February 14, 2024

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

Scrip Symbol: HONASA

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

Scrip Code: 544014

Sub: Transcript of Investor Call

Dear Sir / Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, copy of transcript of the Investor call held on Friday, February 09, 2024 on the un-audited financial results and operations of the Company for the quarter and nine months ended December 31, 2023, is enclosed.

The said transcript is also available on the Company's website at www.honasa.in.

This is for your information and records.

Thanking you,

Yours faithfully,
For **HONASA CONSUMER LIMITED**

DHANRAJ DAGAR

Digitally signed by DHANRAJ DAGAR
Date: 2024.02.14 16:41:10 +05'30'

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

"Honasa Consumer Limited

Q3 and 9 months FY24 Earnings Conference Call"

February 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. MEHUL DESAI – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

Moderator: [Ladies and gentlemen,] good day and welcome to Q3 and 9 months 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 touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Mehul Desai from JM Financial Institutional Securities. Thank you and over to you.

Mehul Desai: Thank you. Good evening everyone. On behalf of JM Financial Institutional Securities, I would like to welcome you all for 3QFY24 Earnings Call of Honasa Consumer Limited. From the management side, we have Mr. Varun Alagh, the Co-Founder, Chairman and CEO of the company, Mr. Ghazal Alagh, Co-Founder and Chief Innovation Officer and Mr. Ramanpreet Sohi, Chief Financial Officer. I'd like to hand over the call to the management for its opening remarks and then we can start the Q&A session. Over to you, sir.

Varun Alagh: Hi. Hello everyone. A very good evening to all of you. Thank you so much for joining the call. I think I'm going to briefly share an update on our quarterly performance, and we will then open it up for your questions. Overall, as a company, we have continued our growth momentum with a 28% year-on-year revenue growth.

Especially in this environment, this is something that we believe is significantly disproportionate compared to the industry. Like for like, if you look at our products business, we've grown by 31%. Our operating performance also continues to be robust, and we've delivered an EBITDA of 7.1%, which is almost 400 basis points up year-on-year.

Our nine-month EBITDA has also crossed INR100 crores in terms of the nine months that we have pitched. In terms of PAT, again, in line with what we have been, talking about, so INR 26 crores in this quarter and for the nine months, it's about INR80 crores. Business continues to be capital efficient. We have continued to be a negative working capital cycle company with minus six days of working capital.

All of this has been possible because of our focus on our three strong core levers. First, of course, we need to focus on brand building and Mamaearth continues to get consumer love. Over the last two years, Mamaearth has been into two main categories which are face washes and shampoos.

We have gained strong household penetration by 280 basis points in face washes and 110 basis points in shampoos. This is urban data measured by household penetration. Mamaearth has also shown very strong versatility by entering and making a dent in a new category, colour cosmetics, where we had entered close to about one and a half years back.

And in that period, we've actually reached an ARR of INR150 crores in just the colour cosmetics business. Just in quarter three, we have sold 10 lacs units. This not only demonstrates versatility of the brand, but also demonstrates company's ability to build new categories, which require newer capability building, R&D, etc.

I think we're happy we've been able to achieve this. We continue to scale our younger brands strongly. And in fact, the great news is that our second brand, the Derma Company, has actually become EBITDA profitable now at a nine-month level.

The brand continues to be EBITDA positive. And that just gives us a lot more confidence as we grow, that our playbooks on brand building and as these brands scale, they will start contributing to the profit pool of the company as well. And the investment allocation strategy that we have is clearly paying off.

Of course, the second very important lever is innovation. We take pride in our ability to innovate and our ability to use data science-based trends in capturing what the consumers are looking for. And we have launched almost 122 products in last calendar year.

And an example of our innovation has been our Rosemary haircare range, where we recognized the trend before the start of this year, we launched the range towards April before the hair fall and monsoon season. And actually, in just six months, we've been able to take it to a INR50 crore plus ARR. And that gives us a lot of joy.

We of course continued to strengthen and expand our omnichannel distribution in the offline space. As per Nielsen now, we are present in about 1.7 lakh outlets, which is an increase of 37% year on year. In modern trade, we are present in almost 8,000 plus stores now across 31 chains.

And we also opened our 100th EBO store, which not only helps drive imagery, but also helps us drive a range execution in the physical world. So, the three boring levers of building brands, providing innovative products and driving distribution have been fundamental to delivering the growth plans that we have had. And we have done this, keeping our purpose-based philosophy in mind, and all our plans around, planting more trees, providing more safe drinking water, recycling more plastic. and we continue to add to those feeds. And we in fact, very soon will come with our sustainability report as well, in terms of the impact that some of these plans are making. And we continue to strongly focus on governance with our strong internal and external audit partners.

We take pride in the fact that we have a diverse organization, 53% of the employees are women. And we were also recognized as a Great Place to Work fourth year in a row with our focus on engaging employees in the right way and providing them the right development and learning opportunity. So, those are the highlights of what we want to capture in our quarterly results.

I would love to answer the questions that you might have. Thank you so much.

Moderator: Thank you very much. We have a first question from the line of Vivek M. from Jeffries. Please go ahead.

Vivek M: Hi, good evening Varun and team. A few questions first and in fact, a request to Varun and Raman, if presentation can include, a bit more data on, let's say online, offline, and a bit more data on, let's say, the brands. That will be really helpful to analyse the performance if you can take that suggestion on board.

Varun Alagh: We will evaluate that.

Vivek M: Sure. Now, coming to the questions, firstly, online-offline, can you just give some insights into how the quarter had been for both these channels?

Varun Alagh: So to answer the question, one, both the channels have grown well. But online has grown stronger, faster than offline for the company. In terms of brands, younger brands have driven and grown strongly in the online channel while growth for Mamaearth continues to be driven from the offline space.

Vivek M: Okay. And in terms of growth rates for the key brands, Varun?

Varun Alagh: So from our growth rates on key brands, our younger brands, of course, have a lower base and are growing much stronger, which we talked about last time as well. But Mamaearth also continues to lead the pack from a perspective of larger brands. It is in double-digit value and in mid-teens volume growth.

Vivek M: Perfect. Got it. Second, because you are still a very young company from a market perspective, sequentially, how is the seasonality? So, if I look at this quarter, there is a quarter-on-quarter decline. The base also, there's a quarter-on-quarter decline. Does that mean the second quarter is bigger than the third quarter? I would have imagined given the winter portfolio and the impact of delayed winters.

Varun Alagh: Yes, it does mean. Yes, we do have some bit of seasonality in the business because our largest categories continue to be face wash, sunscreens, followed by shampoo. And in order of seasonality, sunscreens show the highest seasonality, followed by face wash, followed by shampoo. And which is why usually H1 is where, for us, the seasonality is higher compared to half-two where winter sort of kicks in.

And this time, the winter portfolio itself also wasn't as exciting in terms of the winter demand. The winter was delayed and some of that impact was there. But in general, given the contribution of our categories, we do have some seasonality. It's best to look at it from a year-on-year perspective.

Vivek M: Got it. A couple of more questions, if I may. One is the gross margins, which have contracted both on a Y-o-Y and Q-o-Q basis. Can you just give insights? Other than channel mix, is there anything else? And where should this settle at in the foreseeable future?

Varun Alagh: Actually, channel mix is not the core reason. Good you asked this question, gave us this chance to clarify. So, the gross margin contraction is because of two reasons. One, at a YTD level, if you see, we have the impact of Momspresso, which used to be because it was largely a people-oriented business and high opex, but high gross margin as well. So, that is there in the base.

And that, if you remove the impact of it, from a nine-month perspective, there is only about 15 basis points difference in gross margin. Even there, one of the things which has specifically happened in this quarter, which we will, of course, learn and be better at as we move on, is that while we were taking provisions for our expiry, etc., in every quarter, we chose to do the destruction of the same for the last three quarters in this quarter itself. Because of which, all of that sort of came into just this quarter, which should have ideally been divided into the last three quarters.

So, this quarter is a little more depressed because of that. So, I think if you look at the YTD levels, that's really the gross margin level which we are at, and that is what you should expect from us as we move forward.

Vivek M: Okay, got it. And Varun, I noticed, on the volume growth side, so let's say Mamaearth has 200 millilitres of shampoo bottle and let's say 3.5, 4 grams of lipstick. When you report volume growth, does that mean that one shampoo bottle is the same as one lipstick, for example, because your volume growth says that it is on the number of packs? Is that correct?

Varun Alagh: Yes, you're absolutely right. We treat volume growth as transactions growth, which is the number of units. Because in the beauty and personal care business, like you absolutely rightly pointed, not even 3, a 2.5 grams of lipstick can be more expensive than a 250 ml shampoo.

And hence, tonnage and kg is not the right way to measure and add them all up to see, especially if you're building skincare and colour cosmetics as a business. So, we see transactions growth as the right measure of volume. And there, we've actually grown faster than ever.

Vivek M: Interesting. Okay. Got it. And last question, Varun, since we have the opportunity to hear it from you. There have been obviously investor concerns around this issue of inventories in the channel, etcetera, and I'm sure investors, analysts would have reached out to you. But can you just give your views as to, on the distribution side, how comfortable things are on the ground and whatever the reports came about, any clarification on that will be useful. That's my last one.

Varun Alagh: Sure. So, Vivek, I think to talk about it, I will need to set some context for everyone out there. So, we started operating in this channel about three and a half years ago, when we started going offline, especially GT.

And when you're building a new business in GT, you're really going to partners with no ongoing business. And that led to the kind of partners that we were able to attract at that point of time. It was not the best quality partners.

The second thing that of course happened was when we were doing that, when we were a largely online company. And hence, our distribution center was largely one mother warehouse from which we were operating. While to service the general trade distribution system, you need far more number of distribution points, which we could not just open up directly.

And hence, what we did was we went in for a super stockist model, whereby we appointed super stockists as bulk breakers, who would then service our sub-distributors. And they also solved the problem of supplying to smaller, lower quality distribution partners who might have had credit risk.

That said, over time, as our business size increased, that layer has led to significant, relatively higher inventory compared to others, FMCGs that we operate. Because they really are inventory bulk breakers. And the contribution of that also increased. And of course, there is a cost associated with it. We pay 5% extra to a super stockist to manage this.

As we speak, I think we are undergoing that transition. Where, one, we want to improve the quality of our distributors given this is a channel for growth for us. And hence, there is financial infusion, which will be required by our partners as well as they need to have stronger capabilities on deploying the technology products that we want to deploy for significantly better visibility of assortment, sales, etcetera.

Now, that whole attempt of changing and tuning some of this did cause some pain, whereby certain associations did raise concerns. And we are actively addressing and working with the system. That said, we believe it's structurally the right thing to do, which is finding the right partners over time and actually deploying them with better manpower, capital, as well as better technology capabilities.

And over the next three to four quarters, we will continue to engage and work with the system, whereby we will make sure that both the quality of partners as well as the inventory levels in the system continue to move in the right direction.

Vivek M: Perfect. Thank you for the elaborate answer. Wish you and your team all the very best.

Moderator: Thank you. We have a next question from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: Hi. Thank you for the opportunity. My first question was, if you could share the ARRs for the Derma Company and Aqualogica. I think you shared it in the prior quarter at about INR380 crores and INR180 crores, respectively. Any updates on that, please?

Varun Alagh: Those were the numbers that we had shared last time. As we make material gains in these, I think we will surely come back and share. Because ARR's benchmarks, ideally, we would like them to be materially different when we actually come back and share with you. Currently they have grown sequentially, but there is no material difference from what was shared earlier. Hence, we would surely as they hit newer benchmarks, we will come back and share.

Latika Chopra: Sure. The second was, I know you mentioned in your response to gross margins that there was an adjustment for nine months that you made in this quarter, right, in terms of stock write-offs, probably. So, should we now look at the nine-month gross margin as a realistic gross margin of 69.7 or is it going to be the third quarter of 68.5 which is more realistic? Do you see any risks to this from a product mix perspective or the offline, online channel mix or brand mix going forward?

Ramanpreet Sohi: I will take that, Latika. Like you said, I think the first nine-month gross margin profile is representative. Having said that, of course, the big implication going forward would be a significant change in the channel mix, which of course, as we speak, I think the online, offline growth mix will balance it.

I think at least in the medium term, we don't see any major change in how our gross margin profile will look. And from a nine-month perspective, the only bit of adjustment is that 20 basis points odd which is an account of the office space. So I think outside of that, that 69% is the gross margin that you should expect us to deliver.

Latika Chopra: All right. And any flavour on how should we think about brand advertisement expenses on a Y-o-Y basis as a percentage of revenue? It's been pretty stable at 34-ish percent. There is some benefit of 40 basis points odd as I can see on your deck. But where do you think this is going to settle at basis the plans that you have?

And lastly, would it be possible for you to share the offline, online mix? I understood that online grew faster, but any rough sense on whether the Mamaearth portfolio or on an aggregate basis, any rough sense on online, offline mix? Thank you.

Varun Alagh: So, Latika, firstly, to the first question, I'm sorry, I lost the first question. Could you repeat that?

Latika Chopra: So this is on the advertisement spend, as a percentage of revenue.

Varun Alagh: Yeah, got it. Sorry. Thanks for reminding me. So, Latika, we build an annual plan. And like I said, there is a bit of seasonality in the business. There are areas where we want to invest, and we invest. So, I think from a pure P&L perspective, we look at it more as a year and we build an annual plan where we look at how and when we're going to activate which brand. And according to that, we have executed. We've been delivering the gains that we've delivered.

Again, we should look at more from a nine months perspective because we've delivered it in line with what we had planned them to be. As we move forward, again, we've called out and we continue to support that fact that A&P is the bucket from which we will get the maximum leverage as we grow. And we've called out that every year we will continue to improve on our bottom line performance by using that leverage where we not only are becoming more efficient, but also the awareness levels are getting driven to a certain level.

So I think what I would say is our objective would be that every year in the medium term, we continue to become better on the bottom lines by leveraging on the A&P.

Ramanpreet Sohi: And I think just to add to that. Latika, if you actually look at nine months, it's a 250 bps plus optimization on the A&P side. So like Varun was mentioning, it's about planned budgets and how we sort of invest behind brands and this despite, as we're building younger brands, we've been able to optimize the A&P spend during the year.

Latika Chopra: Sure. And any flavour on online, offline mix?

Varun Alagh: So from an online, offline mix perspective, like we said last time, it continues to be similar to what we mentioned last time. So about more than one third of the overall business continues to come from offline while the balance is online. But for a brand like Mamaearth, it's mostly 50-50 and that is where we see it.

Latika Chopra: All right. And one thing, sorry for one more question. I was going through the slides and I noticed that you've mentioned that the online growth has been driven by platforms with strong Tier 2 plus presence. Any comment on the Tier 1 platforms like Nykaa or Amazon or anything that you wanted to say about them?

Varun Alagh: Actually, that point on the online growth is also far more driven from Mamaearth's online growth where we've seen that for Mamaearth now the growth is coming more from platforms which have stronger Tier 2 and beyond presence like Meesho, Purplle and Flipkart. That's been a learning at least in the last 10 months. For younger brands we've seen it to be actually more driven by platforms like Nykaa, Amazon, etcetera. But at a company level, of course, we're gaining share on each of those platforms.

Latika Chopra: Got it. Thank you so much.

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

Manoj Menon: Hi, team. Just heard earlier about the formula which you use for volumes. Just curious why not use the underline volume growth formula? I'm sure you know this template. Just trying to understand why not use UVG because it kind of normalizes most of the noise.

Varun Alagh: We'll take that as a feedback. I think we're fairly young and some of these pieces are things that we have still to take into account and ensure we're able to build it. UVG is a good concept but it's also slightly complicated in terms of execution. Currently our objective was to understand if our consumer transactions are growing and that's the first point we wanted to keep a strong hold off especially as we also get into B2B businesses.

We wanted to know if the number of times a consumer is engaging with our products is growing and this current method actually is a very good demonstrator of that. It gives us a very healthy picture of how our brands are doing in terms of driving the consumer interactions and transactions, But we'll take this into account and evaluate how we can move towards that.

Manoj Menon: Thank you. And the only reason I asked this because I have observed in the last 10 years, many Indian companies, had actually adopted UVG because they felt, depending on how much they are interested in this phase of evolution, because it kind of normalizes the volumetric aspects.

So the point here is given the stage of growth which you are currently you started as let's say it's a very a high ticket product company to now have a democratically priced the product. That's the only context I was trying to ask that and we will come back in a few quarters on how this evolves.

Secondly, yes from seasonality Q2 versus Q3 is the skincare portfolio should have benefited from seasonality or is it not material in the portfolio currently?

Varun Alagh: So, in fact, even under skincare it depends on what part of skincare forms the largest chunk. If we were a creams-oriented company you are right that part of skincare does see positive gains, But even there in fact at least our learning has been it is not daily creams but cold creams, moisturizers which feel a larger skew towards seasonality, but for us, that's the third segment in skin. The top two segments are face wash and sunscreen which see entire seasonality in Q2.

Manoj Menon: Very clear. Last year some updates on the retail more than an update just help us understand how do you look at retail internally? Is it the funding for retail ramp up comes from your cash budget or you are looking at a separate channel or any evolution over the last six months on your thoughts on retail?

Varun Alagh: Manoj, I am assuming you are referring to the EBOs when you are talking about retail?

Manoj Menon: Exactly, offline EBOs. Offline EBOs, that's right. Yes.

Varun Alagh: Offline EBOs. Yes, right. So, I don't think we -- and you mentioned cash budget I did not understand that point if you can just clarify that.

Manoj Menon: I think let me just give you an example of working on a recent Lipton tea powder project in Unilever long back where the internal thought process was that these are actually market expenditure, and we would obviously look at this as from a profit ROCE point of view. So, are you looking at retail more from a brand building point of view or is it something else. I know these things evolved, that's why I am trying to understand where are you in the journey at this point?

Varun Alagh: No, we are looking not just at retail from a brand building or imagery point of view. In fact, the reason for us to get into the exclusive brand store format was one, of course, the imagery piece that you talked about but two very important things and the fact that general trade and modern trade do not allow you to execute your overall assortment.

They are more of a hero product kind of channels and a lot of our consumers were asking for our overall assortment to be seen in one place where they can actually experience and buy more categories, that was the reason why we started this. For us, we are seeing that as a clear business the way we evaluate all channels from a profitability perspective.

That's how we look at this channel. In fact, the overall channel, already in very nascent stages is store-level profitable and we follow that very strongly and we believe that as it grows the older stores are actually showing much better store-level profitability compared to younger stores. So as a store gets more mature it starts to show better sort of bottom line.

So I think that's how we are looking at the channel.

Manoj Menon: Thank you. Just one last question. All the DPS are owned, right? No franchise as of now

Varun Alagh: No, all of them are owned, no franchise DPS.

Manoj Menon: Thank you. Thank you, team. All the very best.

Varun Alagh: Thank you.

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

Manish Poddar: Hi Varun. Just two questions. So first is on the competitive intensity. Could you probably talk about let's say competition both from incumbents and new age brands for the core brand Mamaearth

Varun Alagh: I think in the last three months, we have seen significantly enhanced competitive intensity. I think till about three to four months back, there wasn't any urban growth concerns that companies were looking at or talking about, but it started with the festive not going as well for the e-commerce players in terms of the overall traffic and growth. It was then sort of followed by a bleaker winter in the last quarter.

And then also parallelly followed by GT not growing as fast for most companies and the consumption in GT slowing down hence inventory increasing etcetera. That has been the scenario which has led to actually a very high discounting that we have seen from most players, be it incumbents or the younger players in terms of number of days of discounts or the steepness of discounts which have gone up.

Now, our view is this shouldn't last as long and hopefully post-elections this environment should completely change and focus on the basic penetration gains and growth should sort of come back and hence this need wouldn't be there, but in the short term, we have seen this and it does have impact on the consumer and competitive intensity and how one needs to react to some of this.

So I think that would be the long answer to it.

Manish Poddar: So then it is interesting to see the entire growth and the margin perspective. Just one more thing, could you probably talk about distribution expansion for The Derma company and the other brands because in the first leg you had to build the pipeline for both own stores and the GT channel, but what are your thoughts of taking these brands across the channel given that some of these have started breaking in. Thank you.

Varun Alagh: So Manish, I think the plan for us is that next year for example The Derma Co, we do see a stage where we are seeing demand in offline stores. We are more demand oriented in our approach and hence taking it slow because while you can put stock in the channels but if there is no demand then it won't move out, but now for last four-five months we have seen active demand coming especially in pharma channel or in modern trade

So I think this year the objective would be to have a targeted store strategy getting into hypers, getting into the right kind of pharma stores for dermaco and expanding that presence. And similarly for other brands we might go very tactically for one category which is very strong for that brand and take that into selective stores and see how the demand affects those shapes and accordingly expand it.

Manish Poddar: Just one clarity if I can, So would it be right let's say for new products under derma or any of the other new brands you take the feedback loop from the BA which you have for your co-brand?

Varun Alagh: I did not understand, so you mean that is the first port of distribution are BA channels for Mamaearth?

Manish Poddar: For the new brands. I'm just trying to understand let's say from a feedback loop.

Varun Alagh: You're absolutely right. We have almost a thousand points where we have BAs feeding data every day to us around what's moving what's not moving. So these are the places where we do pilots and understand for the new brands what's moving.

Manish Poddar: Just to understand it. So for this the entire Derma products company perhaps would have already started getting let's say rolled out across this BA distribution channel or that's just on NPD basis?

Varun Alagh: No, no. Actually, we never take NPDs into offline Manish we only would take our core products of a brand in offline where we are seeing significant traction and which have become large in the online space. For example in The Derma Co - Face Serums, Salicylic acid, Kojic acid, Vitamin C, Niacinamide have become large in the online space or the sunscreen which is the 1% Hyaluronic acid has become large in the online space, those would be the products that we would lead our offline distribution with and that we would do in the BA channels as well and we would do in the right imagery modern trade stores as well. But like I said, we always start with a certain universe, see the response there and then expand in that channel.

Manish Poddar: Got it. Thank you so much. And all the best.

Moderator: Thank you. We have a next question from the line of Mudit M from M3 investments. Please go ahead.

Mudit M: Thanks for the opportunity and really appreciate the consumer brands that you're building. So my first question is can you help us understand what's the growth on the base business by the X new launches? So I just want to understand X new launches while we appreciate the nimbleness of coming up with new products, but is the base also getting built and there is traction there?

Varun Alagh: Yes, the base has also seen good growth, we've seen volume growth on base as well.

Mudit M: So if I can drill down that even further, because you're expanding your store network very fast, for an outside investor it's very difficult to understand how much is coming from the new stores getting added and how much is from the repeat orders from the distributors, so could you help us qualitatively understand is there a growth in the repeat salience of the business functions in GT?

Varun Alagh: Yeah, in GT it's a bit difficult to track at this kind of size for example, new stores continue to grow at a same store level. As well as if you look at Nielsen data, it is also telling us that same store growth is there as well as distribution growth is there. So finally, the growth that is coming for us in offline is combination of both. It is not that one is at the cost of other. Both same store is growing as well as distribution expansion is adding to the growth.

Mudit M: Just two small questions. Can you help us explain the percentage of repeat orders on your website that you put in your RHP as well? What is the traction like in nine months?

Varun Alagh: As a cross channel brand, where our products are present not just in our own D2C but also in Amazon, Nykaa, Dmart, Apollo or in a GT store. We have always talked about the fact that the same consumer ends up buying from cross channels. Hence, we are not able to truly triangulate what the repeat sale of that consumer but we have disclosed that almost 55% of our sales is coming from repeat consumers on our D2C platform. That has gone up to 58% now and it continues to be in that zone.

Mudit M: Do you get any differential pricing from e-commerce? Or is it the same that everyone else enjoys?

Varun Alagh: In fact, we would be the most commonly treated in terms of players because we operate as sellers on these websites. When you operate as sellers, you are basically operating with the same framework that Amazon has put out for any seller in the country. Of course, that framework has slabs where as you increase in size, you can get better logistic costs.

But finally, we are going by that same framework that Amazon or Flipkart have created for any seller in the country. Most other companies operate in a B2B model where there is less transparency, but in our model, it is actually very transparent in terms of the costs that they apply.

Mudit M: That's great. Sorry, operator if I can squeeze one more. Can you also suggest how much in the marketing goes in performance and qualitative aspect, how much goes in performance marketing and vis-a-vis the other brand building activities?

Varun Alagh: What I would say is while we are calling it performance marketing, it finally is consumer marketing. Just because I serve the consumer from Facebook with the advertisement where I am trying to capture what kind of sales it generated, we call it measured marketing rather than performance marketing. That's the form of marketing probably 10 years down the line will only exist.

Hence, it's just a form of digital tool and marketing available. We focus more on the content, the messaging, what we are communicating with the consumer. Otherwise, all of this marketing is also consumer marketing. That's how we like to look at it.

Moderator: Thank you. We have a next question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Thanks for the follow-up opportunity. When I heard your comments, you talked about some refresher coming on urban discretionary and it could also be cyclical. Just wondering, we have this aspiration of 30% growth year-over-year, and we have delivered around those numbers

But if you have to crystal gaze over the next two or three years, where would you peg the revenue growth potential for the aggregate business? I also heard comments looking for a more tactical expansion into other channels for your new branch. Any rough sense on whether the revenue trajectory is going to be 20% to 25% or 25% to 30%? Where do you think the next year revenue growth potential for the business looks like?

Varun Alagh: Latika – whenever you talked about this in the past, we talked about the fact that we will continue to grow significantly ahead of the industry peers. We would still retain that as our goal. We talked about the fact that we would be at a 2x to 2.5x of where the market growth would be. That's where we will continue to be. In the very near term we do expect consumption to slow down. You can see industry is also reporting fairly slow in volume growth numbers.

That is now happening in urban as well, not just in the rural area. From a short-term perspective, the growth benchmark might itself be on the lower side and that might impact us in the short-term.

From a medium-term perspective, which is over the next three years, I think that goal of remaining 2x to 2.5x of the market continues to be there. I think we would look at around that 20% CAGR mark. Because that's the way we see market shifting.

Latika Chopra: Any thoughts on further brand launches or you want to scale up the existing portfolio that have and then look at a new brand launch into any of the white spaces you see in the BPC space?

Varun Alagh: It's an ongoing process for us where we identify opportunities which are white spaces. We action pilots and POCs in that opportunity. Wherever we see that our view in a hunch was right, we double down on that opportunity.

We've also created an organization which can easily support that. We have a separate brand factory team which works on only new brand creation and scale up. While COE focusing was on the old brands. So I think in that line we will continue to look at newer spaces coming up with the right mixes to take on those spaces and build newer engines of growth for future through those trends and spaces.

Latika Chopra: One of the things that you flagged off was colour cosmetics. It's already INR150 crores under Mamaearth brand. Do you want to tap into this category via Mama Earth brand itself or the success of this portfolio within mamaearth allows you to look at a bigger target audience at different price points using another brand? Is that something that could be on plate?

Varun Alagh: Yes. The experience with the category has clearly given us more confidence to be able to look at it in a standalone manner. We know that globally as well as in India, natural is a very small part of colour cosmetic to the category, performances where the category really lies. But this early success has clearly helped us build capabilities and given us confidence that we can play aggressively in that category in the medium term.

Latika Chopra: Sure. And one check on margins, EBITDA margins hovering around 7%, 7.3%, nine months even in the quarter. Given you alluded to higher competitive intensity in general, how should one think about the time frame for you to reach double-digit margin profile?

Varun Alagh: Again, Latika we will stick forward two to three years perspective, we will stick to what we have said in the past. We will continue to gain every year and hopefully over the next three years we should be in the double-digit space.

Latika Chopra: All right. And last one for me was any new NPD share to revenue ratio stable at 13% that you saw in first half? And you talked about market shares and face washes and shampoos, are they also trending up on a Q-o-Q basis? I know you shared Y-o-Y they have expanded. Any flavour on that will be useful? Thank you.

Varun Alagh: So, yes, on the first point, largely yes, stable. Honestly, it should be looked at from a quarter based perspective - because there is cumulative gains that we usually get. But stable from an NPD perspective. On the market share front, better to see it from a Y-o-Y perspective although we sequentially also gain. But better to see it from a Y-o-Y perspective because that's really the benchmark. That's the data that we provided, but it's actually healthy compared to what we have reported in the past in sequential as well.

Moderator: Sure. Thank you so much, Varun.

Moderator: Thank you. We have a next question from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: Thank you team for the opportunity. Just to understand better the gross margin, you say 20 bps on the nine month basis is the impact on the inventory front, right? Just a clarification?

Varun Alagh: No, we'll try to explain. Raman if you can please take this up.

Ramanpreet Sohi: So, I think we are trying to say if you look at a nine month year on year comparison from a gross margin perspective and if you exclude the impact of discontinued business of Momspresso in the base, then the impact of gross margin YoY is only 15-20 bps. And that's primarily coming in from certain category mix or channel mix changes. So, that's what we're trying to explain.

Varun Alagh: Just on the Q3 perspective, the same number on a Y-o-Y, even after removing the impact of Momspresso is 120 bps.

Ramanpreet Sohi: So, I think the impact of the accumulated inventory impact that we took in Q3 is about 1.2% for the quarter and ideally, it should be spread across the first three quarters. So, that's how one should look at it.

Chintan Sheth: That's excluding of Momspresso. Right?

Ramanpreet Sohi: So, there is no Momspresso impact in the current quarter, whatever the impact is in the base quarter. Hence, if we remove that from the base quarter, like for like, year-on–year 9 months. It is only 15-20 bps impact and specifically for Q3 , it's the inventory one time accumulated impact that we have taken in Q3.

Chintan Sheth: Sure. And in terms of the implied cost, last quarter was favorable and this quarter, we have normalized. What we can expect going forward, are we continue to see trend up in that or there will be some leverage we can expect, at least on an absolute basis, whether we can expect the run rate to continue or grow at a near inflation or lower than the things that we should expect.

Ramanpreet Sohi: Just to clarify, so I think when you look at like for like, here also given Momspresso over the service business and higher implication and former employee payroll costs, the like for like impact is only 1% year on year. In Q3, similar to 100 bps impact. That's how you should see it.

We are at 9% and we, I think going forward also, we should remain around the same as a percentage of sales in terms of our payroll costs.

Chintan Sheth: Okay. It will grow in line with the revenue growth. If you consider 9%, it means the employee cost will grow in tandem with the sales growth. That's the expectation.

Varun Alagh: Over the next couple of years in the near term, yes.

Chintan Sheth: And lastly on the depreciation and interest caused this quarter, I believe the ramp up which we have seen, largely because of the EBOs, ramping up and impacting the P&L? Or is there any specifics you need to call out?

Ramanpreet Sohi: It's just the EBOs. We don't have any other capital-intensive impact

Chintan Sheth: Mostly lease accounting getting impacted.

Ramanpreet Sohi: Absolutely. It's exactly that.

Chintan Sheth: And that trend will continue, the absolute will grow in tandem with the number of EBOs will continue to open

Ramanpreet Sohi: Yes.

Chintan Sheth: Okay. Got it. And if you can just call out, you say the Mamaearth brand as a whole grew double digits, right? That's the number in terms of revenue value growth and mid-teens in terms of volume growth. Correct?

Varun Alagh: Yes. That is for nine months

Chintan Sheth: Oh that is for the nine months?

Varun Alagh: For YTD, yes.

Chintan Sheth: Okay. Got it. Sure. Thanks. All the best.

Moderator: Thank you. We have a next question from the line of Sahil Chotalia from Mount Bliss Capital. Please go ahead.

Sahil Chotalia: Yeah, so all my questions are answered. Thank you. Thank you so much.

Moderator: Thank you. The next question is from the line of Mudit M from M3 Investment. Please go ahead.

Mudit M: Hi. Thanks for allowing me to ask your questions. Could you also take this as a note or maybe give some highlights? Like you must have categorized some hero products. And what's the growth of those hero products if you could highlight those in subsequent quarters? It would be good to understand the longevity of franchise and I would like to know the comments on the same? Then I will ask my next question.

Varun Alagh: Mudit, at least as we stand today and we realize the way market is shaping, beauty and personal care as a market is a very innovation driven trend oriented market. Where especially in online, which is the large majority of our business and fresh innovations and launches is what fuels consumer's excitement and gets you the consumer franchise going.

So in that sense, for a 90% offline business, it actually makes far more sense to just talk about and focus on hero products. But for our kind of business, which is far more online heavy, innovation and how innovation continues to add and drive growth is a far more important metric that we track.

Of course, we have hero product franchises like Ubton, Onion, which are all fairly large franchises and the GT growth that we're talking about, or the market share gains that we're talking about are driven by these franchises. But we still feel innovation is a far more important part of the growth in our business. That's how the categories are organized.

Mudit M: I really appreciate that, but just to get a sense to also understand your GT strategy and the quality of GT networks. How many of the distributors that you have enrolled are already existing distributors of large franchises, maybe in adjacent categories are same. So that gives the confidence that they have a financial benefit and customer touch points?

Varun Alagh: Mudit, as I talked about earlier, we're a young business in GT and when initially you go to find a partner and you don't have any, you do not attract the highest quality partners in the market and that's what sort of earlier happened to us as well where we were working with a lot of local cosmetic players, baby products sort of distributors.

It's only over the last one year where businesses become sizable is when we have actively started moving towards the FMCG distributors as we would call them, and we've been working with larger FMCG companies and are now interested in working with us and that's an active transition that we're going through.

I think over the next four to five quarters, our objective is that 80% to 85% of our distribution partners should be of that variety as you call it and that's the ongoing strategy that we have.

Mudit M: Maybe last one to my side. How many SKUs will you carry in the modern trade, large modern trade businesses, marketplaces, because that's where the mass consumption could drive for your business. Just want to get a sense of what's the SKU that you could carry in modern trade?

Varun Alagh: Yeah. Again, differs, but in general, like a DMart would have probably 20-odd SKU for us, or even Apollo would have a similar number, but then possibly in a hyper store of Reliance where we have a partnership to do a stronger brand block along with assisted sales, we might have 70 to 80 SKUs in that kind of a store.

Also depending upon the format, the customer, and the intervention that we’ve been able to align, it varies. But in general, about 20 is what you should be looking at.

Mudit M: That's fine. It's really great, and I appreciate your candid approach on this.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments, over to you.

Varun Alagh: Thank you so much, everyone, for joining in. We're a young company, we're really happy to sort of answer some of these questions and engage with you on different times to further strengthen how we will build this business going forward. We are super kicked and excited with the beauty and personal care opportunity as it exists and will shape over the next decade.

We continue to very strongly believe that it is going to be the strongest and fastest growing FMCG segment with the highest profit. Especially driven by women joining workforce and more women going to college is a trend.

We believe we genuinely excel at building for Gen Z and millennials and that excellence on innovation and brand building in that sense, which continue to drive strong gains for the company in the long term. Thank you so much for your patient listening to us.

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