"Honasa Consumer Limited

H1 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of Honasa Consumer Limited, hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Richard Liu from JM Financial Institutional Securities Limited. Thank you and over to you.

Richard Liu: Thank you. A big welcome to all of you and hope everyone is doing great. It's a pleasure for us at JM Financial to be hosting the first conference call of Honasa Consumer as a listed company, and I'm delighted to have with us Varun Alagh, Co-Founder, Chairman and CEO of the company, Ghazal Alagh, Co-Founder and Chief Innovation Officer, and Ramanpreet Sohi, Chief Financial Officer.

Without taking more time, let me hand over to Varun for his presentation, and then we can follow it up with a Q&A. Over to you, Varun.

Varun Alagh: Thank you, Richard. Thank you so much for hosting us. We are super excited and elated to do our first analyst call as a publicly listed company.

This is also exciting because we get to talk about what we really love, which is our business. You've already talked to the team, but we have Ghazal, my co-founder and chief innovation officer, and Raman, our CFO, with us. For the purpose of simplicity, I will take you all through the presentation, and then we will all be here to answer the questions that you have.

I would also like to thank everyone who is attending this call to taking your time out and appreciate the time that you're spending with us. Moving on quickly into the presentation, I hope you can see the presentation and hear us. We'll move on from the first slide.

The agenda for today is going to be covering the business results, spending some time on sharing again the business overview with you because we are young and we would love to tell you what our business is all about, and then sharing some bits about our ESG focus and overall P&L summary. Without further ado, let me jump on to talking about the most interesting part of a quarter to yourself, which is numbers. From a quarter 2 perspective, we have delivered INR496 crores in terms of our net sales revenue from operations.

This is about 21% growth year-on-year on Q2 FY23. If you look at it from a like-for-like perspective, which is if you look at the businesses which we have scaled down and remove them, which is part of our services business, then this is about 24%. The other piece to note is the fact that in Q1 of last year, we had an ERP implementation towards June, which led to a slight depression in the Q1 base and has led to the Q1 growth looking slightly higher and Q2 growth looking slightly lower.

The better way to look at the business performance would be at a half-one level, which is where after sharing the quarter two numbers, we'll also share the half-one numbers with you. Continuing on quarter two, we continue to maintain industry leading gross profits of close to 70% and our EBITDA for quarter two is about 8% and at about INR40 crores. Our PAT is INR29 crores, which is 5.9%. This is significant growth over last year and our growth is actually driven by volume, whereas compared to the industry growth, which is largely driven by price. While doing this, we've continued to maintain capital efficiency in terms of working capital and where we continue to be negative. We are minus five days of working capital.

And hence, while our PAT is INR29 crores, we've actually generated INR41 crores in terms of free cash. Coming to half-one, like I said, half-one is a better indicator of the company's business performance. These are the metrics which you can also understand and look at how the company will perform in short term in the future as well.

So from a half-one growth perspective, we have delivered 33% growth. Like for like, this is 36%. The gross margins are 70% and EBITDA is 7.2%, INR70 crores. This is almost 500 plus basis points improvement in EBITDA. PAT is about INR54 crores and this is almost 14 times the PAT of last year, half-one.

This is a volume-driven growth like we have mentioned and in terms of cash generation, we've actually generated INR89 crores in cash compared to INR54 crores of PAT, We will double-click in a bit on where this EBITDA improvement is coming from.

And actually, before I move on to that, I'd like to compare how these numbers compared to industry are significantly higher. We have, even in the last sort of conversations, talked about the fact that we will aim to deliver market-leading growth. We have delivered almost, if you look at a half-one level, 33% growth, which is 3.8 times the average growth that the industry has delivered during the same period, which is FMCG company peers who are in the BPC business. That's the motive and motto with which we'll continue to operate, While doing that and delivering significantly better growth, we have actually become operationally better and we continue to see leverage kicking in in the business.

And from a half-one perspective, if you look at our EBITDA, we have improved by 531 points. Our PAT, we have improved by 513 points with strong growth, EBITDA has been driven from the 1.9% of H1-23 to a 7.2% of H1-24 and the three big drivers of the EBITDA improvement are firstly, leverage in marketing and advertising expenses and we have talked about this in the past that as our brands grow, as they improve in their awareness, the marketing bucket becomes more of a value number, and in terms of percentage continues to go down, which is where we're seeing a lot of leverage coming in.

I would like to call out that while this leverage is coming, we continue to invest in building brands and continue to deliver growth because of that. The other area where we've seen leverage kicking in is employee benefit expenses and opex, where we have seen the business leverage as we have scaled up.

And some other parts are procurement synergies, where we've seen leverage as in when we scaled. So those three are the largest buckets which have driven these benefits on the bottom line perspective and in the future also, we'll continue to focus on these areas to drive efficiency.

Coming to a business overview, like I said, we're a young company and we would like to, at the cost of repeating, keep sharing with you what we are building. We are India's largest digital-first beauty and personal care company with a diverse portfolio of six brands. Our journey started with Mamaearth, which is a clean-label, toxin-free, natural, personal care brand.

This brand was launched in 2016. It is yet to turn seven years. It will turn seven years on 5th December this year. In less than seven years, this is the fastest to 1,000 crores brand and we are very happy to inform that it also joined the “Top 15 BPC Brands Club”, which we'll talk more about. This brand has seen a lot of consumer love because of the cultural nuance-based innovation that we have done, where we have crafted for the Indian consumer by understanding the Indian habits and bringing ranges like Onion, Ubtan, Multani Mitti, which have been loved by consumers.

While building this brand into a strong success story, what we also built was an organization that had different capabilities across brand-building, distribution, innovation, sourcing, R&D, which could be applied to the other consumer white spaces that we were seeing. In line with that, in 2020, we launched The Derma Company, which is a science-based, active-ingredients powered brand that also has done extremely well. We’ll talk about it.

We launched Aqualogica, which is a hydration-based skincare brand, again a brand which is targeted at Gen Z and has been doing extremely well. We also acquired two brands, BBLUNT and Dr. Sheths in 2022, where we've been able to demonstrate strong growth and also demonstrate the fact that we have muscle to build acquired brands and not just build craft brands, and we also have Ayuga, which is an Ayurveda and natural ingredients-oriented masstige brand for Indian millennials.

And with this diverse portfolio of brands, we are playing to capture the hearts and wallets of consumers in the BPC market. We genuinely are very excited about the growth that BPC will see in India over the next couple of decades. Even in the medium terms, we believe this will continue to be the fastest-growing FMCG category, with an expected CAGR of about 11%, which is going to be driven largely by rising disposable incomes and, very importantly, women joining the workforce as a mega trend, which is going to shape this category.

I think we are equally excited by the sub-segments which are driving growth in this category. We believe premiumization is going to be a core driver of growth in this category and hence, Masstige and Mass Premium are going to grow much faster than Mass.

And all our brands play in that segment. We believe online and digital penetration will be growth drivers of BPC, and that's where almost 60% plus of our business comes from, We also believe that skin and color cosmetics is going to be the strong driver of growth for BPC, and that's where 60% of our revenue comes from.

So that just makes Honasa very well-placed to capture strong shares in this category and we have demonstrated that in the past as well. We have had strong CAGR in terms of our previous year growths We continue to demonstrate market-leading growth in this year as well at 33% for H1 and our gross margins continue to remain amongst the highest in the industry for the last four years. We've been Adjusted EBITDA positive for the last three years, but this year we have been able to demonstrate further improvement on that metric in H1, and we've continued to demonstrate that in Q2 as well.

We have done this in a very capital-efficient manner, whereby our working capital has remained negative for the last three years and for this year Half 1 as well, even after scaling the business in offline, which now contributes to almost 35% of business and we've been able to do this because of certain core strengths, which we have developed as a company, Brand-building playbooks, on-trend data-based innovation, strong omnichannel distribution, and purpose-based brands with a strong ESG framework are the four core strengths that I would say have been responsible for us being able to deliver this kind of disruptive growth.

I'll be covering a bit on each one of them as we move forward, starting with the first one, which is our brands. Mamaearth, we are elated to say, has entered the coveted "Top 15 brands club" in the BPC space and this is a large mega-achievement for a brand which is just less than seven years young and is competing with brands which have existed for multi-decades.

In terms of retail sales, this is the data that we have taken for a reference, we actually are standing at 13th largest BPC brand in the country, where we are also taking into account oral care and personal wash brands, That just shows the kind of strength Mamaearth has as a brand.

And it's also a brand which has showcased the ability to capture share across categories rather than in one category because of our why-based and purpose-based position, which is also one of the reasons why it has been able to scale to this level so quickly, and which is why we believe it will continue to scale and become much larger in terms of its franchise in the future as well. This, of course, has happened on the back of strengthening brand metrics, Mamaearth continues to be India's most searched beauty and personal care brand.

Our brand searches have actually gone up by 16%, this is higher than any other BPC brand in terms of the overall number of searches out there. This has been driven by our focus on, like I said, certain Indianized innovations, which we have crafted and developed.

Onion Shampoo, the campaign on that saw almost 21 crores views. 'Shadiwala Glow', which is a campaign around our Ubtan face wash, has seen – it's an award-winning campaign, which has seen over 24 crores views. Our property, which is a purposeful property, Beautiful Indians, which we executed in half 1, has seen over 11 crores views of the content that was generated from this property.

I think all of these things and the increasing brand strength is leading to not only Mamaearth growing significantly faster than other large-scale brands, but also gaining market share in the offline space, where in shampoos, we have gained 50 basis points. In face washes, we've gained 100 basis points. We'll continue to focus and gain in other categories as well as we move forward.

In other news, of course, The Derma Co., which is our second brand, continues to deliver strongly. It now has hit an annual run rate of INR380 crores. This has been driven by its core categories like face serums, sunscreens, and moisturizers, and our focus on acne-based activation in Q2, which is a season that sees a spike in acne-based concerns.

The brand also saw very strong gains in brand searches. We continue to hold a very strong belief that this brand will continue to grow very strongly in the future as well, and we'll continue to invest in it. The next brand, which has again seen phenomenal growth, is Aqualogica.

This is a brand which is less than two years old, and in just 19 months, it's actually hit a scale of INR180 crores ARR. This is much faster than what The Derma Co. and Mamaearth have taken to hit. I think as we are growing, applying the same playbooks of innovation through which we developed products which consumers love and brand mixes that consumers love and marketing to millennials.

And I think as a company, we understand how to use content, community, and the right kind of mediums to win over Gen Z and millennials, as well as our purpose-based marketing and combination of these three levers, and of course, supported by our distribution playbooks, have helped us hit this kind of a revenue mark so early and we continue to believe that this brand again has a lot of potential in future in the way it's going to shape and is being loved, especially by the Gen Z out there.

Another great news is we have Dr. Sheth, which has entered the INR150 crores ARR club. This is the fourth brand from Honasa's portfolio to enter the INR150 crores ARR club after Derma Company and Aqualogica.In just less than seven years, the company has now crafted and scaled four brands to that level. This is specifically heartening for us because we acquired Dr. Sheth in early 2022, and we've grown it 30 times to take it to this number, and it just gives us confidence that not only do we have the capability to apply our playbooks to brands that we launch, but also to mixes that we acquire. This gives us a lot of confidence from that perspective, and we'll continue to focus on scaling this brand and capturing share of the active market to this.

The other brand that we had acquired was BBLUNT and we focused on building the styling and care portfolio in this brand. We are very bullish on professional hair care market and salon-like hair at home kind of a proposition. This is the brand which is playing in that proposition and helping us capture the share of hair care market through that. In quarter two, of course, because of context of hair fall being high, we focused on that and that campaign has done really well.

We also continue to focus on both innovation as well as expanding the distribution footprint for the salons, where we have opened four new salons in half 1 and taking the overall count to 14 salons now. The salon business is helping build the brand equity for the products business, and where the product business alone has grown by about 300% since acquisition.

The second large strength for the company continues to be innovation and we are a data-based innovation company where we capture a lot of data and trends from various sources and apply that to figure out what is the kind of right innovation that the consumers are looking for. In line with that, all of our brands have seen amazing innovations in this calendar year as well and that innovation has led to 13% contribution of H1 FY '24 revenue.

Some of the core innovations that I would like to talk about is Mamaearth, we launched Multani Mitti range, which is an ingredient which we have been using for hundreds of years, but consumers find it difficult to mix and use, and now it's readily available, and they are loving that.

Rosemary range that we have launched and entering into color cosmetics, lipstick, The Derma Company launched new formats of sunscreen, like the sunscreen stick and we've launched new range of variants in the Detan range for Aqualogica. In BBLUNT, we are launching very innovative hair care products like the Intense Moisture Heat Hair Spa mask, which does self-heating without using any electronic equipment and creates much better conditioning because of that.

And in Dr. Sheth's, we continue to find the right bioactive combination to capture spaces like pigmentation. So, all in all, some amazing innovation done to drive growth for the brands. The third area where we continue to focus on was strengthening our distribution. We have been building physical distribution and strengthening our offline scale.

This quarter also, we are happy to share that we have actually reached 1.65 lakh outlets, which is an increase in 47% in terms of distribution over last year. We've also expanded our EBOs. Now, we have 97 Mamaearth exclusive stores, which are out there not just to build imagery, but more importantly, to showcase and sell our overall assortment to our consumers.

We have been deepening our relationships in the modern trade channel and have built strong relationships across our customers, and we've also continued to strengthen our leadership and team on the offline side, looking at the future potential of that business. Even on the online side, we continue to focus on not only our core channels, but also our emerging channels.

We have seen Quick Commerce emerging as a great growth driver, which has grown by 100% plus Y-o-Y growth and we've also forged new partnerships with Tira at Reliance Retail, which is helping us grow. The fourth strength, of course, we continue to focus on ESG.

We are a company which strongly believes in building brands with strong purposes, where Mamaearth has a plant goodness initiative. We have planted almost 5,10,000 trees under this initiative and the beauty is that we've actually built a technology through which when you place an order on our website, we actually send you a mail with a picture of the tree, the actual geolocation of the tree that we have planted and connected it back to your order for you to see as a consumer, the contribution that you're making by buying our brands.

We also, of course, continue to remain a plastic positive organization. We have recycled 7,591 metric tons of plastic since FY '21.

We also have other purpose programs where we've inducted over 10,000 plus students in the Young Scientist Program for Derma Co, over 500 families through Freshwater Plants Initiative in Aqualogica and along with this, of course, the corporate governance framework is also something which is a strong focus area for us. We genuinely believe that the only lasting businesses are the ones which are sustainable and run in a strong governance manner.

And in that light, we have a 50% independent board, strong gender diversity, being a beauty company, 58% of female workforce. We are externally audited by S R Batliboi, which is a member firm of EY and we have an internal auditor in BDO where we continuously review and strengthen our processes.

We've also implemented ERP systems like SAP and DMS and SFA systems like Botree through which we want to enhance the data visibility and control visibility around the business. With this, we would like to end the presentation. We have a P&L summary. This has been shared as a part of our presentation and I've already captured most of the heads of the summary as a part of my presentation. Thank you so much for listening to us. Would love to answer the questions that you have for us. Thank you.

Moderator: Thank you very much. We will take the next question from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: Hi. Good evening. My first question is on the Mamaearth brand. So, if I look at your sales growth for this quarter, it's 21% year-on-year and 7% versus the previous quarter. If you can give some idea on what the Mamaearth growth was for the same period, because these numbers are at a total company level. I just wanted to know how the Mamaearth brand is performing?

Varun Alagh: Yes. So, Mamaearth brand at a half 1 level continues to grow much faster than the large sized brands out there that we have showcased as comparatives. And I think we are happy to see that the investments that we're making in the brand building are showing and delivering much faster growth than the industry peers. That's the level of detailing that we'd be able to share.

Percy Panthaki: Understood. Also, if you could share some color on the channel-wise growth between your own e-com channel, the third-party aggregators on e-com, and the general or modern trade.

Varun Alagh: So, actually, at a company level, both online and offline continue to grow very strongly. At brand level, of course, offline continues to drive growth for larger, more mature brands like Mamaearth, while online is driving growth for younger brands, which are The Derma Co, Aqualogica, etcetera.

Ramanpreet Sohi: So, Percy, if I may add, I think from an H1 perspective, online delivered a 40% growth and offline 33%.

Percy Panthaki: Okay. Very helpful. And just one follow-up on the previous question, if I might be permitted, on the brand-wise growth. So, it's great to know that Mamaearth is growing faster than overall industry. But right now, the industry growth itself is very, very subdued. So, that really is not giving us much information. I mean, is it even a double-digit growth on a Y-o-Y basis, or you would not be sort of comfortable sharing that kind of information?

Varun Alagh: Percy that assumption is correct. It is in double digits.

Percy Panthaki: Okay. I'll come back in the queue for more questions. I'm sure there's a long queue today.

Moderator: Thank you. We have our next question from the line of Akshen Thakkar from Fidelity International. Please go ahead.

Akshen Thakkar: Congratulations on your first results. Just a couple of questions. One was on margins. So, very heavy margins here at 8% in the second quarter. Could we just talk through sustainability of margins either at 8% or 7% that you've done at H1 levels? Because, there has been some reduction in manpower cost, channel spend, A&P have been lower. How much of this is scale? How much of it is timing? You know, because it's a new company for us. So, pardon such basic questions. But we're just trying to build our understanding? That's question one.

Question two, I think you disclosed in H1, what is the online-offline growth split? Could you just bring that out in Q2 as well? Because I think, like you called out, Q1 was impacted last year. So, growth rates could be misleading just on a going basis. On Q2, if you could, just help break up that number of growth between online and offline, that would be great? Thanks.

Varun Alagh: Thanks for asking questions. I think on the first one, what we're saying is all of that we're seeing is not timing, but scale and structural impact on the business, because of which we are seeing this improved profitability and the Half one level profitability that you see is something which we believe is fairly sustainable.

And in fact, in the future in the medium term, our objective would be to see how we can find more areas of leverage and how we can continue to demonstrate such performance in terms of improvement. I think on your second question, actually, it is much better to look at Half one, because see, what also happens is because of the ERP disturbances, as the businesses get impacted, channel level skew does get impacted, right? Because it's the B2B billing which can move from one quarter to the other.

And hence, our view would be to look at quarter one and at quarter one, like Raman said, 40% in online and 33% in offline, H1, sorry, 40% in online and 33% in offline should give you a good flavor as to overall how business is sort of shaping in both channels.

Ramanpreet Sohi: And just to just to complete the point on the margins, like Varun mentioned, of course, the sustainable level margins are more the H1 margins and in Q2, we have a one off ESOP reversal on account of scaling down of operations of Momspresso, which is, hence are, 50 bps, which is on an H1 basis. So, I think, excluding that, that, balances, of course, the structural margin movement.

Akshen Thakkar: All right, I'll fall back in the queue. Let others ask the questions. Thanks.

Moderator: Thank you. We have our next question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi, thanks for the opportunity. So, Varun, you are interacting with the analyst community for the first time where you are allowed to share guidance. So, just wanted to understand, how do you look at the current growth rate of 20%? Is it in line with the expectation or below or we can do better? Or looking at macro, you will be happy with the current growth run-rate?

Varun Alagh: Like we mentioned, Tejas, I think it's better to look at Half one, where we have delivered about 30% plus growth and that's at least in the short term, the kind of benchmarks that we would want to deliver.

Tejas Shah: And considering that we are in a distribution expansion mode and as you highlighted that offline alone, we had some 47% plus growth. So, how do you measure the like to like growth in terms of repeat purchase? And if you can share some qualitative or quantitative insights on how are we doing on offline in terms of repeat purchase?

Varun Alagh: So, there are qualitative indicators, of course, especially in our modern trade businesses, and in basis, some of the Nielsen data that we get, and we are actually seeing a very healthy same store growth numbers, be it in our EBO, be it in our modern trade, be it basis, the Nielsen same store growths that we track.

Tejas Shah: Perfect. And last one, with the capital inclusion, and obviously visibility, from industry perspective also has improved materially. What are the key priority areas to kind of next three years, five years that you would like to invest from here on to kind of achieve your near term or long-term milestones?

Varun Alagh: It is, I think, as a business, we are in the business of building brands and hence, the first priority area is going to be brand building, which is delivered through driving awareness and consideration for our brands. So, I think that's the first area where the company will continue to invest.

We have seen that investment leading to much better growth outcomes for the company compared to industry and share gains that we have delivered. So, I think the first area where we'll continue to invest is in brand building. The second area where we'll continue to focus on is distribution expansion, like you rightly mentioned, be it in terms of expanding GT distribution, deepening our modern trade tie ups, even improving shares and presence on the online platform.

So, we'll continue to sort of do that. The third area of investment will continue to be product and proposition innovation. We believe product and R&D has been a strong strength. We'll continue to innovate in line with the consumer trends that we have seen and that is going to be the third area of investment. Fourth, I think, we'll selectively look at either new geographies or newer category acquisition opportunities that come our way over the next three years to five years, which also potentially could be an area of investment.

Tejas Shah: Anything on human capital?

Varun Alagh: Of course, all of this is underlined by human capital itself. That said, we did invest ahead of the curve over the last two years in building the right leadership team, building the right kind of organization structures, but as a growing company, we continue to deliberate on what's the right organization design to serve the growth that we need to deliver on the basis that we will take the right strategic calls on the human capital front.

Tejas Shah: Thank you. That's all from my side and best wishes for the journey ahead.

Varun Alagh: Thank you.

Moderator: We have our next question from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Hi. Good evening and all the best for your journey as a company. Two questions from me. Firstly, in terms of innovation, can you give us a sense of what proportion of your sales came from organic innovation? And second question around channels, you indicated obviously that e-com and in particular, convenience-based e-com has grown very fast. Can you give us a sense of how the channel economics differ from sort of your own e-com, third-party e-com and then offline? Thanks.

Varun Alagh: Thanks. Hi, Aditya. Thanks for the good wishes and the first question on innovation, we have called it out in the past and we continue to call it out. Innovation is a core growth driver for the company and we genuinely believe that consumers love brands which bring the right kind of on-trend innovations and categories to them before others and we want to be the company that does that. In the first half of FY '24, innovation, organic innovations, in fact, has contributed to 13% of the company's revenues and continues to be a strong growth driver for us.

And on your second question, I think from an e-commerce perspective, I think we're seeing growth across all channels and platforms, be it vertical beauty platforms like Nykaa, Purplle, Tira, etcetera, or horizontal platforms like Amazon and Flipkart. We called out quick-commerce because that's an area which has grown much faster than others and hence, that was a call out. And while that area was expected to grow for categories like grocery, but it also is doing really well for categories like beauty in our business.

Aditya Soman: Thanks. Very clear. I think my question was also around in terms of economics for you from different channels. Is there a meaningful difference in the economics in terms of margins or profitability or working capital side? Thanks.

Ramanpreet Sohi: Yes. So, Aditya, hi. Raman here. So, I think on the channel front between, let's say, online and offline, at a contribution level, per unit, the margins are very similar. And so, that's, from an inherent margin drawing perspective, there's not too much of a difference in the similar range.

Aditya Soman: All right. All right, sir. Thank you. Thanks for the answer.

Moderator: Thank you. We have a next question from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Thanks. My first question is on the pricing, which seems negative 6% - 7%. So, could you explain which categories are seeing this? And is there a mix deterioration also? And how do you see this negative pricing in the second half?

Varun Alagh: I think, Abneesh, hi. Hope you well. I think you're referring to this basis, the fact that volume growth is faster than value growth. So, it's actually not because of price deterioration, but it is because of the channel mix change. So, in a B2B channel, which is where offline and some of the other channels like that lie, which is what is increasing as a contribution share, those channels have a lower per unit realization compared to B2C channels, where the per unit realization is higher and as a contribution of those channels increasing is where you're seeing the volume growth to be being higher than value. So, it is not a price deterioration.

Ramanpreet Sohi: And I think, Abneesh, just to add, if you see the numbers, our first half, like-to-like growth is 36%, the volume growth is similar. So, yes, what Varun mentioned does impact the volume growth, but in H1, it's absolutely 100% volume net. So, there is not too much of an impact on business mix as well. But it does sort of play a role.

Abneesh Roy: So, just to clarify in terms of pricing and say discount and mix, there is no like-to-like deterioration in your business?

Varun Alagh: No, no major change.

Abneesh Roy: Now, coming back to the question which has been asked again and again, my question here is, lot of the urban discretionary categories have been explaining slowdown for many quarters now, QSR, Apparel, Innerwear for three quarters. And first time, United Spirits also highlighted that initial signs of slowdown are there. Obviously, every form of consumption, directly, indirectly, some correlation will be there.

So, I wanted to understand how much is the impact of ERP, because ERP impact, normally we see retail companies really highlight that impact. Consumer companies or D2C companies don't really impact, highlight the impact of ERP. So, if you could explain, ERP was the main reason for one is to two kind of a difference, because your Q1 growth seems to be almost double of Q2?

Second is, when I see Q3, there are 35 lakh weddings happening from tomorrow. Second is, festivals full benefit is there. In your kind of a business, my sense is festival and marriages should have a good positive impact. So, would you expect acceleration versus a 33% growth, which you're saying should be the number we should monitor? So, would you expect acceleration, because festival and marriage will impact full benefit is there in Q3?

Varun Alagh: Yes, so I think, you know, what I would like to call out is that in the quarter one of FY'23, is where we had done ERP implementation and the most impacted month was actually June. What happens is, because of that implementation, for some part, let's say the last seven to eight days, our billing got impacted. And that billing usually is the B2B billing, which happens for our offline distributors, our monetary customers, etcetera, which moved to the first week of next month.

Because of which, the base of quarter one is slightly lower, and the base of quarter one is slightly higher and hence, that H1 level is where we are asking, it looks so it's largely that impact. Otherwise, like-to-like, if you see, the H1 numbers is what, like I said, we would like you to focus on. From a perspective of festivals and weddings, I think, every year they happen. So to some level, they're also there in base and our businesses does not see as much seasonality on account of either occasions or on account of seasons, because we are a multi category business.

So while one category might see some seasonality in some quarter, the other might be seeing, something opposite. So they take care of each other and hence, we don't see any disruptive impact of some of these occasions.

Abneesh Roy: So if you see the punching up of marriages is definitely there. And we see this happening every four years. Second is again festivals that you really see. This time, it's delayed, the Diwali was delayed. And so every company is saying Q3 will see that benefit. So I leave that. My second question is on the BBLUNT. So when you say 21% growth was there in Q2, what was the growth ex. of BBLUNT? And BBLUNT obviously has seen a change of the promoter last 10 years twice. So wanted to understand how do we see this business now, because we have been running it now for some quarters, and how has the business done in Q2?

Varun Alagh: So overall, from a Honasa perspective, BBLUNT continues to be about less than 6% contribution in terms of the overall business. So I don't think you would see any major difference sort of putting it out or keeping it in. As a business itself, I think like we called out, while for a long time, it was not growing disruptively. After we have acquired it, we've actually been able to grow the product business in almost three times, as stated in my presentation.

And we're seeing our playbooks of innovation, online distribution, actually bringing the brand to a very strong buzz. In fact, even in terms of Google searches, the brand has almost doubled Google searches over the last four quarters. So I think we are very happy with the way the brand has shaped and we continue to see strong growth momentum in the brand.

Abneesh Roy: Sure, thanks. That's all from me. Thank you.

Varun Alagh: Thank you.

Moderator: Thank you. We have our next question from the line of Kunal Shah from Jefferies. Please go ahead.

Kunal Shah: Yes. So two questions from my side. First one is on the standalone P&L, if I look at the margins there, that is somewhere around 10% or so. So would it be fair to say that the top four brands, I mean, Derma Co., Aqualogica, and BBLUNT product business would be at that margin and the losses are coming from the Salon's business and BBLUNT and the other brand, Dr. Sheth’s? Would it be fair to look at it this way?

Ramanpreet Sohi: I'll take that. So for all, BBLUNT Salon business is profitable and doing really well. It is a 20% kind of an EBITDA business for us. I think in the September quarter, there is a one-time impact only in the standalone financials for the reversal of derivative liability. This is regarding the Momspresso scaling down of operations. There's a INR10 crores reversal in fair value of derivative liability there because now that we've acquired that business 100%, there is a reversal of a certain amount, which is equal to INR10 crores, which is happening first quarter. And that is making the overall margins of standalone higher than consolidated. So ideally, we should look at consolidated numbers as the representation of our business

Varun Alagh: To further add on to it, Kunal, I think even in the standalone business, Mamaearth, of course, as a mature brand, is at a much higher profitability compared to the average profitability that the company or standalone business has and the other brands are still younger, are in invest mode. But as they're shaping, we clearly see the same chart that Mamaearth has crafted, those brands will also craft over the next few years.

Kunal Shah: Understood. That's very clear. The second question was just a follow up. So you talked about the ERP implementation in June. So the impact of that on the offline revenues would be much higher, right, compared to the online revenue? Would that be a fair understanding?

Varun Alagh: You're correct. You're correct. Yes, that will be a fair understanding.

Kunal Shah: Understood. Understood. Yes, that's all from my side. Thank you.

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

Yash Gandhi: Hi, thank you for the opportunity. My question was, the first half, we've grown like-to-like 36%. And, given a smaller revenue base as well as expanding distribution network, if you compare it to some of larger FMCGP, so can we, sort of aspire to go a bit higher than that, let's say 40% for the next two years? I mean, what's your opinion on that?

Varun Alagh: So, I mean, we would like to continue to focus on building brands in the right manner. I think we're also being cognizant of the fact that as we grow, we need to see windows of efficiency and continue to become better, so that's also a priority now as an organization. I would rather want to play the long-term strong compounding growth story and continue to build this, deliver marketing leading growth for years to come. Rather than just look at the next two years, this is how I would sort of position us.

Yash Gandhi: Okay. So, I mean, what I understand is that, we can expect about at least first half growth, right? In the, in the short term. If I, understand you right, similar to the first half?

Varun Alagh: Yes, that's the end.

Yash Gandhi: So, and my just second question was, this quarter, your advertisement expense is about 35% of your sales. And given, the operating leverage and, and economies of scale as you grow, how should we see that number? Do you think it can go down significantly, in the next coming quarters or stay at this level?

Varun Alagh: Great. On one hand, you would like us to grow even faster. On the other hand, you would like to see that number falling. See, finally, it's investment in brand building and driving awareness that gets us stat growth. That said, we clearly have showcased that as we scale, that percentage has continued to go down for the business. In fact, that percentage even today is a sum of parts. For a Mamaearth, which is much lower than this number, for the other brands, which are much younger and in invest mode which is much higher than this number and of course, over time, we do see opportunity and efficiency to bring more leverage on to that as we grow.

Yash Gandhi: Okay, sure. Thank you. Thank you for the answers.

Moderator: Thank you. We have a next question from the line of Vishal Khandelwal from Bajaj Allianz Life Insurance. Please go ahead.

Vishal Khandelwal: So my question was related to your employee expenses. So employee expenses this quarter is around INR37 crores, INR37.1 crores. And you mentioned a reversal of around INR4.7 crores on account of Momspresso. So if I include that your employee expense comes to around INR41.86 crores. So just wanted to understand how has it declined from last quarter? So last quarter, the number was around INR44.5 crores. So this reduction was because of share based expenses reduction or there was a reduction in your core employee expenses also?

Ramanpreet Sohi: Yes, so I, this is Raman. So see, you're absolutely right. So the reduction is on account of the INR4.7 crores. The one time we saw reversal that has happened in this quarter and in terms of, sequential, payout, the payroll number, that's the range that we're looking at in terms of at an absolute level. So I think that's how one should look at it and also, we should also look at the other aspect which is impacted when you say it has come down is apart from we saw reversal, the one-time impact, there is also scaling down of operations of Momspresso, which was there last year. That's also leading to this number coming down. And which was a people heavy services business. So that is an impact that you would structurally see.

Vishal Khandelwal: Okay, understood. Would it be possible for you to share the ESOP related expenses, excluding the reversal number of 4.7? That would not have happened like what would have been the ESOP expenses?

Ramanpreet Sohi: So, sorry, the ESOP expenses that we're referring to is only related to the Momspresso ESOP reversal there is of course, the ESOP expenses, which are regular ESOP expenses as part of our quarterly payroll costs. On average, they range between 0.7% to 0.8% of our sales.

Vishal Khandelwal: Okay, sure. One more thing, as and was there any reduction in your expenses like your freight forwarding charges, sales commission, Q-on-Q, or was more or less flat as in Q-on-Q, those numbers?

Ramanpreet Sohi: Yes, so these are part of our other expenses. And, they've, they are -- these are variable in nature and hence, in line with how we've grown. Some efficiencies we've been able to drive because of scale as well as because of improving regional utilization on that front.

Vishal Khandelwal: Okay, because I remember you mentioning like advertising spends being a lever, but I'm just comparing our second quarter of FY'23 versus second quarter of FY'24. And as a percentage of revenues, this kind of agreement similar at around 35% or so. So, I'm just unable to like, export your commentary.

Varun Alagh: Yes, like we said, better to look at H1 and at the H1 level, you will be able to see that because like we said, like Q2 has, in a base has a slightly higher sort of revenue, while, because of the Q1 ERP implementation. So, at H1 level, if you will see, we'll actually find that impact.

Vishal Khandelwal: Okay, okay. Thanks. Those are the questions from my side. And congratulations once again.

Ramanpreet Sohi: Thank you so much.

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

Chintan Sheth: Thank you for the opportunity and congrats for the good first quarter, post-testing results. A couple of questions on the new SKU launches and all. If I look at the slide, within Derma Co., Aqualogica and Dr. Sheth's, the brand is towards, obviously, there will be end number of launches we must have done during the quarter, but brand is towards, summer products like sunscreens and all. If you can highlight what kind of new launches we have done this quarter and what is in the pipeline going forward?

Because that get piece is kind of contributing more. If I look at Q1 of the current year, the new SKU launches have contributed almost 9% as per DRHP. That has moved for the first half to 13%, right? So, if you can provide some color on the pipeline products which we are planning to launch and the concern on the, we are setting into the winter and we are looking at more summer-based products on the pipeline. If you can highlight anything on the product side, yes, it would be helpful?

Varun Alagh: So, actually, I'll talk about two things. One, I think the good thing is India continues to be a tropical country where we don't have extreme seasonality. While you're right, we're getting into winters, we'll probably have two months of winter impact and that too only in north, right? Rest of the places, it's much smaller in terms of seasonality and hence some of the categories like face washes or even for that matter now sunscreens, continue to see throughout the year usage from our consumers.

They're not as seasonal as some of the categories earlier like talc, etcetera. used to be so seasonal towards summer and hence we're not as worried. On the other front, actually, you pointed out rightly. So, our innovation calendar is in line with consumer contexts, which is the reason why from our H1 perspective, we are talking about the launches that we activated in H1. We were, which were more contextual towards the season is Half one and hence a lot of sunscreens, a lot of acne-oriented products or hair fall-oriented products and you know and accordingly in our innovation pipelines and we ensure that the innovation or the ingredient or the category that we are innovating in is in line with the context that the consumer is looking for.

So, moisturization, for example, would be what we'll focus on in the season where the consumer is looking. So, in line with that and this is not something which we have done just this year. Over the last five years, every year, every quarter, innovation has been a strong driver and it has been in line with our understanding of consumer needs and which is why, you know, it is able to get as much consumer.

Chintan Sheth: And any number of number of products or schemes will be launched during the quarter or first half?

Varun Alagh: Oh, it's actually, you know, continuous business as usual. So, I mean, you know, nothing which will disruptively change. We'll continue to do what we have been doing.

Chintan Sheth: Okay. And if you can just call out what is our services revenue for the first half, would be helpful.

Varun Alagh: Sorry, what is? Services revenue.

Chintan Sheth: Revenue from services.

Ramanpreet Sohi: Yes, that's it. It's about INR18.5 crores. So, 2% of the company's revenue.

Moderator: Thank you. We have a next question from the line of Nirav Rajiv from Aditya Birla Sun Life Insurance. Please go ahead.

Nirav Rajiv: Yes, thank you for the opportunity. Just on the margins front, I mean, we have already seen the clocking around the first half around 7.2% in EBITDA margins and around 8% for this quarter. So, just wanted to know directionally, can we see, like continue to see your improvement at least on an annual basis around 100 bps going forward? Just directionally, any sense on that?

Varun Alagh: Hi, thank you for asking that question. So, from an annual basis, every year we will have endeavor to find leverage opportunities the way we have to look at, you know, the levels at which you talked about are probably even better than that as we grow.

Moderator: Thank you. We have a next question from the line of Mihir P Shah from Nomura. Please go ahead.

Mihir P Shah: Thank you for taking my question. I was also going to ask on margins, but the other question I wanted to ask you was on your manufacturing capability. While I understand your innovation and R&D pipeline and efforts are quite consumer-centric, can you please talk a little bit about your manufacturing capability and any plans to strengthen it?

Do you see that as any risk that you may face in the future as you scale higher?

Varun Alagh: Yes, sure. Thank you for asking that question, Mihir. So, on the manufacturing side, actually, it's important to understand how our innovation engine works. Of course, the conceptualization, as I said, is very data-oriented basis, which we recognize trends and opportunities. That is then picked up by our internal innovation and R&D team, where we have 50-odd members team with labs and facilities in both, you know, Gurgaon and Bombay.

And along with that, we have an ecosystem of R&D partners, more than 10 to 20 different partners who also work with us on providing solutions to different problem statements. So, all R&D happens in-house. And the prototypes that we develop out of those R&D, we do extensive consumer testing.

It's almost like a collaborative effort with consumers that we develop these products on and once we are confident of a certain formulation, then we have a network of almost 30-plus different manufacturing partners who have expertise in different kinds of manufacturing processes and categories and of course, some of them are far more pareto with us.

The top four partners actually contribute to more than 60% of our sourcing, and some of them have independent units fully deployed for Honasa business. But actually, instead of risk, it's a flexibility that we have, where we are able to, at any point of time, scale manufacturing by taking that formula to multiple manufacturing partners, as well as our ability to open up and work on any new category is very high because we are able to find the right partner and run the process with them. Of course, we have very strong QC standards.

Most of our partners, our own QC teams, work with them to ensure strong quality controls, which is, of course, evident in the love that we've got from consumers.

Mihir P Shah: Got it. Thank you for that very interesting answer. The other question, again, on margin, sorry to harp about it, but any direction that you can give us, I understand that your endeavor will be to improve and get cost efficiency, but what is the level of ad spend that you may think would be on a constant basis, on a steady state basis for you, which can still allow you to grow at the rate at which you grew in the first half at about 35%. Any number, maybe, that you may, or the range that you may have in mind that will continue to allow you that rate with that kind of ad spend?

Varun Alagh: So, you know, I think how I would want you to look at things is, it's not like even this year, we have reduced our ad spend in value. Actually, we have spent more marketing dollars to build our brands and that's a space of investment, which we generally feel is the right space of investment, because that's what helps us build and grow our brands. So in actual value terms, we have actually grown it. But because our revenues grow faster, in percentage terms, it is lower and that's the trend line that we continue and we hope to see over years to come as well.

Because over time, there are two things that happen. One, our understanding of media mix efficiency improves. Because we have more data after doing so much media on a brand, we know which part of the media mix works harder, because of which we are able to keep the brand spend at that a certain value number and deliver the same kind of growth with that and as we deliver that growth, the percentage wise, it actually goes down. So I think that's how you need to see it. We will continue to invest in brand building, but become more efficient and deliver faster than market growth because of that.

Mihir P Shah: Got it. Can you share what is the mix of ad spend that you're spending on Mamaearth versus the other brands?

Varun Alagh: So at least in the, you know, from a Mamaearth perspective, we would say it is almost 500 basis points lower compared to the average company.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now request the management team to answer the text questions posted through webcast. Please go ahead.

Ramanpreet Sohi: Yes, so I think as we see the questions, we've probably answered most of them during the questions that were asked on the call itself. Probably I'll take one or two theme-based questions, which are more data-led, which is basically people asking questions around what is part of the other expenses, the marketplace commission and fulfillment cost part of other expenses. So the answer to that is yes, I think most of our supply chain, logistic fulfillment expenses are part of other expenses. I think apart from that, very similar questions, most of them have been answered

Moderator: Thank you, sir. Any closing comments?

Varun Alagh: No, thank you. This was very exciting to have this conversation with you and share more light on our business and your questions also help us become sharper and think from a first principles perspective. So we love to continue these conversations, both during these calls as well as offline. Thank you so much for taking time out and joining our first call and giving your wishes to us as well.

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