



August 12, 2024

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

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

**Scrip Symbol: HONASA**

**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 Friday, August 09, 2024 on the un-audited financial results and operations of the Company for the quarter ended June 30, 2024, is enclosed.

The said transcript is also available on the Company's website at [www.honasa.in](http://www.honasa.in).

This is for your information and records.

Thanking you,

Yours faithfully,  
For **HONASA CONSUMER LIMITED**

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

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**Honasa Consumer Limited**

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| CIN: L74999DL2016PLC306016 |



“Honasa Consumer Limited  
Q1 FY25 Earnings Conference Call”  
August 09, 2024



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

**MODERATOR:** **MR. JAYKUMAR DOSHI – KOTAK SECURITIES LIMITED**



**Moderator:** Ladies and gentlemen, good day and welcome to the Honasa Consumer Limited Q1 FY25 earnings conference call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

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

**Jaykumar Doshi:** On behalf of Kotak Institutional Equities, I welcome you all to 1Q FY25 earnings conference call of Honasa Consumer. We have with us Mr. Varun Alagh, Co-Founder, Chairman and CEO, Ms. Ghazal Alagh, Co-Founder and Chief Innovation Officer; Mr. Ramanpreet Sohi, Chief Financial Officer.

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

**Varun Alagh:** Hey, thank you. Thank you so much, Jay. Hi and welcome to everyone for our quarterly call for Q1 FY25. We're happy to communicate that our plans are shaping up well and visible in our results. But before we actually double-click on the results, we have a new segment that we want to talk about. It's called 'Crystal gazing in the future of I-beauty' because we continue to study markets like China, Korea, US and it gives us a lot of excitement in terms of how Indian market is going to shape, looking at how the markets have shaped in other areas.

And this is a segment where we want to share every quarter, a learning around a new category or payoff in terms of how we expect that to shape over time because the more we know and are prepared for it, I think the higher Honasa's ability to take on these opportunities and shape the beauty and skincare category's future. This time, of course, we want to talk about a category that we are extremely bullish on.

The sun continues to shine on I-beauty. Suncare, in our view, is expected to become a INR5,000 crores category by 2028. Till almost three years ago this was a category which no one would talk about, right, non-existent CP and the digital evolution that has happened, the amount of education that is happening from brands, from influencers, from dermatologists is now visible in the kind of search trends this category has seen, which is almost 65% CAGR over the last five years and it's also visible in the kind of traction the category has seen in terms of growth.

If you look at skincare in general, as percentage of BPC for other markets is far higher compared to India. And so I think there is a lot of growth that will happen in skincare overall in India. And in that state, the penetration of sunscreen is further lower than other markets. And we are actually a tropical country, our comparison is actually with countries which have very deep winters.

And even in those countries, the penetration of this category is far higher. So India, of course, as a percentage of skincare in this country, category will have higher penetration than these in the longer term.



But I think we are very confident that sunscreen would actually be a INR5,000 crores market and we, across brands, are investing in that future to be a strong leader in this market over the next decade.

Coming on to the performance in this quarter, Honasa continues to show strong growth momentum with the volume led growth. We've delivered 19.3% YoY growth and our product business has actually grown by 20.3%. Our gross margin continues to remain strong at 71.7%, 63 basis points improvement in YoY. And we have improved on EBITDA by 200 basis points YoY.

And in terms of PAT, we have grown by 62% and these are the highest quarterly PAT and EBITDA numbers that we've delivered in the past. And this growth is actually transaction-led and hence, UVG is actually higher than the value growth and our working capital continues to be negative 12 days.

And we have -- like I said, demonstrated strong improvement in EBITDA and that is led by improving gross margin profile and scale-led efficiencies across our P&L. Our Mamaearth offtake continue to grow strong on the back of consumer love for the brand. In the last quarter, we have gained 115 basis points in face wash shares. We've also gained 50 basis points in shampoo shares. And there is an equity study that we have done on the brand and Mamaearth is now the third most desired face wash brand in the country.

It has reached almost 200,000 outlets and not just the overall share where there is also a distribution expansion that is coming in, but even share amongst handlers is actually going up both for face wash and shampoo. And in fact, if you look at the stock in-trade, which is in retail, our stock in trade compared to industry is lower and actually gone down compared to last year, which is an opportunity that we see to further build up shares in the long term.

Our perspective of face washes, of course, we wanted to give you a glimpse last time we talked about sunscreen but face wash is another very important category for Honasa. And this is a category which sees premiumization across the globe and in India again, the category continues to see premiumization.

If you look at the numbers here, the masstige brands and portfolios actually gained 1500 basis points over the last few years while mass portfolios have lost. And in this, again, we are playing with a house of brand strategy where for the consumers who are looking for natural DIY-based ingredients, we have a Mamaearth. For the consumers who are looking for actives, we have The Derma Co. For consumers who are looking for pop hydration kind of face washes, we have Aqualogica.

So in the overall segment, we have different products suiting different needs spaces which allows us to capture a larger share in the market and it allows us to sort of be more efficient in the way we play category and that's how we intend to play different categories over building -- winning company.

Innovation, of course, continues to be a growth driver for the business. And we continue to look at consumer trends in terms of categories and ingredients and keep coming up with the right kind

of products for the consumers and we've done innovation across brands and new products have contributed to 9% of the revenue from operations in Q1 FY '25.

We've also done a first to India innovation by collaborating with an international doctor, cosmetologist, Dr Vanita Rattan and in collaboration with her, we've actually launched a prestige-priced range, which is actually priced at 2x of the Derma Co average pricing and based on power of peptides and retinol.

This is the range which allows us to enter a different price segment and allows us to experiment and understand how to play that segment right. So that over medium and long term, that's also a price segment that we can open up for our brands and the company. It was launched with a lot of excitement and early days, but we're seeing good traction on the range.

Another good news, of course, is BBlunt, which is our fifth brand, has entered the INR100 crores ARR club and this is a brand which we acquired two years ago. And in two years, we've been able to grow the brand 4x. We have applied the core of our repeatable playbooks to this brand to get where we have gotten.

Starting with the right formulation and innovations and moving on to the marketing and distribution playbooks that we have built, which has led to the brand pull increasing significantly, visible in the brand's Google searches, which have gone up 6x over the last two years. And the different kind of exciting ranges that we have launched in the brand, which the consumers are loving. We continue to focus on the brand and we are very confident that this will also break the benchmarks that we've set with other brands in the future.

While that brand has done exceptionally well, but not all bets pay off equally. One of our brand bets, Ayuga, which was based on Ayurveda, has not scaled in line with our expectations. We were measuring it through different form of PMF indicators, which we've not seen moving in the right direction. And hence, we have taken a decision to sunset the brand, which we have done last quarter and this quarter, we're just managing the transition. So we will, of course, look at other possible consumer opportunities, which are more exciting and focus our energies there, because this allows us for more value.

Our modern trade business continues to do exceptionally well. And this is a business that we've been focusing on for the last two years. And it is clearly visible in the results, Mamaearth is the fourth largest face wash brand in modern trade already. We have started executing our House of Brands strategy in select stores to see how that shows up. And we're also leading in certain categories. So we're trying to own the Suncare category in modern trade as a category leader and trying to co-create the category with our customers.

And this is a place where we're very confident as a channel that our relationships and the amount of collaboration that we're doing with our customers is going to lead to strong, positive results in the future. Project Neev, we talked about our transition in the GT distribution infrastructure last time. It's a very important part of our long term GTM mix and our ability to take our brand into general trade is dependent upon the quality of infrastructure that we have in GTM.

And hence, we had initiated Project Neev. And we wanted to, last time when we talked about it, we did get some inputs that we should talk about it a little more detail. So this time, we have put on a phased approach in which we are executing it. So the first step was, of course, focusing on direct distributors. We had a model in which super stockists were the main channel through which we were servicing. We wanted to move in the top 50 cities to direct distributors.

And we've been executing that. And it's almost 70% to 80% done. And we have been able to reduce our super stockist reliance from 70% to 50%. But of course, this is work in progress, and will continue to happen. Tech enabled sales through future ready DMS, again, great news on this front, our DMS implementation is going on very well. And 90% of the secondary sales for the entire last quarter are all completely coming in from DMS.

In fact, it's also helping distributors process claims and schemes much quicker than in the prior system where it was more manual. And we have done a NielsenIQ survey for our distributors. And that's a practice that we want to do over the next few quarters as project Neev is getting executed. But 72% of our distributors agree that DMS has eased the scheme management and claims process.

There are 69% of the folks are happy with the progress that we are making on Project Neev in making life easy. And so this is a phase in which we are almost 85% to 90% there. The third phase, of course, was supply chain capability enhancement. We have been a more online company and hence our supply chain has been driven from one city, which is largely north for the entire country.

And this was a step in which if we have to go direct to our distributors in top 50 cities, we need to have much more robust regional supply chain networks. So that's the process which has been on. We have kicked this off in the last quarter. We partnered with delivery for a large mother warehouse transition that we are doing and which will be followed up by regional warehouses as well. It's also live in East.

So this is something which we are already working on. This is, work in progress as a phase. And once this phase is done, there will also be the next phase, which is right-sizing the channel inventory. Because of the type of distribution system we've had, we have ended up carrying relatively higher inventory in the system compared to other industries, which does take investment from our distribution system into our inventory rather than in-market and in-market resources.

So I think our objective will be to bring this down so that we can move on to the next phase, which is basically norm-based ordering system. So that our distribution system is billing on the base of secondary tiers and norm-based ordering, replenishment-based rather than a push-based inventory system, which will be followed by ROI-based partnerships. Currently, because of the current system, we have not been able to have a good quality ROI-based partnership system with our distributors.

This will be positive for the partners as well, as well as us, because it will allow us to get our partners to invest in distribution resources, sales resources, which is an investment which we

have been making directly as a company till now. So I think that's the overall project that we are running in project needs. We also have hired and partnered with Bain & Company for a stronger three-year roadmap of winning in offline. They have worked with many large FMCGs in the country on brand building and offline capabilities.

So we also have taken them as a partner on this journey to help us craft the right kind of frameworks and right kind of strategies to win in offline over the next three years. So that's another focus area which continues to be executed. Our beauty with purpose continues to tread strong and all our programs, Plant Goodness, Young Scientists, Fresh Water for All are treading in line with our goals.

We've launched a new purpose initiative for Dr Sheth's. It's basically Healthy India, Healthy You in partnership with Doctors for You. We are taking our clinic on wheels in rural areas to facilitate doctor consultations. The first state that we have started with is Bihar. Here again, the purpose is actually linked back to the consumer. So when a consumer places an order on Dr Sheth's website, they'll actually be able to see a location to which their transaction gets mapped to where a van is sort of heading in and spreading health.

So that's something which we've just launched and we're proud of. With that, I would close our side of the presentation and would love to answer the questions that you have. Thank you. Thank you for listening patiently.

**Moderator:** Thank you very much. We will now begin the question and answer session. Our first question is from the line of Vismaya Agarwal from Citi. Please go ahead.

**Vismaya Agarwal:** Hi Varun and team. First of all, thank you for the new segment on the presentation, the insights on the BPC category. I had a couple of questions. So first, can you share some details on the growth rate for Mamaearth, some colour on the primary sales for the brand and maybe an update on the performance for the brand across different channels? I'm asking this in context of the distribution project that's ongoing. So just some colour, please.

**Varun Alagh:** Hey Vismaya, hope you are well. Obviously, we've not been sharing brand-wise growth in the past as well. We, from comparative purposes, but I think like we shared in the Mamaearth slide, if you look at the Nielsen data amongst the top 15 beauty and personal care brands, Mamaearth continues to be the fastest growing brand in face wash and in shampoo. And even in modern trade, we have continued to gain share. So clearly, competitive growth is strong and it's going well from a competitive growth perspective.

**Vismaya Agarwal:** Got it, Varun. So what I meant was not exact numbers, but maybe from some qualitative comments around, say, is it on track to that double-digit aspiration that you've had for the full-year base? So not just the quarter performance, but more on the whole trend, the way this brand is trending.

But I hear you on the market share bit. Yes, and just one more bit here. I do see the inventory levels that you've shared for specific categories for Mamaearth, but on an overall basis, I just want to get a sense that slide that you have on Project Neev where you mentioned the 30 to 45

days inventory across the channel partners. Is that the current number or is that what you want to target eventually once this sort of initiative is complete?

**Varun Alagh:** Sorry. So one, I think the inventory numbers that we shared in Mamaearth for face wash and shampoo, they're retailer-level inventory numbers captured by AC Nielsen in a number of days. And Project Neev, what we are talking about, is distributor inventory, and those are desired inventory levels that we want to get to post we do the correction.

**Vismaya Agarwal:** Got it. Thank you. The last one from my side is on the gross margins. Now I see it's expanded quite a bit even on a Y-o-Y and on the sequential basis. So can you give some insights on the drivers here other than channel mix? Is there some seasonality at play here as well given what I see on the historical data? 1Q has generally been a higher gross margin. So any comments there? And also an outlook if you can share further as to where this gross margin should settle for FY25.

**Ramanpreet Sohi:** Yeah, Vismaya. Hi, Raman this side. So I think the gross margin expansion is the two key levers. Of course, as we scale, we continue to get some procurement efficiency. So part of that is because of that. And secondly, in terms of brand mix, given our younger brands are a higher gross margin profile, that's also helping bump up our gross margin profile.

So I think that these are the two key levers. And I think from a, let's say, go forward, you know, expectation, we expect around same levels between 70% to 71% kind of a gross margin level is how we expect in terms of achieving the gross margin profile for the year.

**Vismaya Agarwal:** Good. Raman and Raman, anything on the seasonality here? Is 1Q generally a higher gross margin quarter?

**Varun Alagh:** Well, I think that if you look at Y-o-Y, I guess 1Q has a higher proportion of sun and face wash, so there is slightly higher gross margin like that. But from a perspective of Y-o-Y, and I think we will continue to be at the gain that we have demonstrated in first quarter, I think that gain will sustain throughout the year.

**Vismaya Agarwal:** Got it. Perfect. Thank you and all the best.

**Varun Alagh:** Thank you.

**Moderator:** Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

**Chintan Sheth:** Yeah. Thanks. Thanks for taking this question. And I think great set of numbers. The numbers are progressing well. A couple of questions on the distribution side. I understand you are not comfortable sharing brand-wise, but if you can share some data on how the offline-online mix has changed this quarter versus last year, that would be helpful just to check how we are progressing on the offline side.

Secondly, with this project, what are the outputs we have internally benchmarked for this project? Right now, it's close to 65-35. Where are we looking at as an offline mix, to see as post



the project name gets concluded? Thirdly, on the Ayuga side, any write-offs we should expect or its already in the numbers that is on the Ayuga side? Thanks.

**Varun Alagh:**

Thanks, Chintan. So, on the first question, the contribution of online-offline remains largely in the same zone as last year, right? Because there is, while there is offline growth, but our younger brands which are growing are only present in online, right? So, because of which, online is actually also growing faster. And hence, that contribution is largely, you know, held, compared to the last few quarters.

**Chintan Sheth:**

So, the mix remains the same, or it's a quarterly comparison, offline-online?

**Varun Alagh:**

Yeah. I mean, from a quarterly comparison, if you will see, then online might be a few on the base points increased because, like I said, the younger brands which are only online, their growth, you know, leads to the online channel expansion, while the offline growth is largely only driven by ME. So, that's what that is. I think the second question was in regards to the outcome of project.

I think the outcome of project means is more long-term in that sense, that the right offline GTM ecosystem will be needed for us to drive, not just Mammaearth, but also, for example, Derma Co, Aqualogica, Dr Sheth, because all of these brands in the long term will be executed in the physical, retail, right? And we need to have a very healthy distribution system where the partners are earning healthy ROIs and their ability to invest in the growth of these brands is high.

So, I think it's an investment in the decade-long growth that we want to see across the channels. And hence, there is no short-term sort of, contribution change that we would see because of that. And what we would want to measure, like we're saying, I mean, reducing inventory levels will allow us to get our partners to invest more in in-market or in manpower interventions to increase direct distribution.

I think that, and like we mentioned, we are running a Nielsen IQ-led survey amongst distributors. I think for the next few four quarters, as this project continues, we will continue to run that to understand how the perception of the company amongst distributors is improving.

**Chintan Sheth:**

And because recently, we came across, media articles related to certain inventory not getting replaced by the company that was the complaint for a few associations, so distributor associations. So, that it will be taken care of through project Neev. That's what our target is.

**Varun Alagh:**

Yeah. Some of those complaints we have talked about and we've given our answers, some of those are not, you know, don't have merit. And, you know, we've been, we've had policies, we've been sort of, you know, actively taking care of any damage expiries, etc.

But yes, we have talked about just in the past that our overall inventory level in the distribution system are higher relative to other FMCGs. But finally, the partners that we are now seeking are the FMCG kind of distributors. So, Project Neev aims to help us, get a better business partnership with these distributors and also, of course, take care of all of these concerns which might be out there.

- Chintan Sheth:** Right. And on Ayuga, the last bit, and I'll jump back into it.
- Varun Alagh:** Say, Ayuga,, as you mentioned, yes, so we don't, we don't see any write-off risks. We have some inventory which we need to manage, which we have already provided.
- Chintan Sheth:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Invesco Asset Management. Please go ahead.
- Manish Poddar:** Hi, Varun. Two questions. So, Varun, if you can highlight, let's say, because of this, you know, distribution transition, what is the sort of impact on sales?
- Varun Alagh:** Yeah, hi. So, I think, like you mentioned, the phase where we are, where to take the inventory correction, we haven't reached there. We were first, you know, strengthening our supply chain so that even with the relatively lower inventory levels, we are able to run the system without fill rate issues.
- I think that was our past focus. But over the, this quarter or next, we will be taking that decision where in that quarter we will have short-term impact in sales. But otherwise, in the long term, this won't have any impact. Actually, it will be very positive impact on the market.
- Manish Poddar:** Okay. And how much -- we were initially implementing in the top locations. Where are we now in the journey? So, just -- the slide has a lot of moving points. I'm just trying to understand, let's say, if I have to monitor one or two variables, I'm just trying to understand how much of the network are we there? And you're saying it will take another two quarters...
- Varun Alagh:** So, like I mentioned, the first two phases, we are almost 80% there. So, for example, phase one, which is about transitioning in top 50 cities to direct distribution model, we are done with almost 35, 36 cities. 15 more cities are left, right, in terms of removing SS and moving to a direct distribution partner.
- The second phase, again, from a DMS perspective, our rollout has been fairly healthy, 90% of the sales are getting captured there. And the supply chain phase, I think we are about 60%-70% there. So last quarter is when a lot of the work has happened. And as we speak, it's happening at a strong pace. The rest three phases, which is inventory correction and norms, etcetera, is yet to be started.
- Manish Poddar:** Sir, if you've implemented this in so many locations, without a sales loss?
- Varun Alagh:** Yeah, because we've not taken the inventory correction till now. And then we will do the -- because if we would have done that without having the right supply chain levers, for example, without opening the East regional center, if we would have done the inventory correction in the Calcutta segment, then our fill rates to retail would have dropped significantly. Because our supply chain wasn't ready to supply the distributor on regular purposes, right? Now that we have opened the East regional center delivery, we are in a ready state to actually make that transition, right, which is why it's not visible till now. We will take that over this quarter or next.

- Manish Poddar:** Got it. One last one. So in terms of...
- Moderator:** Sorry to interrupt. We are losing your audio in between. So if you can repeat your question.
- Manish Poddar:** Yeah. So, Varun, just in terms of new product contribution to sales, that's at 9%. And so just wanting to understand, let's say, I think this number at quarter 4 was about 18%. So just trying to understand why the reduction, let's say? And there is, I guess there's no mention on Staze. So if you can highlight how is the progress there? That's it.
- Varun Alagh:** Yeah. I think firstly, that number was from like innovations which had lasted for the whole year. And even that number, if you look at from a perspective of contribution to growth, 50% of the growth contribution was coming from innovations. And I think even now, 50% of the growth contribution continues to be from innovations.
- And on Staze, I think the progress has been healthy. It's a very young brand. It was only launched in February, which is why we're not sort of sharing any major update. The progress is healthy. But only once it hits a certain milestone, which we want to talk about, is when we will share it with you. But the early results in the progress, we are very happy.
- Manish Poddar:** So if I can get just one clarity. So when you say 9% and there's a hashtag which is Jan to June. So during these two quarters, new products contributed 9% to the sales?
- Varun Alagh:** Only the products which were launched after January of '24, they contributed 9% in the AMJ quarter. That's what we mean.
- Manish Poddar:** Okay. And the same number was 18% last full year, because there's no there's no asterisk there...
- Varun Alagh:** Which was for the products which were launched in Jan '23 to December '23 contributed 18% to the Q4 contribution. So 12 months of launch products in the next few months.
- Moderator:** The next question is from the line of Mehul Desai from JM Financials.
- Mehul Desai:** I have two questions. One is, obviously, if you can give some flavour on profitability trends in TDC, how is it shaping up? I think we had once spoken about that trend breaking even with now gaining scale, is it set more into positive trajectory? And second on the A&P spend, I think for the full year, the A&P spend were close to 34-odd percent. First quarter, we have started at 36-odd percent. So is there a seasonality that first quarter is high on A&P spend? And how do you see A&P spend as a percentage to sales for the full year?
- Varun Alagh:** On the first question, yes, TDC continues to scale in a healthy manner, both on top line front and even from a bottom line perspective has become better than what it was last year. So it's in the positive even in this quarter. On your second question, yes, we do have seasonality in terms of how we do our brand marketing spend. So we have higher brand marketing and A&P spend that we do in H1 compared to H2 because of sunscreen, face wash being our two core categories. And this is the recruitment period for these two categories and hence across brands. There is stronger brand investments that we do.

- Mehul Desai:** And do you see some efficiencies coming on A&P spend in FY'25 or you think the competitive intensity is high enough that you might not see efficiencies in A&P, but you will extract more efficiencies on staff costs and other expenditures?
- Varun Alagh:** So, actually, the observation is correct. Competitive intensity has been fairly high and our focus has been to gain shares. And we would try and ensure that we continue to invest in the brand to gain competitive growth. Of course, our H2 A&Ps will be, like I said, better than H1 A&Ps. But overall, the focus has been to find efficiencies elsewhere and remain strongly competitive on the brand.
- Moderator:** The next question is from the line of Nitin from Emkay. Please go ahead.
- Nitin:** Just wanted to get a sense on research and development strategy ahead. So, last quarter, we had acquired Cosmogenesis Labs where Rohini Manoj also joined us. So, anything you want to highlight how we are planning to go ahead with the R&D strategy ahead?
- Varun Alagh:** Thank you for asking that question. In fact, like we talked about GTM as a foundational lever, we are very, very clear that R&D is a strong foundational lever for long-term growth of our business and winning in the beauty and personal care in India. And hence, there is continued focus and investment that we will keep doing on R&D side.
- Cosmogenesis was one of those initiatives that we took last quarter that, in fact, the completion of that integration is really happening in this quarter and post which we will start focusing on how do we leverage on all the intellectual learnings that they have.
- But aside of that also, there is more activity that we continue to do on R&D in terms of even learning and partnering with global active vendors, figuring out what new innovations are happening across the globe, right? And how we can also study the dermat science of skin to understand what can be done further from a crafting for India perspective.
- So, I think a lot of focus on that front and you will see that as a continued conversation pillar from our side over many quarters to come because we genuinely believe that's one fundamental lever that we will continue to strengthen.
- Nitin:** Thank you. So, like this question was more also from the perspective of recently HUL is also talking about the strategizing and launching some of the patented international offerings in India. So, just wanted to get more sense on this, like, do you see this will have any implication to us or you see this as a positive for the overall market development perspective?
- Varun Alagh:** So, I think I can speak on our behalf and I can tell you that, you know, Honasa will continue to be the edgiest and the most innovative company in beauty and personal care in the next five years to come. And I don't think anybody will be able to beat us when it comes to consumer innovation, it's our core and we will continue to get stronger in that.
- Nitin:** Sure. And do you think there is any merit in terms of patenting products, like some of your competition in active ingredients have sort of started patenting the products, while we have not

yet patented anything. So, do you think patenting has any role to play in the beauty and skincare segment?

**Varun Alagh:** You said that this is an area of which we have been deliberating on in terms of technology or ingredient, patenting. As of now, we have not actively been pursuing this, but with the enhanced R&D strength that we are accumulating now, this is also an area that we will further deliberate.

**Nitin:** Sure, sure. Thank you. Thanks for giving the opportunity.

**Varun Alagh:** Thank you.

**Moderator:** Thank you. The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance Company. Please go ahead. Mr. Arora, your line is unmuted. Please proceed with your question. As there is no response from the line of current participants, we will move on to the next question.

The next question is from the line of Percy from IIFL. Please go ahead.

**Percy:** Hi, Varun and team. My question is on the guidance that you had given last quarter in terms of 20% plus growth and 150 basis points margin expansion for the full year. Are we still maintaining that guidance?

**Varun Alagh:** So, Percy, I think, from there can be one quarter where we execute the project in phase four and where we might be off that guidance. But outside of that, all three quarters, we are maintaining the same guidance.

**Percy:** Okay. And could you quantify this quarter, what is the impact of the pipeline correction on the total company level sales?

**Varun Alagh:** So, like I mentioned, Percy, so we have not executed the pipeline correction in the last quarter. So, our supply chain readiness was not in to the level where we could take that chance. Now that we are building our supply chain readiness, we will be taking that correction going forward. We haven't taken that in the past.

**Percy:** Understood. And lastly, I know you don't give separate numbers for this, but any kind of rough range you can give on Mamaearth brand growth, I mean, our target was to bring the growth to double-digit. So, are we at that level this quarter or, I mean, are we at mid-single, high-single? Where are we roughly?

**Varun Alagh:** Percy, we talked about this in the Mamaearth side as well, from a perspective of optics, the brand is amongst the fastest growing in top 15 BPC brands in both face wash and shampoo, which are the top two categories for the brand basis the Nielsen offtake data as well as in modern trade, we are gaining share in that. So, overall, from a consumer love and health perspective, the brand is comparatively growing and that's the objective...

**Percy:** I'm sorry if this is a repetition because I joined late, but if basically at the level there is good growth and this quarter we have not taken any pipeline correction, then at a company net sales



or primary sales level also, we should be seeing the same amount of growth. Is that understanding right? Or am I missing something?

**Varun Alagh:** Percy, from a company perspective, again, I think growth in product business is something which is significantly better than what industry at large is delivering. So, I think that is reflective of our brand's ability to capture.

**Percy:** Sure. Got you. Thank you very much. All the best.

**Varun Alagh:** Thank you.

**Moderator:** Thank you. The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance Company. Please go ahead. Mr. Arora, your line is unmuted. Please proceed with your question. And if your line is unmuted from your side, you can unmute it from your side and ask your question. As there is no response from the line of current participant, we'll move on to our next question. Next question is from the line of Dhiraj Mistry from Antique. Please go ahead.

**Dhiraj Mistry:** Yeah. Hi, sir. Congratulations on a good set of numbers. Sorry for dwelling on this, but on an annualized basis for FY24, if this project Neev, what could be the impact of this on an annualized basis, not from the quarter perspective, but from the annualized basis?

**Varun Alagh:** Around 150 basis points from a topline perspective.

**Dhiraj Mistry:** So, when you talk about 20% revenue growth for the full year basis, does that incorporate this 150 basis point of impact, or this is excluding that?

**Varun Alagh:** This is excluding. So, our secondary growth will continue to be at the 20%.

**Dhiraj Mistry:** Yeah. Okay. And, sir, last quarter, you mentioned that you would be launching INR99 and INR49 pack, not in the sachet. You were not interested in sachet format. Where are we in that strategy? Because if we want to scale up in our general trade channel, we need some lower price point products. Where are we in that part of journey?

**Varun Alagh:** So, on face washes, we now have a INR99 face wash in vitamin C, face wash, and we have also launched Ubtan 50-ml pack at INR125 put-down price. Similarly, in onion shampoo, we have launched a 100-ml pack, and these are all those launches which had happened last quarter, and now we are looking to scale them through our direct distribution.

We'll continue to look at more opportunities across categories where some of our heroes SKUs -- can come in lower prices, and over the years, we will figure out how further lower put-down prices can also be provided to customers.

**Dhiraj Mistry:** Okay. Sir, can you give some qualitative statement that what would be the percentage contribution in this quarter? Although it's like very new, but can you help us understand with that?

**Varun Alagh:** No, not material enough as we speak, because it's too early, and such packs require deep GT distribution build-up, and only when that distribution build-up becomes strong can then you have

a material contribution coming from these packs. So, I think it will take us three to four quarters to scale up the GT distribution for these packs, but yes, I think next year same quarter, we should see delta GT share gain coming from these packs

**Dhiraj Mistry:** Got it. And just to clarify on this, like this price point products are not available in online channels. It's purely for GT channels.

**Varun Alagh:** Yes, this is purely from our GT perspective.

**Dhiraj Mistry:** Okay, and just last question from my end. Can you share online and offline contribution for Mamaearth brand particularly that whether the offline channel contribution has increased for Mamaearth brand not from the company level but only for the Mamaearth brand? That's it from my side. Thank you.

**Varun Alagh:** It continues to be 50-50 for both channels.

**Dhiraj Mistry:** Got it. Thank you very much, sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak Securities Limited. Please go ahead.

**Jaykumar Doshi:** Hi. Thanks for the opportunity and congratulations on good set of numbers. The first question is just clarification. I know you called out that the impact of right sizing of channel inventory could be 150 basis point or the full year level, which would probably mean about INR30 crores or so on net sales. Will it have a disproportionate impact at profitability or you seem to be broadly comfortable on delivering your 150 basis point margin expansions guidance at a full year level?

**Varun Alagh:** Jay, like we said the quarter that we take that adjustment it will have impact on profitability in that quarter. And for the rest of the three quarters, we are confident of delivering that 150 basis points plus margin improvement. So the full year will be a combination of that.

But what it allows us to do is then from a next year perspective, a healthy distribution system will allow us to further extract efficiencies making the longer term and medium term picture more healthy.

**Jaykumar Doshi:** Understood. And when you mentioned channel inventory correction does it essentially mean that the level of channel inventory will go down so basically that quarter will see a gap between primary sales and secondary sales? Or will there be some stock returns, which would lead to provisions or write offs as well?

**Varun Alagh:** So Jay, it is a combination of the two. In certain cases where there is a closure of a party that has happened or if there was a tail assortment lying with the distributor, we would do RTVs. In which case, like you rightly said there is provision etc. that will also come into play. And in other cases there will be a primary secondary gap in which the secondary spend would still happen as per the plan. But because the primary won't be there that will lead to the margin impact. So I think that's how we're seeing it.

**Jaykumar Doshi:** Understand. And this is something you'll do in one quarter. It won't drag in the subsequent quarters, right? It will be sorted out in. Okay.

**Varun Alagh:** That's the plan. Because that is why we wanted to be ready with the supply chain and execute it in one quarter and not sort of extend it beyond. And we are very confident that post execution in other quarters, we will actually be in line or better maybe in terms of our performance.

**Jaykumar Doshi:** Sure. One more question. A couple of quarters back, you'd called out that on the marketplaces front, you're doing quite well on platforms such as Purplle. Does that sort of growth trajectory or strength that you are witnessing in tier two, tier three markets continue or there's some moderation or competitive intensity there as well?

**Varun Alagh:** No, it continues. I think Flipkart, Meesho, Purplle and all of these three marketplaces, which are tier two and beyond focused and are actually growing quite well and faster than our overall e-commerce.

**Jaykumar Doshi:** Sure. Thank you. Thank you and best wishes.

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

**Latika Chopra:** Hi. Thank you for the opportunity. Apologies if this is a repetitive question but I wanted to check, what is the salience of broadly Suncare for you in overall revenue pool? And I believe Q1 seasonally could have been higher, right? We dealt with a very hot summer.

**Varun Alagh:** So, hi Latika. So, salience to the portfolio would be 20 odd percent in that range. And yes, summer is a healthier quarter for Suncare but at least our last year's trendline tells us that the seasonality is not massive. In fact, the usage of Suncare continues into the further quarters as well.

India apart from North actually doesn't even see major winter. So, even in the other quarters, the salience is strong. It is not like it drops significantly. And in any which ways, both Q2 and Q3 see second summer phenomena towards September, October.

So, that of course helps and then in general, the adoption of the category is happening in a manner where consumers are not just linking it to heat but just pure sun exposure, which is why markets which are very cold be it European markets or American markets have deep penetration of this category. So, as education is expanding the salience of the category is also fairly well spread.

**Latika Chopra:** Thank you. The second bit was on channel salience. I remember in FY '24 the offline revenue salience was roughly 35% and 65% was online. I just wanted to understand how is Quick Commerce as a channel evolving for you? Any colour or any flavour on what would be the salience of this channel in your overall revenue mix today? Thank you.

**Varun Alagh:** So, Latika, I think Quick Commerce as a channel continues to do well for us. In the e-commerce mix it is actually the fastest growing sub-segment for us. Even in last quarter, I would say the channel would have grown more than three times than any other e-commerce vertical that we



have. So, very strong growth and we're still scratching the surface because most of these sales are coming from top 10 cities right now. So, as the channel expands to the next 50, next 100, we have very strong shares in most categories in this channel. So, we're very positive on this channel.

**Latika Chopra:** Alright, but is it possible to share any flavour of what percentage of online revenues will now be coming from Quick Commerce?

**Varun Alagh:** It's more than 10% already. And since it's growing much faster, we'll continue to grow strong.

**Latika Chopra:** Okay. So, that's 10% of online revenues, right? Our overall revenue?

**Varun Alagh:** Yes, of online.

**Latika Chopra:** Okay. Great. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ankush Agrawal from Surge Capital. Please go ahead.

**Ankush Agrawal:** Yes. Thank you for taking my question. So, the final question is on the expense. So, in Q4, the guidance that we gave, we stated that we see at least 150 bits of margin expansion, of which two-thirds will come from expense levels. But I think in one of your replies to early participants, you kind of stated that you want to keep expense at a similar level and want to see margin expansion coming from the other operating costs. So, I wanted to understand, has there been a change in the strategy for this year?

**Varun Alagh:** No, I think, as mentioned earlier, this year, we've seen significant competitiveness from other folks, which have two impacts. Of course, it leads to higher CPMs and inflation media costs, as well as to protect your share gain plans when it's to invest more aggressively. So, currently, given brand building is something that's our number one priority, we've been investing strongly.

It's also, the quarter had summer sunscreen and face wash, which are our core categories, where we spend from a year-long perspective as well. So, that is also a part of it. If we can manage to deliver what we need to deliver without actually reducing our intensity on brand, that will actually be a great place to be.

There is a lot of work that we have been doing on media mix analysis, and coming up with a stronger understanding of the parts of media which work harder for us, which will allow us to be more efficient on this as we move forward.

**Ankush Agrawal:** Thank you.

**Moderator:** The next question is from the line of Mehul Desai from JM Financial. Please go ahead.

**Mehul Desai:** Yes. So, just on this inventory correction, which is yet to begin, I just wanted to say, we have not given any timeline. Do you expect this to be this year, or you will still, before giving any timeline, you will still want to see the progress in the first three steps of your project, and then you might give a guidance on that when you want to start this right sizing?



- Varun Alagh:** No, Mehul, we are very clear we want to do it this year itself. So, it will happen in this year.
- Mehul Desai:** Yes. Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak Securities. Please go ahead, sir.
- Jaykumar Doshi:** Yes. Thanks for the opportunity again. As per my understanding, your summer portfolio is much stronger than the winter portfolio. So, could you talk about your plans, if any, to strengthen your winter portfolio ahead of the season this year?
- Varun Alagh:** So, Jay, this has been an active area of work for us. Our R&D teams, our brand teams for the last three-odd quarters have been working on moisturization as a category, and how we can use the same house of brands power that we have to take share in moisturization. This year in H2, you will see a lot of positive innovation happening from our brands in that space, which will help us strengthen our position so that as we move forward into the later years, we have a healthy mix of moisturization categories that we can execute strongly in H2 to drive strong share gain and growth. So, yes, we have a strong focus there, and you will see action from us.
- Jaykumar Doshi:** Sure. Thank you so much.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Varun Alagh:** Thank you so much for attending the call. And like I said, we're super excited to execute our agenda in capturing the BPC landscape of India. There are certain foundational capabilities like R&D, media mix Modelling, GTM that we continue to strengthen and work on because we know that these capabilities will decide our long-term success.
- And we'll continue to take the right initiatives on these fronts and continue sharing how we're doing on those initiatives in the quarters to come. Thank you so much for your patience and support. Thank you.
- Moderator:** On behalf of Kotak Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.