which could be chemists, cosmetics, grocers. There are, of course, e-commerce and non-trade. So there are multiple subchannels and large channels within e-commerce, quick commerce and end marketplaces.

So we are being constantly revisiting and improving our pack price architecture to meet different consumer expectation in each state across channels. Typically, yes, it's a reality that rural consumers, as is expected, do buy a lot of lower unit price packs, but that's not the only way they are buying.

So we have specific products which are targeted at rural consumers. We have targeted specific packs which are targeted e-commerce or non-trade consumers. And within that, we also prioritize sometimes based on the opportunity between food or chemists where we focus or drive certain packs because the consumption is more driven from these subchannels.

Largely, there are opportunities of increasing margin at each and every level, but it's not that there is one size fits all. So we balance overall margins, and any of the specific packs, which are going by channel, if there is opportunity, we will obviously look at it. But I can't have a very simple answer for this. And we are doing whatever it takes to meet the consumer needs given the way they buy across channels and subchannels and geographies.

Moderator: As this was the last question, I would now like to hand the conference over to the management for the closing remarks.

Tarun Arora: Thank you, everyone, for the time and attention. We've had a good quarter. We are hoping to build on this momentum for the remaining 3 quarters. We have a set of launches and execution planned. Thank you very much, and we'll see you in the next quarter results. Thank you.

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