November 20, 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, November 14, 2024 on the un-audited financial results and operations of the Company for the quarter and half year ended September 30, 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: 2024.11.20 15:01:30 +05'30'

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

"Honasa Consumer Limited Q2 & H1 FY '25 Earnings Conference Call"

November 14, 2024

MANAGEMENT:	**MR. VARUN ALAGH – CO-FOUNDER AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HONASA CONSUMER LIMITED** **MS. GHAZAL ALAGH – CO-FOUNDER AND CHIEF INNOVATION OFFICER, HONASA CONSUMER LIMITED** **MR. RAMAN PREET SOHI – CHIEF FINANCIAL OFFICER, HONASA CONSUMER LIMITED**
MODERATOR:	**MR. MEHUL DESAI – JM FINANCIAL INSTITUTIONAL SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q2 and H1 FY '25 Earnings Conference Call of Honasa Consumer Limited hosted by JM Financial Institutional Securities Limited.

As a reminder, all participants' 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 "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mehul Desai from JM Financial Institutional Securities. Thank you, and over to you.

Mehul Desai: Thank you. Good evening, everyone. On behalf of JM Financial, I welcome you all to Honasa Consumer Limited's Q2 FY '25 Earnings Conference Call.

From the management side, we have Mr. Varun Alagh – Co-Founder and Chairman and CEO of the company, Ms. Ghazal Alagh – Co-Founder and Chief Innovation Officer, and Mr. Raman Preet Sohi – Chief Financial Officer.

I will hand over the call to the Management for their "Opening Remarks" and a quick "Presentation", post which we can open the call for Q&A. Over to you, sir.

Varun Alagh: Hi. Thank you, Mehul. Hello, everyone. Welcome to the Quarterly Performance Call for Honasa Consumer Limited. I will just set some context and highlights. We have released, of course, the results of the presentation alongside. I will quickly recap some of the pieces that we have mentioned in that presentation, and post which we will open up for questions and answers that you would have.

I think if you look at the presentation, we have started by sharing the fact that we acknowledge the fact that the environment, consumer behavior, and distribution are changing quite fast, especially in the Indian context. Some of these trends were already happening. Some of these trends, like the way the media landscape has quickly changed, the way consumer proclivity and propositions have changed, or how quick commerce is impacting consumer behaviors, are things that we are also seeing as relatively new changes to which one's models and thinkings would, of course, need to evolve.

And in light of that, we also talked about the four or five key areas which are areas that we are focusing on, where we believe we need to rethink some of the strategies and calibrate and evolve them in line with how we are seeing the landscape evolve. Of course, the first one is this whole amazing brand building playbook that we have built out. While that brand building playbook has done really well for us in terms of scaling brands from the zero to Rs. 1,000 crores journey, we are seeing that happen for the other brands that we have built as well.

But the Rs. 1,000 crores to Rs. 2,000 crores journey, it seems that we were trying to deploy the same playbooks, where over the last few quarters all of our data seems to be pointing to the fact that we need to evolve those playbooks in line with how to win with the consumer who's buying in offline and the kind of media that they are sort of looking at and the kind of distribution that is required to get that done. And a lot of work is happening on that front.

The other learning that we have had, and which is something that we have already started executing here also is that winning in beauty and personal care, which is a complex sort of a landscape of over 24 subcategories will happen a few categories at a time and we need to dominate in those categories and then keep adding more categories where we become leaders and dominate them. The whole strategy of House of Brands will help us do that but that would also mean we need to focus on investment, innovation, R&D, etc., far more on those categories rather than going through others in a phased approach, hence, look at sort of winning in BPC.

Our third area of learning, which we are also again implementing as part of Project Neev has been the entire area of offline GTM. I think this is an area where we have clearly recognized that this is something which needs to be relooked as the need and scale of your business over time changes. I think even if I was to go back and I do not think we would be able to start with a different kind of a distribution system, because at that point with zero business and no regional supply chain availability, that was the best system that worked for us.

But clearly now when we look at it from the next four to five-year horizons where multiple of our brands need to go through this funnel, we clearly feel that the distribution system required for that is different and that's the area where we have been, dedicatedly working on. As we build this out, as we evolve, probably another four years down the line we will need to, again, relook at the same from a next five years business need perspective, right, and that is something, which is an evolving muscle rather than a straight-line skill that we have utilized.

The other area which we clearly have learned and are executing is, brands need to remain sharp to what they stand for. But our investments in the brands, depending upon the different consumer cycles, should and would vary. As we speak, for example, in a channel like online, the proclivity towards actives and derma brands is far higher compared to naturals and we have different brands to play on to those different propositions and we need to invest accordingly to win in the category and to make sure that we are able to gain share in the category in the most effective way, while offline might be a different sort of consumer proclivity. But at no point of time we want all our brands to start speaking the same language. We want them to be sharp on their own propositions, but in line with consumer proclivities and change investment strategies to win in the category. I think that is something that we have also sort of realized.

Another area that we have been consistently working on is product superiority and we have been actively investing in R&D capabilities partnerships. Our objective here would be that we build capabilities that in all our focus categories, our hero products actually beat the competition in blind testing and that's an area where a few of our products are already there but it's a constant journey through dedicated investment that we are going to continue to be on from an organization perspective.

Now from a quarter two and half one perspectives, and I think there are two areas where we recognize that our outcomes have not sort of gone in line with our expectations. One of course is the impact of the sales return and the inventory correction that has come through, which is higher than what we had imagined it to be because as we went into executing that, we clearly realized that there were pockets of sub-distributors or in-market credits which we have not taken into account and given these are all full and final parting exercises and the impact has turned out to be higher than what we had imagined it to be but we did not want to sort of do it half-heartedly, we wanted it to be a clean execution and hence, we have been aggressive as well as conservative in our approach towards that to take a higher impact.

I think the second area where again our assumptions have not panned out in line has been the growth for Mamaearth. We have been analyzing that, like I said, I think the model that we were trying to execute was very similar to what has worked for the brand in the past. We have recognized that there are a few strong tweaks that we need to make across the mix from a product mix perspective, in terms of SKU sizing that needs to be sort of promoted; to communication perspective, where we need to become sharper; to even, most importantly on investment allocation, where I think our learning is that we have gone too wide and we need to narrow our focus onto a few categories and go deep within them with our hero SKUs.

There is a very strong and active charter of body of work which is, as we speak, they are all sort of part of and this is absolutely the number one priority for us to recognize what all changes need to be made and action them in form of pilots regionally or at category levels and basis those learnings, put a scaled-up strategy to bring Mamaearth back the strong growth path. For some time we kept sort of imagining this was more because of the base effect of the brand but we clearly recognize that there are structural changes to our execution plan that we need to do to actually make things work and if they start working, hopefully, the brand will actually be able to grow stronger than what we imagined it in the past. I think we are going to approach it from that perspective.

Of course, outside of these two things, the young brands continue to demonstrate very healthy growth. And each one of them at H1 and quarter two level also have grown at 30%+, which is a great sign for the company as they scale and become much larger. These are also brands which are not as impacted by the offline transition. I mean, that is also sort of visible there. In other parts, again, something which is clearly showing result for us is our focus categories strategy, because our focus categories put together have actually done very well.

Our three strongest categories where we have the best shares and ambition also is the strongest in those 2-3 categories which is face cleansing, serum, and sunscreen have actually demonstrated

28% growth in half one and we want to make sure that this focus category approach we are able to extend that to five to six categories over the next three to four quarters, with which we will be able to showcase healthy strong growths across a much larger contribution of our revenue portfolio, where our ambition, again, will be to become a sizable market share player.

I think broadly that's the highlight that we had from our side, and would be more than happy to answer your questions.

Moderator: Thank you very much. We will take the first question from the line of Vivek M from Jefferies. Please go ahead.

Vivek Maheshwari: Varun, if it's okay, I have quite a few questions. Can I go ahead, and if you can allow me to go for some time, is that okay?

Varun Alagh: Sure, Vivek.

Vivek Maheshwari: So, Varun, one thing on Mamaearth as a brand, I heard what you said on the call and, you have been transparent, today. My question to you is, is Mamaearth, the problem is, is it the size which is an issue for Mamaearth, you think? Because, you see, when you started Mamaearth as a brand or the other brands, there are some problems in whichever form and shape FMCG companies are also facing. Do you think Mamaearth also, as a brand, has hit a scale which has become sizable and because of which Mamaearth faces the same problem that, let's say, some of the larger FMCG company brands also face?

Varun Alagh: Vivek, honestly, I think at least our approach towards this has been, not to externalize it and actually, we genuinely believe that as a brand, given the kind of shares that the brand has in some of the subcategories of operation, it still has a long way to go and hence, potentially, would the pace of growth be 15%, 17%? Yes, that is probably an area where the pace of growth is lower, but sustainable growth from a long-term perspective, we still believe there is a long way to go for the brand to hit a ceiling, while short-term demand pieces could be there, but we wanted to look at it more structurally and that's the exercise that we have been doing over the last, three-odd months in terms of understanding structurally, where could we be sort of, missing the trick.

For example, one of the areas which I touched upon, which is investment allocation, right, we realized that we were allocating our investments over 10 different categories in Mamaearth and that was too wide a dispersion of investment which was happening. Our hero SKUs and categories were getting suboptimal investments because of that and that's a clear recognition that we have had. As we talked last time that from an offline playbook building perspective, we have got Bain on board to also share some of these learnings and help us see it through that framework perspective. We are clearly seeing some of these areas where we could do significantly better and grow back on track.

So, in my view, I would not want to at all believe that the brand is has hit the ceiling. We are very, very clear and confident that this will become the number-one skincare brand in the country over the next 5-7 years and we just need to get our game right to get it there and that's the body of work which we are actively doing.

Vivek Maheshwari: Okay. And on the same lines, your own presentation slide mentioned that Indian consumers shifting from family oriented to individual centric consumption, which also means that there is a fragmentation happening in the market and platforms are evolving, etc., etc. Do you think that because the entry barriers are low, Mamaearth as a brand, in some ways you have answered partly, but the entry into this category will keep happening from new players, from new brands over time. Does that mean that you will always be on treadmill, and you will have to keep running and keep launching new products? Or is there also a risk of boredom with a brand because there is something else which has come in the market, on the online side, for example?

Varun Alagh: Vivek, what we are clearly realizing and recognizing is that online and offline are going to be very different ballgames and one-fit-all strategy will not work. To your specific question yes, the entry barriers and hence the competitive intensity in the category is higher, which is visible more in the online world and hence, innovation is important when it comes to online business but when you look at the offline business, which is what we are clearly recognizing and realizing, that's still a very heavy hero product business, where most of the players have hero products and portfolios in specific partitions, which continue to have large share. Fragmentation has not happened in the offline space as much as it is happening in the online space.

For Mamaearth, where a large part of the growth delta is now supposed to come from the offline consumers and getting that game right is very critical as we move forward, which is where optimal investments on hero products, getting them in the right sizes, distributing them in the places and focusing very strongly on that is something that we will need to dial up. I think we have talked about this in the past as well, innovation is something which is table stakes as we move forward in the online ecosystem. I think companies which are not able to innovate will not be able to win the online game as much. And that is something that we consider our strength and we will continue to do that well. The only thing that we talked about and recognized is that the way we want to look at this business is from category out perspective rather than brand out perspective.

Our objective is to become top three in share in face washes, number one in sunscreen, number one in serums and get into top three in another couple of categories that we define for ourselves. Nationally, not just in online. But in that category, different brands at different point of times might have different sort of new roles to play. Like I said, at this point of time, active as a proposition has been in favor with the online kind of consumers. And hence, using Derma Co. and Dr. Sheth's to get share in face wash as a category, while a Mamaearth might be at hold and might be a more beneficial strategy but as long as we are gaining category share is what the investment should be aligned to is what we are learning from that whole approach. But innovation to a certain extent in all categories is a table stake for all companies.

Vivek Maheshwari: Pardon me for asking this question directly to you, but because you mentioned about offline, you mentioned about playbook, Rs. 1,000 crores to Rs. 2,000 crores and all, you need a different playbook, etc. If I just ask you what is your right to win in the offline space where there are FMCG companies, which have been around for decades or centuries? How would you respond to that?

Varun Alagh: Vivek, finally, almost every couple of decades in almost every category, there is a generation shift that, that sort of happens from consumers and that generation shift is actually an opportunity for brands to sort of take ownership and share in the usage amongst those generations, I think, firstly, there is clearly a lack of brand choice which has been there in the country in the past and that is not just for the online consumers, but across offline consumers as well It's the entire consumer landscape where there has been dearth of brand options and in my view, right kind of brands built on right propositions is something where there is new brands have the right to sort of win there and that is one area.

Second is, of course, we need to provide products and propositions which are emotionally and functionally superior compared to what the consumer is using. In certain cases, that could be because we are specifically crafting for the Indian consumer. For example, the right to win for ubtan face wash in its spaces because there is clear, strong association and credibility that the consumer has with the DIY recipe that has existed for centuries in India and now there is a brand which is offering that in a great easy-to-use format.., this is something that no other international brand is able to offer from their core DNA. And this is something that our brand is built on. And hence is able to offer that and has the right to win from a product perspective.

Similarly, in other areas, we believe from a product perspective, we need to have a concept, which is a winning concept and not a me-too concept. But also in that concept, deliver a product, like I said, which is a blind test winner in terms of product likeability. That even if you remove the brand, then the product against competition actually does better, right? And that's something that we can actually to work on.

Of course, a third area would be, from a GTM perspective, in which case, at least in the short term, we will need to use a combination of velocity and higher trade margins to get customers to get used to selling and displaying the brands. Because for the customer there is, which is the retailer in this case, there are two key benefits here. One, of course, as you premiumize a category in our ASPs, in almost all categories are higher by 20% to 25%. And that gives the retailer higher bill value per transaction and if your margins are higher compared to what they've been selling in the past, for the retailer, there is a much higher opportunity to sort of, make better money.

Especially in this kind of environment where their overall business is under duress, and a brand which is able to offer them much better returns per unit of sale is something that they would like to prefer. So, I think combination of these three is what I believe will give us the right to win, and we are not even trying to become another deep distribution-based FMCG industry. We just need to get 200,000 direct outlets, right? And yes, if we are able to get that, this is where 80% of the weighted distribution game is being played and that is where almost all of the mass premium proposition consumers are going to buy. So, for us, we do not need to get millions of stores right, we just need to get the 200,000 right. And which in my view, in a focused approach towards that 200,000 that we should be able to demonstrate and build for might be much higher compared to where someone is looking at a much deeper, wider kind of numeric distribution. So, I think those are the things which we want to work on to make sure that we have a right-to-win compared to the existing distribution systems.

Vivek Maheshwari: And just a couple of more, Varun. One is where you are in that cleanup cycle right now? So, do you think the bulk of the cleanup is done and now from here on, it's the buildup phase or there is still a fear of unknown that you may still have as investors?

Varun Alagh: Well, Vivek, bulk of the cleanup is done, and this is also a structural change. So, I do not know if I should call it cleanup, but we just removed the layer from the distribution and that layer, whatever stock that was holding, we had to, first take the impact of that. But from a distribution system perspective, the bulk of the cleanup that we need to do has already been done in quarter two. And, of course, the ramp-up from here onwards is going to be slightly gradual and will take a few quarters because wherever we have, for example, you would define distribution in geographical ward cells, right, even a city might have six to eight ward cells depending on the size of the city and number of outlets that you are trying to cover.

Currently, in about 70% of them, we have been able to deploy distributors but there are at least 30% of the ward cells where we are still deploying distributors and that will happen over the next three to four months and bases which then coverage in those outlets in form of direct coverage will sort of get built up. So, all of that scale-up would be something that will happen from now onwards gradually, but all of that scale-up is going to be fairly structural, direct distribution scale-up with a much better quality and transparency of execution.

Vivek Maheshwari: Okay. And last one, do you think FY '26 is where you start with a clean slate and the second half FY '25 still will be somewhat volatile, somewhat weakish? Also, in the context of given urban consumption is slowing down, do you think that also adds to the headwind?

Varun Alagh: Yeah, it's not been the best time from seeing the genuine tests and experiments of outputs perspective. There clearly seems to be some form or change in terms of consumer buying in patterns which are visible, but we genuinely want to see that and understand that as a structural change. We want to figure out what kind of things will work in that new environment, what do we focus on and build on. That said, I would agree with you that the buildup from here on would be slightly more gradual. And getting into next FY, we should be far more confident of all the experiments and changes that we are executing as we speak.

Vivek Maheshwari: Varun and team, wishing you all the best and hopefully, you will see a recovery soon. Thanks.

Moderator: We will take our next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Hi, Varun and team. I just wanted to know one data point if you can give me. For the GT distribution, see you have a DMS, so you know exactly how much the distributor is actually selling onwards to a wholesaler or retailer. So, that secondary sales, so to say, what is the growth in that secondary sales for GT this quarter on a Y-o-Y basis?

Varun Alagh: Hi, Percy. Percy, honestly the Y-o-Y number is not a number that we are ourselves able to also fully track because last year DMS did not exist in the system. It's only this calendar year that DMS execution started and has fully shaped at end of Q1 basis, which we were able to do some of these actions in Q2. And so actually that data from a secondary is not available. What is available and what we can share with you is the Nielsen data, which continues to be the same panel which existed. If you look at the Nielsen data in the core categories, which is face wash and shampoo, the brand actually is growing fairly well. It's growing ahead of the other brands which we are competing with, and which is where the brand is actually gaining share as well, right? So, both face wash and shampoo, Y-o-Y, as well as sequentially, we have gained share. And I think that is probably a better indicator of Y-o-Y secondary group trends.

Percy Panthaki: Got it. So, in Mamaearth, you said that is the main sort of area of concern in terms of the slowdown. So, just wanted to understand, within Mamaearth again, what is the area of concern? So, two, three options here. Is it that one particular channel is an issue? Whatever be the products being sold through that channel. So, I mean, your own digital assets, you have anyways been defocusing, and that has been happening for a few quarters now, but despite that, the numbers were not as bad in the previous quarter. So, is it a channel issue, either your own digital assets or even aggregators like a Nykaa, Amazon, where you are seeing a slowdown? So, that is one option. Or as you said, there are some categories like face wash, etc., where you are doing very well. So, is it that the Mamaearth brand is not resonating in some of the other categories, and those categories are seeing a big decline bringing down the brand? Or is it some other issue altogether? So, within Mamaearth, what is the problem area?

Varun Alagh: Percy, let me sort of try and answer this one. So, firstly, of course, GT is the biggest sort of contributor to the drop and decline, because that's a place where we have been going under structural transition, and the primary bases are of a very different sort of kinds, and we now with that transition we have not been able to grow over those bases. So, that's the biggest delta drop. And online, also I would say…

Percy Panthaki: If I might just get some clarification here. This GT is an issue even after you remove the Rs. 63 crores of sales return, or it is because of the Rs. 63 crores that it is pressuring? Because I am keeping that as a one-off. So, if I even remove that, even then that is an issue, right?

Varun Alagh: So, even after we remove it, GT, of course, the issue reduces significantly, but GT still continues to be an issue even after you remove it, right? MT is not but GT is. Because GT is a sort of inch-by-inch, step-by-step, outlet-by-outlet game, right. And if your core distribution infrastructure is not fully in place, and that's an area where we have not been able to hence grow the brand. Even in online, even if you remove D2C, and the brands become more flattish now. And largely what we have experienced is that there is a proposition SKU more towards actives, which is kind of impacted that to some extent, which we believe might be a more short-term wave over time. Of course, most countries and geographies that we have seen naturals turns out to be a very long-term consistent proposition.

The other area which you specifically also touched upon, actually, there are certain categories, right, which are declining much steeper and not focused categories for the brand. Which again, will be a turn and that might impact negatively in the short term. But as we further strengthen our investments in some of the focus categories and the growth rate of focus categories become even better, I think they should be able to net-net overtake any drop that comes from non-focus categories. Because we have not changed our investment allocation as much, that's something that is not showing up.

Percy Panthaki: And see the other brands, excluding Mamaearth, is there any slowdown in the growth rate for those brands this quarter versus what we have seen over the last three to four quarters or those brands are growing at the same rate as what they have been growing over the recent past?

Varun Alagh: Slight slowdown relatively is there. But in my mind, apart from potentially the demand play, the other factor is that our largest category is sunscreen. And there is a very high correlation that, that category has with the humidity and rains, right? I mean, a negative correlation, of course. And that is specifically one category where we have seen last quarter to be not shaping in line with what we sort of -- imagine it to be because of the weather. But otherwise, the overall growth rates are fairly similar. There is a slight impact of these two things in Q2 compared to Q1.

Percy Panthaki: And one last question, if I might be allowed. You said you need different playbook. Do you need a different playbook for media as well? Because as you said, now you have to look at the online and offline business separately. So, for driving the offline sales, do you think that you need to pivot media also to offline? Or do you think that online advertising can still sort of help with offline sales as well?

Varun Alagh: Percy, that's a very relevant question. This is, again, a body of work which we have been actively doing. So, two parts. Firstly, yes, we do. That's one learning which has come out of the body of work that we have done, that our media deployment strategy needs to change. The changes are not only towards the type of media, but also how we deploy media, where we were very impulse and seasonality-focused, instead of which we need to be far more always-on, in terms of our spread of media on these focus categories. But also on media vehicle choices, where there is a detailed media mix modeling work that we are doing with our internal data science team, as well as MMM data science expert agency, which is working to tell us what part of our media is the strongest in running sales, as well as brand consideration. And a combination of that will help us come up with a much more effective media strategy that we want to deploy getting into next year.

Percy Panthaki: Thanks a lot for your patient answers Varun.

Moderator: Thank you. We will take our next question from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra: I think a lot of questions are already asked. I want to probably check with you. Is there any rethink on your margin admissions of reaching double-digit? As it seems you need to invest back into reviving growth for Mamaearth?

Varun Alagh: Latika, while in the short term, from a quarter-to-quarter basis to experiment and get some of these media mix and funnels right, we might need to skew things a little here and there. But our view on being able to get to a high double-digit in the medium term for ME continues to hold strongly. And in fact, one of the things that we have also learned from this exercise is that if you are able to build even stronger dominance in a few categories, our ability to generate higher margins in those categories also becomes stronger and if you are able to unlock some of these hero products in GT, that should actually further help the margin cause. So, I do not think from a medium-term perspective that we change this. Of course, to get to that, the path that we were expecting and earlier, we were just continuing on the same path, we will be able to get there. That path we will need to re-imagine and work on, which is the work that we are doing. But the destination still continues to remain the same.

Latika Chopra: The second bit was, could you share some color on the most recent brand that you launched, Staze, on the cosmetic side? Is this something which is still in the test phase for you? Any thoughts there?

Varun Alagh: I think, Latika, fairly early days on that brand. The big difference between any of our other brands and that brand is that this is an absolutely new category that we are playing in. And not just a category, but also a different price point, to be honest. It's slightly in the mass-plus kind of price area, not a mass-premium kind of price area. And hence, we have actually been learning a lot in terms of supply chain management, category innovation, media deployment, and how to do that for that brand, that said the brand is scaled in line with our expectations. And it actually is already at a Rs. 25 crores plus run rate ARR. And we believe we will continue to learn on it and get our basics even stronger to win that category in early days, but yes, good signs.

Latika Chopra: That's good to know. And the last bit was on these emerging brands, which grew 30% in the first half. What kind of growth expectations do you anticipate for them over the next two, three years? We did hear you mentioning Mamaearth did see, some impact from actives. So, it seems like Derma Co. should be doing fairly well. Any thoughts on whether this portfolio can maintain a 20%, 30% growth band, given all the lessons learned?

Moderator: I am sorry, Latika. Your voice is breaking, can you just repeat, please?

Latika Chopra: Sorry about that.

Varun Alagh: I got the question.

Latika Chopra: Okay, thank you, Varun.

Varun Alagh: Let me paraphrase. You are saying, what kind of a view do we have on the younger emerging brands? Do you believe they will be able to grow at, at least a 20%+ kind of a pace? Actually, we are very confident, right? From propositions, categories, channels, all of that perspective, not only are the brands growing, but they are also gaining share in their own categories of interest. The `Derma Co. especially has been doing phenomenally well and again has a lot of scope to further grow. We just entered the face wash category last year and it is doing exceptionally well for the brand. And that's a category where we can see it becoming much larger as a play. We continue to sort of work on that.

Similarly, for other brands, there is clearly success that has been seen in one or two categories for each of those. We continue to work on further strengthening and building those categories. But as they grow, there are also other subcategories which will open up for those brands which will continue to fuel the growth. So, as we stand feeling fairly confident of being able to grow all of them very well.

Moderator: Thank you. We will take our next question from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Quite a few clarifications. Hopefully, nuanced ones. Just on the playbook revisit team, is it fair to make a statement of hypothesis that, look, you are absolutely clear about what doesn't work, but at the same time not very sure about what will?

Varun Alagh: You are right. I mean, we know that at least the last sort of investment in mix model was not generated the kind of growth that we needed it to generate. Now, what we are trying to do as part of pilots is taking cells like, a one state and or one subcategory and implementing a very different kind of a playbook on the same, getting into all of that is work is planned, starting now in Q4 and then seeing if it generates disproportionate results in that cell. And there are 8 to 10 such pieces which we want to activate in action, to actually learn which cells sort of, and hence what kind of strategy works in which part. Like I mentioned, I think we have been working closely with the Bain on this, right? And we are getting some really insightful hypothesis on the basis of these tests, I believe.

Manoj Menon: And moving on to Mamaearth as a brand. Let's when I think about the, let's say, the brand key which you have for the brand. Look, you did alluded to, but I just want to double click on one aspect that just from a marketing point of view, not from an expense point of view or support point of view which you did allude to. Is it a case of extendibility, let's say, a lot of in freight challenges that you had, went a little too far with the brand. The reason now I am asking this because at least I can't think of too many brands which are successfully straddled body, face, hair, etc., etc.

Varun Alagh: So, there is of course one hypothesis, but I do not think we are taking it in the dimension of brand versatility and extendibility as of now. What we are taking that in the dimension of is that versatility has come at the cost of underfunding core categories and which is something that at this early stage of brand evolution and penetration and should not ideally have been done. It should have been getting to a certain optimal scale in one category, right, and only then sort of looking at investing in others.

So, while the acceptance in terms of versatility we felt was fairly high to the team that, even something like, a Mamaearth lipstick does some Rs. 4 crores, Rs. 5 crores monthly business today. So, versatility was there, but the versatility comes at the cost of, going one in terms of investments. And that has not clearly worked. So, versatility cannot sort of come at cost of sub-optimally funding your core and focus categories is the big lesson.

In the long term, would the brand be able to demonstrate versatility? And I think we still remain confident in that. But we want to get there only after we have fully funded for. And there are multiple examples. I mean, Dove can be a good example, right, to Himalaya, to even a younger brand like CeraVe, which have straddled across five to seven subcategories well, but the learning around opening one frontier when you sort of, not fully captured another is a learning for us. And that's what we are going to deploy.

Manoj Menon: Understood. Just one last thing on the brand. Let's say, versus Mamaearth, which has been a high growth brand, or rather I would say a high growth phase, even excluding the incident this quarter, etc., versus let's say a reasonably mature brand of similar size, or any other cut you want to take. What is the difference, let's say 100 is the denominator, what is the proportion of, let's say hero brands or rather hero SKUs, I would rather stand corrected, for a Mamaearth versus some of the mature ones? I mean, how much gap that would be currently?

Varun Alagh: No, significant, I would say. For most others, top 10 SKUs would probably, especially in the offline kind of environment, contribute to 75%, 80%, while for Mamaearth, it will be about 40% to 45%. And hence, that's a clear opportunity that we see the brand needs to focus on.

Manoj Menon: And one last thing on the offline piece. Look, I think at least I was addressing investors that look, when a company moves from online to offline, it is fair to assume that since you start on a zero base, to for some incidents to happen, and in a high gross margin industry or a category, it's always better to overstock rather than understock and lose the lifetime value.

So, that much is clear in my mind, that, demand planning, you learned, right? I mean, kind of, you started on a zero base and as each year goes by, you learn. The only question which came to my mind was, let's say, a conversation we had a year or two back about, let's say, you have reasonable online data, which would have probably helped you to get to the demand accuracy far better than somebody starting in offline for the first time?

Varun Alagh: Sorry, Manoj, we lost you.

Manoj Menon: Completely. Okay. No, no, what I was saying was, I mean, my chats with investors have been that, look, let's say demand planning when you are going for the first time into offline, it is natural to have some incidents, etc., because you started on a zero base, right, I mean, obviously, as each year goes by, you learn the offline demand planning accuracy will improve. The only question there was, the assumption, let's say, we had a year or two back was that, since you had reasonable amount of online data, I would have assumed that the, let's say, the demand planning accuracy is far better than, let's say, what actually happened?

Varun Alagh: Yeah, Manoj. I mean, that's been an area of learning for us as well. Now an year back and after that we have of course corrected on our catalogues. While we had a clear conscious, what do we want to focus on strategy. But we did not limit our distributors or the system from ordering any kind of sort of products which were there in the system even which they will listed in online. And for a long time, finally, the retailer is also looking at Instagram. The retailer is also sort of, checking on things on Amazon and seeing what is it that the brand is right now promoting and what is selling on online and they all sort of realize that that's a competition and our sales teams kept getting sort of, that feedback from dealers. No, no that this product is not there. You should stop this in my shop as well. And this product I am seeing an add-on.

And that led to proliferation of the catalog compared to what we plan the catalog to be. And over time, of course, we clearly learned that offline is not going to be a search and buy kind of a shopper journey, but it is going to be a journey where the shopper already has some consideration of what they want to buy. They will come in and hence a salience and focus on a few in absolutely relevant need spaces and pay-off spaces is a far more effective strategy compared to having many, but not being salient in one. So, I think that's also sort of been a learning and we have already from systematically curtailed our ordering assortment itself now and this is some of the data and science.

Manoj Menon: One last thing on the distribution, you started with let's say sub-stockist sort of a model that, if you recall correctly three years back. At least anecdotally what I found that probably now you have a lot of class A distributors, what I mean by is that people have been in the distribution offline for a long period of time and evolve the distributors. Let's say of your overall, let's say, distributor base today. How do you say, I mean so you already achieved where you want to be or that journey is still on in terms of the quality of distributors.

Varun Alagh: That journey is still ongoing. I think all the new partners that we are deploying, of course, that in all the places we are putting our efforts to work with someone who is existing A class FMCG distributor and who is doing the right kind of coverage going to those store and hence both relationship as well as logistics wise that something which is very natural to them. In eight out of 10 cases, those are the partners that we are finding in working with and in two out of 10, because it's still a younger company because in a lot of these wards the revenue size is lesser and we are still in a place where we have to work with probably a class B for now and get to a better business size, which will attract a class and work with us. And so I think that's a journey that we are on.

Manoj Menon: And one very lastly and I will come back in the queue. I saw in the market in August, some Rs. 100 price points Rs. 99, Rs. 79, Rs. 49, which is the, let's say, the LUP equivalent for you, right, which you've called out some time back as an opportunity. And also, recently there was a release in exchange about the canteen stores department. Does these refills break in already, these are already there or these are incremental? I know that all will grow, but at least the first cut, let's say, this quarter, all this has gone into the market.

Varun Alagh: Manoj, so the small size packs, right, is something that we have started executing, since I think two months back. It is when they were actively gone in the market. And we know, of course, need to drive awareness as well on the same. So, on November, ubtan face wash media, we have created an edit which specifically calls out that pack also. And hence I would say, the action has started but very early in terms of where it is.

Moderator: Thank you. We will take our next question from the line of Shrenik B from PGIM. Please go ahead.

Shrenik Bachhawat: Yeah. So, just wanted to understand, we highlighted the bulk of the inventory reduction is done. Can we expect the normal growth path to return from 3Q onwards?

Varun Alagh: Shrenik, I think it will take us a few quarters to get the scale-up of offline going as well as to learn from the experiments in sales that we talked about on Mamaearth and execute the same and like I said, rest of the portfolio continues to do well, but these two and turning them around over the next few quarters, will be critical from a long-term growth perspective. So, our entire focus is on that. That's said we expect the recovery to be gradual and not sudden when it comes to sort of getting back on the growth path that you talked about.

Shrenik Bachhawat: Sure. Also, Varun, can you throw some light on the Dubai case that is ongoing, getting some updates on that. So, what is the status as of now on that?

Varun Alagh: So, the case is ongoing. We have a favorable judgment in Indian High Court, but in the first appeal in Dubai, the judgment has not been as favorable. That said, our lawyers are very confident on the construct of our case. It's a simple parting with a distribution partner with the due notices that has been done. And even in terms of the quantum of business was not as large as the damage claim has been ascertained to be. Our documentation is also strong there. So, at least from our lawyers, we still continue to get strong confidence that the final decision should be in our favor. We have filed for an appeal in the high court in Dubai, while the high court appeal, which was already in our favor. And we continue to sort of discuss that as well.

Moderator: Thank you. We will take our next question from the line of Yash from Stallion Asset. Please go ahead.

Yash Gandhi: So, I just wanted to understand on your Slide number 13, where you have given the bridge for inventory correction impact of Rs. 63 crores. Now, I see that because of this, there's almost a negative 10% EBITDA margin, right? So, I am just trying to understand how has just about Rs. 63 crores, which is like about 12% of your Q2 FY '24 revenues. Because in Q2 FY '24, you had Rs. 496 crores, and your reported EBITDA margin was 8.1%. But because of this inventory correction impact, I think that whole margin is gone. So, why is there such a big loss? I am just trying to understand that.

Raman Preet Sohi: This is Raman this side. I will dig that up. So, the Rs. 63 crores inventory impact means this is returns coming back to the company. So, it's impacted our primary sales to an extent, and hence we make 70% gross margin. So, we lose that 70% gross margin on the return inventory. And along with that, given that inventory is coming from trade, we have also provided for certain inventory-related provisions, so that if there is inventory which is coming back, which is in a certain condition, we are adequately provided for. And hence, so there's a loss of gross margin, there's an inventory provision and also, we provided certain, trade loss related provision on top of it, which is impacting this close to 10.7% impact from a year-on-year perspective on our EBITDA margins. So, that's what it's.

Varun Alagh: I would like to further add to that. Like we have shown, even if this would not have happened, the adjusted EBITDA is also lower compared to what our plan was, and that's largely on account of our OpEx planning and some of the other costs, etc., on account of the short-term supply chain transition, etc., have been there, and the revenue and the scale that we expected has not, shaped up. So, that is also one of the reasons why it has been more severe than it should have been. And as some of that sort of stabilizes over the next quarters as well, we should be back to the normal averages and then start going from there as brand growth comes in.

Moderator: Thank you. We will take our next question from the line of Manish Poddar from Invesco Asset Management. Please go ahead.

Manish Poddar: I have two questions, so I will take them together, given this one-question thing. So, just two minutes. First is, if you look at the last quarter commentary, I think the called-out thing was, there is a Rs. 40 crores impact from this inventory correction. I think the number is significantly higher. So, can you help me understand what explains that?

And the second thing is, let's say, the call happened sometime August mid, the last quarter call, and that time I thought, we were quite acquainted with this inventory correction and, we were wanting to put steps in place in terms of this project and other interventions. And that time we were guiding for 20% growth for the rest of the year adjusting for this sort of inventory correction.

So, what really has changed in the last, let's say, three months, give or take, I have heard the commentary, but I am still not able to gather what really has gone dramatically wrong or, what is really the underlying concern? And is it possible, can you really call out, let's say, among the brands in Mamaearth, let's say, there was a Rs. 100 crores brand, which just gone down to, let's say, Rs. 10 crores. Are there cases like that? Is able to understand and appreciate the situation much better. But otherwise if I look at the commentary of Q4 and Q1 and now, every quarter there's a different commentary and delivery. So, I am just trying to understand it better, I am not trying to push you towards the one. Thank you.

Varun Alagh: Hi, Manish. So, yes, we had called out the inventory impact of Rs. 40 crores to Rs. 50 crores. And as we were sort of planning for this, like I said, the actual impact has been higher largely because most of our understanding was from the system inventory which we were seeing just for the super-stockists. But during the same period when we have actually executed this, they've also taken inventory from sub-stockists which owed them money, as well as to some extent in certain cases trade. And all of that has resulted in a higher net inventory take back compared to what we had estimated it to be.

And from a planning execution perspective. We after sort of the communication of this, we realized that the current system was gotten fairly aware of us wanting to make this transition and hence we started seeing significant friction in them wanting to execute the agenda that we needed to execute, because of which we were seeing almost a stalemate kind of a condition. And earlier we had planned, we will be able to probably phase it out and do it in a certain way, but we clearly realized that we would need to do this with a certain sense of urgency, otherwise we will be in those stalemate positions longer that we are expected to be. I mean, from a brands perspective. Of course, our objective was to execute the plans that we had right, and hope was that the same plans should result in a different outcome when it comes to ME growth. And there's been clear recognition and acceptance on the fact that, okay, this is not working.

And rather than trying to do the same things and expect different results, we probably need to step back, sharpen the saw, look at doing different things because our long-term objectives continue to remain the same. And to get there, if we need to take a different path, we must sort of, take that. And in line with that, we have made some of those corrections and adjustments. Our view, like I said, still is that, from a medium to long term, the destination continues to remain the same. This is just sort of a slingshot to correct course and evolve in line with how things are sort of changing.

And things do seem to be changing faster than what we imagined them to be it in terms of on consumption landscape or distribution landscape from Q-commerce perspective and consumer productivity. And that we want to make sure that we look at them all together, do the right kind of hypothesis testing and sort of, build a model which is able to deliver growth even on a brand like the size of Mamaearth sustainably and structurally.

Manish Poddar: Can I ask one more question, if you can, second?

Varun Alagh: Yeah, sure.

Manish Poddar: Yeah. Just to understand, let's say, Mamaearth sale is Rs. 100, of this, let's look at half year basis, just to get some sense, or let's say I am fine with trailing twelve months also. Just to get some sense, in this Rs. 100, there are bits and pieces which should be growing, right? Or there are bits and pieces which would be declining. Just to get some caricature, let's say, if you have to divide the portfolio in, let's say, four or five-broad categories or, percentage of portfolio which should be growing versus declining. I am just trying to understand are there pockets which need to course correct or this is broad based at a brand level. Because I think in the earlier part you mentioned, somebody mentioned the channel levels. I am just trying to look at more from a, let's say, portfolio product level, so it's possible. Thank you.

Varun Alagh: Manish, my view on that would be like, I would rather let us look at it and figure out or solve where we need to solve the same to generate the right kind of output which will help brand growth and more. I do not think sharing that level of gravity is going to help either you and me. We understand the pockets where those issues are. We are, like I said, taking concentrated approaches to figure out how we will resolve those issues and turn them around. And in a couple of quarters, I think we will be fairly confident in being able to share in what all are the big changes that we are making. And implement them at scale to get to where we need to get.

Manish Poddar: Sorry, let's just say, sitting out. How does one judge, let's say the intervention you are taking and let's say the input output of it, other than, let's say, the quarterly results which come out. So, that's where the question was from. But yeah, thank you so much.

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

Varun Alagh: No, thank you. Thank you so much for asking these questions. I hope we were able to provide clarity on the interventions and changes that we are sort of looking at. Ghazal and I still continue to be super excited and confident about the opportunity that is ahead of us and our capability as a company to actually capture that opportunity. This is more of a sharpening the saw kind of a moment for us where we are clearly correcting certain structural pieces to make sure that we win structurally and sustainably in this space. And we are very confident that we will really come out with the right kind of answers and execute them in the best manner possible to get there.

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