May 22, 2023

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

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

Re: **Transcript of the Earnings Conference call held on May 17, 2023**

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached Transcript of the Company's Q4 FY2023 Earnings Conference call held at 4:00 p.m. (IST) on Wednesday, May 17, 2023.

Please find the same in order.

Thanking you,

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

NANDISH PRADIP JOSHI
Digitally signed by NANDISH PRADIP JOSHI
Date: 2023.05.22 13:47:21 +05'30'

NANDISH P. JOSHI
COMPANY SECRETARY

Encl.: As above

"Zydus Wellness Limited

Q4 FY '23 Conference Call"

May 17, 2023

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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Zydus Wellness Limited Q4 FY '23 Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you, and over to you, sir.

Manoj Menon: Hello, everyone. It's a wonderful good morning, good afternoon, good evening, depending on the part of the world you are joining this call from. Representing ICICI Securities, it's our absolute pleasure host the management of Zydus Wellness Limited for the results conference call. The company is represented today by Dr. Sharvil Patel, Chairman; Mr. Tarun Arora, CEO; Mr. Ganesh Nayak, Director; and Mr. Umesh Parikh, the CFO.

Without much ado, over to the management for the opening remarks, post which we'll open the floor for Q&A. Over to you, sir.

Tarun Arora: Thank you, Manoj. Good afternoon, and welcome to the post results teleconference of Zydus Wellness Limited for quarter four financial year 2022, '23. We have with us, like Manoj mentioned, Dr. Sharvil Patel, Chairman; Mr. Ganesh Nayak, Director; and Mr. Umesh Parikh, our CFO.

The quarter has seen gradual recovery in consumer sentiments. The urban demand is still better than rural. However, rural demand slowdown seems to have bottomed out and recovering is expected going forward. In spite of the inclement weather throughout the country in March still in uptick the company has registered a net sales growth of 11.8% during the quarter on -- year-on-year basis, of which 4% is volume-led. For the financial year 2023, we have achieved a growth of 12.8% year-on-year on net sales.

With the appropriate price increases taken across portfolio during the previous quarter and inflation getting stabilized of the imports, except for milk, the company has caught up with last year gross margins for the quarter 4 and reduced the gap over the last financial year that was built in first 3 quarters of the current financial year. The gross margin for quarter 4 stood at 50.6% on net sales for the quarter 4.

Let me take you through the highlights of the consolidated financial performance of quarter 4 financial year 2022, '23. During the fourth quarter of financial year '22, '23, our net sales grew by 11.8% to INR7,099 million. Our total income from operations grew by 11.4% to INR7,130 million. EBITDA grew by 2.2% year-on-year to INR1,446 million. The company continued to witness high inflation in alternative fuel and labour costs as a result of which other expenses grew by 36%. Also it was accentuated by temporary outsourcing of manufacturing of Glucon-D to third parties.

Almost half of the increase in other expenses is onetime in nature. The change in manufacturing footprint, coupled with cost optimization programs shall result in reduction of expenses in coming quarters. Reported net profit was up by 9.0% year-on-year at INR1,453 million. Adjusting for exceptional items, the net profit was up by 14.4% year-on-year to INR1,525 million.

Coming to the annual consolidated financial highlights. Our total income from operations increased by 12.8% year-on-year to INR22,426 million during the year. Our EBITDA was down by 2.2% year-on-year to INR3,372 million. EBITDA margin as a percentage to total income from operations stood at 15.0%. Reported net profit was up by 0.5% to INR3,104 million. Adjusting for exceptional items, the net profit was up by 3.7%. Our consolidated cash position stood at INR1,081 million, including investments made in the liquid funds. Our consolidated capex for the year was INR489 million.

With that, let me share some of the highlights of operations for the year gone by. We continued our thrust on marketing initiatives to grow the categories and increase our market share of our brands during the quarter. To narrate a few, on Glucon-D front, with continued marketing efforts towards driving growth and recruiting new consumers, the brand continued its strong momentum for the financial year.

We continued our focus on innovations and launched various extensions like sachets, Kaccha Mango under Immunovolt and mango under flavoured glucose powder during the financial year. The Glucose powder category has grown by 10.7% at the MAT level. Glucon-D brand continues to maintain its number one position with a market share of 60.1% as per MAT March 2023 report of Nielsen, which is an increase of 159 basis points over the same period last year.

On the Complan front, the health food drinks category has witnessed a slowdown during the financial year, and the brand performance is a reflection in similar lines. As the category has seen a shift in trends from refill packs to jar and jars to sachets and pouches, the brand has been able to timely intervene and enjoy a wider market play with category parity packs. Brand was supported by 360-degree campaigns throughout the year across the mediums of TV, print, digital and social media and influencer campaigns.

The Health Food Drink category has degrown by 1.1 percentage at MAT level. Complan market share stood at 4.5% in the category as per the MAT March 2023 report Nielsen. On the Sweeteners front, Sugar Free brand witnessed a revival in uptake during the latter half of the financial year as a result of Sweeteners portfolio has registered a mid-single-digit growth for the quarter 4 on a year-on-year basis. We continue to build Sugar Free Green franchise with aggressive media campaigns throughout the year. Sugar Free continues to maintain its leadership with a market share of 96% as per MAT March '23 report of IQVIA.

On the personal care front, Everyuth brand continues to outpace category growth during the quarter 4 of the financial year. We continue to support our core portfolio of face wash, scrubs, peel off and body lotions through TV and digital campaigns throughout the year. The face scrub category has registered a growth of 9.1% at MAT level. Everyuth Scrub continues to maintain its leadership position with market share of 41.9% in the facial scrub category, which is an increase of 68 basis points over the same period last year as per MAT March 2023 report of Nielsen.

The peel off category has registered a growth of 4.5% at MAT level. Everyuth peel off has maintained its number one position with a market share of 78.4% in the peel off, which is an increase of 7 basis points over the same period last year as per the MAT March 2023 report of Nielsen. Everyuth brand is at #5 position with a market share of 6.2% at overall facial cleansing segment level as per the MAT March 2023 report of Nielsen.

With good summer season, Nycil brand has witnessed a strong comeback for the financial year. The Prickly heat powder category has grown by 13.4% at MAT level. Nycil has maintained its number one position with market share of 35.4% in the Prickly heat powder category, which is an increase of 157 basis points over the same period last year as per the MAT March 2023 report of Nielsen.

On the dairy and spreads category front, Nutralite brand has delivered a robust growth for financial year gone by, backed by well-planed digital and on-ground activations. We continue to focus on recovery of margins and improving profitability in the new financial year.

Thank you, and we will now start the Q&A session. Over to the coordinator for Q&A.

Moderator: Our first question is from the line of Ajay Thakur from Anand Rathi.

Ajay Thakur: I had a few questions. I just wanted to understand, firstly, what would be the absolute quantum of one-off in the other expenses during the quarter? If you can share that number.

Management: Absolute quantum of one-off, you're asking for these other expenses, right?

Ajay Thakur: That's right.

Management: That is almost half of increase, half of the increase in expenses.

Ajay Thakur: Secondly, I wanted to understand what would be the repercussion of this Bournvita issue that we -- the industry has been facing? Can we expect to actually have adverse effect on the segment, the HFD segment? And/or can we also expect some bit of market share gain because of Bournvita kind of getting under fire from the consumers?

Management: I don't think there is a significant impact both in consumption and a market dynamics level as of now. We'll wait and watch. I think there have been discussions around these sugar and other elements, but one has to look at these products in totality from a nutrition point of view. So I think right now, it's too early to say anything.

Ajay Thakur: And can we expect some kind of gain because of the same? Is Bournvita kind of losing because of the similar issues? Can we gain some bit out of that?

Management: I'm not sure. That doesn't seem right now, so we cannot really comment on that.

Ajay Thakur: Also I just wanted to understand how has the traction been? You obviously mentioned about March having some inclement weather impact on the summer portfolio. Given the fact that we have quite a bit of summer product portfolio and that also carries towards Q1 of the current year. How has the trend been in the April and May month so far? Maybe more of a qualitative kind of understanding of how the things are moving in terms of summer product portfolio?

Management: So we've got a good pipeline fill, but March and April have seen some bit of inclement weather. We'll have to see how the overall season plays out before commenting on this because people -- there is a mixed view. One is there has been inclement weather. There is also a view that it will be a longer summer, so we'll wait and watch before we can really comment here. I'm hopeful things will get better.

Ajay Thakur: Lastly on the international business, if you can just share some bit of colour in terms of the international business growth momentum and how it is panning out in terms of geographies?

Management: So international business continues to be about 25 countries, like we mentioned, where the top 5 contribute about more than 3/4 of our business and 2 brands; Sugar-free Complan constitute about 75%, 80% of our business. During this financial year, we had a challenge between quarter 2 and 3 where there were supply issues in New Zealand and some local economic issues in Nigeria, which are 2 of our largest markets, which pulled down our growth level. On a longer-term basis, we continue to believe a high double-digit growth and growth, which will contribute -- which will be accretive to our domestic business. So we are back at growth after those couple of quarters of difficult pace. Now we expect continued good growth momentum.

Ajay Thakur: So for FY '23 in the international business would have seen some bit of a growth? Or it would have actually been more like a flattish number?

Management: It would be more flattish because of what we faced through in FY -- in the 2 mid quarters.

Moderator: Our next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: So my first question is on sugar free. Recently WHO has come out with the notification stating that you cannot claim non-sugar substitute as a low-calorie product. So in that context, do we see any impact on the sales of some of our products under the sugar-free brand? And a related question to it is, what -- if we have any study, what percentage of our sales come from actual diabetic patients who are using this product? And what percentage of our sales is coming from the customers who are actually looking -- considering it as a lower calorie product?

Management: So let me just first clarify. I don't think it can be debated by anyone, including the regulators that sugar substitutes like stevia, sucralose, or aspartame actually offer lower calorie than sugar. So I don't think that's up for debate. They have clarified circumstances, which necessarily is not in line with their earlier stances, but I think we will understand and they are also saying country-by-country, these issues will differ. So right now, I'm not seeing any significant impact. We'll have to study and also work with the regulators and do what is right best for the consumers. We do not see any significant impact as we speak now, and we'll work on this as we go forward.

Kaustubh Pawaskar: And will it have any change in our marketing strategy of this product or change in the branding side because Sugarlite, I think which product -- which specifically look from that perspective only. So will there be any change in the strategy for the brand or a product?

Management: As of now, we've not envisaged. We'll study and we'll see if we need to make any shift. But as of now, I think we hold what we are doing. We have sufficient scientific evidence to back what we do.

Kaustubh Pawaskar: And in India, I just wanted to understand, from the consumption pattern, whether the diabetic patients are having issues, some of it related to sugar, are having more traction to these products? Or it's a mix of both people who are looking towards the low-calorie products are largely from the healthy substitute point of view are also using sugar free as one of the substitute?

Management: It's a mix of both, and there is good reasons from a health perspective for both of them. So we believe it remains consistent.

Kaustubh Pawaskar: And my next question is on the new product launches, what you have done. So what is our current contribution from the new product? And in the coming years, what are your new product pipeline?

Management: So new products constitute about 3.5% of our share of our sales, products launched in last few years.

Kaustubh Pawaskar: And just one more question to what Ajay just asked earlier about the strong traction to the summer products. So this quarter, we have seen our volume growth at around 4%. We have seen demand environment slightly improving. So considering the strong summer and a little bit of improvement in the sentiment, should we expect this volume growth momentum to improve in the quarters ahead? Or do you expect it to remain at 4% to 5% in the near term?

Management: Hard to guess how the whole thing will shape up because the weather is a very, very volatile thing, and it just changes every week, especially in summer. We are happy that there has been a slight improvement over the last quarter in volume growth. We just hope that things get better, inflation stabilizes and consumers are coming back and spending more, which should help us focus on volumes and new consumer traction. But that really remains our focus. Hard to put a number to what it would be like in the next couple of quarters.

Moderator: Our next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited. Please go ahead.

Mayur Parkeria: So I had just one small question actually. Just trying to understand, on Nutralite side, we did visited a couple of restaurants and health-related focused players who are big in the regional markets. Obviously they are unorganized, organized, both put together. And the feedback we got was that it actually it scores was very lower, even compared to Amul in terms of the B2B acceptability for the brand. Would you like to highlight any specific reasons for it? Is it lack of understanding more clearly? Is it actually some tweaking more needs to be on the product side?

Or is it your availability and other issues. So just your feedback on that, your understanding on that, please?

Management: So I'm not sure which are the markets you visited. But we can take it off-line. But at an overall level, we are seeing a good traction on Nutralite in both volume and value levels. So we are quite positive about Nutralite's acceptance and more trade.

Mayur Parkeria: Which segment?

Management: B2B specifically, yes.

Mayur Parkeria: So the positives which you are seeing, are these specific to any specific geographies which you are seeing in terms of? And can you add some colour on that, please?

Management: I think our growth is coming across the country, while North and West are the largest of the market, but even the South and East, which are relatively smaller parts of the market, are also showing a good growth traction for us.

Mayur Parkeria: Secondly, on the Everyuth side, the personal care, this category is very large, and it's growing in terms of as the income levels are increasing. I'm talking about a little macro trend here and a lot of people focusing in the right from a young age of teens now focusing on products like this. Where do you see in the next 3, 4 years, what can be the size of Everyuth brand for us? And what are the product gaps which you see over there, if any?

Management: So Everyuth, if I were to take this question in 2 to 3 parts. I think, first, we have seen a consistent double-digit growth except for the disruption years like COVID or one or more. But largely, we have seen a very consistent trend of good double-digit momentum on Everyuth and largely led by us growing -- focusing and growing the segments, which we play strongly in, which is the scrubs as well as the peel off masks.

And even the new spaces that we addressed the tan removal that's also helped us grow. So that's really been our strength, and we have built around it. We have extended our product. We already have face wash. So a broader facial cleansing. We've also gone into lotions and other skin benefits. So we continue to believe that Everyuth has a strong double-digit growth potential over the years and can be a sizable brand for us, being a strong player in, especially facial cleansing and some of the extensions that we may choose to that.

Mayur Parkeria: Sir, we see a lot of application for apricot, coffee, xyz, in these kinds of -- I'm sorry, but I needed to be more specific. We don't see that in Everyuth. So just to feedback that when we talk to some of the youngsters, and what is missing in this brand, these are some of the variants. I don't know if they are available and not in specific markets or they are not available. But in general, I don't see, so some of these variants if you can see and look at it.

Management: Not, sure. So we look at it and we take your feedback, and we'll look at it also what we can do to widen our portfolio. If there's some more suggestion, you can take it off-line.

Moderator: Our next question is from the line of Alok Shah from Ambit Capital. Please go ahead.

Alok Shah: My first question is on the distribution side. So while you highlighted on the distribution expansion guidance for F '24. Just wanted to check, there was automation and digitization efforts also been rolled out about 2 quarters back. So where could the company be on that? And where all we can see the benefit, whether you see more happening on the fill rates? Or is it more on the sales force efficiency costing? So where can we see that benefit percolating? That's my first question.

Management: So Alok, just to address, I think, first of all, the field force automation, we have 100% of our field force now digitized with the digital support. And that clearly gives us a better control and better efficiency of the field force. It also helps us drive specific SKUs in a broader rate selling through these people. So that's one benefit. The other is also in terms of our available -- the data being available and being able to sharply target our products for the right store types and the markets which we see. This is from the frontline digitization.

At the back end, our digital efforts are more towards our operations planning, which is more at stronger inventory planning, some of which we've been focused and we are trying to drive as we move forward on those.

Alok Shah: And would you be able to share with respect to this new distribution expansion that will happen this year, any specific markets or geographies that will look to expand into?

Management: Yes. So there are certain states and certain geographies that we have actually targeted, but they are very specific in nature rather than a broad brush where we see that there is a potential from where we are to go deeper and wider. And those are the markets and city by city planning has been done looking at data and the brand tractions that we have decided. And there will be also a plan to go after those specific opportunities as we go in.

Alok Shah: And just a follow-up on that.

Management: Now our focus, just to close that, will be more to drive overall reach over the next 2 to 3 years to 3 million outlets. And that, I think, will give us much better outcomes.

Alok Shah: And just a follow-up to the previous one. So the new cities and the target markets that you look to expand into this year, whether those markets will be serviced through a wholesaler as of now and now you're looking to go through the distributor route or those markets are completely sort of untapped as of now?

Management: I think with our branch and the market shares we have, most of these markets don't tend to be untapped. Some of it actually ends up taking over from indirect servicing to our direct servicing, which allows us for a better, wider range availability. But quite often, some of these outlets have some of our products already in there.

Alok Shah: My second question was in terms of -- so while you've given revenue share from new launches at about 3.5%. So I just wanted to check conceptually that when you look to introduce a new product or a brand. So what are the typical markers that are defined and those products, how they would have fared on those markers? If at all you can share something qualitatively on that?

Management: So we look at -- for us, a new product is which has not existed for us. We don't count as variants and flavours, it's just the new products, but we count as more of products which are either new in technology or new benefit from our consumers' perspective that we count on this. Typically we make a good mix between substantive innovation versus platform innovation where substantive takes a much larger share of investment and therefore far and few. So those are the guiding principles that we work with.

Alok Shah: And in terms of some of the markets, would it be more like geographic reach in first 12, 24 months? Or would it be more like a brand size that you look to achieve? So what are the broad markets that are sort of defined for a brand manager as a new variant or just intermediary is launched?

Management: So a new launch has typically a go-to-market plan, which covers the distribution target and repeat purchase targets where the brand acceptance is one of the things that we track and see what we are -- there could be some course corrections, which can be done after first year's learning. And therefore, there is typically a simulated test market in a research, which is been played out in the marketplace, both from a market execution on ground, repeat purchase and investment statistics and those are three.

Alok Shah: And lastly, just from a bookkeeping perspective, I just wanted to check that would it possible to share the volume growth particularly for the quarter? I'm not sure if you gave for the full year and your broad revenue breakup across brands, at least some ballpark numbers, if you can share.

Management: So by brand, we can't give, but for the full -- for the full year, you can take it at 4.8 as a volume.

Moderator: Our next question is from the line of Karan Bhuwania from ICICI Securities Limited. Please go ahead.

Karan Bhuwania: Sir, the first question was the price hikes that implemented close to 7.8%. So if you look at the gross margins, it was in FY '21, it was close to 54%, 55%. And currently we have a gross margin of close to 51%. So do these price hikes take care of moving the gross margins back to those levels? If you can guide on that?

Management: Yes. So price hikes have in the last quarter, we have a couple of the price hikes. And last quarter, we have taken about 6.5% price hikes. So at the year-end, it's noticed that the price hike has taken care of the gross margin for the -- as compared to the last year. Now if we compare it to the 2021, the margin which you are talking about, there has been a certain inflation where things, which actually like maybe inflation, which we have not been able to pass it on.

And that's the only thing which probably is -- so over the next few quarters, will further take price increases to get back to those levels. So we've been able to cover the last year's number in the last quarter gone by, but we will take further price increases as need be to go back to our earlier.

Karan Bhuwania: So secondly, on looking at the working capital, so inventory and receivables have increased. So if you look at the receivable, total receivables change and which has included some INR140 crores to INR210 crores and inventory also increased from INR360 crores to INR457 crores. Any reason for this stock up of inventory and increase in receivables?

Management: Yes. So receivable was mainly year-end credit passed on to the customers, our distributors, and customers, and that's temporary in nature. The inventory increase, which you see is on account of the stock, which we had at Uttarakhand factory and it's under legal approval and we did not have access to it. And the second reason is that we had accumulated some inventory as a strategic backup for our manufacturing team.

Management: And that will correct now.

Management: Yes, in the half year reporting, you will see that correction.

Karan Bhuwania: Early on one more thing, sir, that we saw a news article that Sugarlite brand, just there was a news article that some Delhi marketing has been given the right to Sugarlite brand. So if you could highlight what are the plans going ahead for that particular brand? That will be helpful.

Management: So we have gone to the higher court and it get -- we believe it will get sorted as we move along.

Moderator: Our next question is from the line of from Disha Seth from Anvil Shares and Stock Broking. Please go ahead.

Disha Seth: Sir, I just wondered if you can throw some light, what is the sales contribution from Glucon-D, Everyuth, Complan and all the categories and also gross margin-wise contribution?

Management: We don't share that.

Disha Seth: Or if you can just say highest to lowest, in both the category.

Management: We don't do product wise. We don't do.

Disha Seth: No, no. If you can just tell us which is the highest contributor to your sales from? €¦

Management: Glucon-D is the highest.

Management: Brand size.

Management: We do not give more detail.

Disha Seth: And sir, in this -- in the coming year, the gross margin should continue as all the inflation is coming down or the raw material inflation except milk is coming down. So gross margin should improve on a year-on-year basis compared to last year.

Management: Yes, absolutely. That's the part we are working.

Moderator: Our next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir just, I didn't understand why you mentioned that you need to take further price hike to recoup the margins, especially when we see the bridge on Slide 9, where the GM-led impact is not there in the quarter. And we have a slide on all the material prices drop, except milk. So on one side, we said we need a further price hike. And on the other side, we said we'll recoup the margin just on the previous participant's question. So which one we should refer to.

Management: So there are specific opportunities of price hike. For example, Complan, which have got impacted, and we will take those price hikes as is required. There will be a mix impact also. There will be some raw material or packaging material where the costs have come under control. And there are some products where we will still have opportunities of price increase. We will consider that. And therefore, we still have our distance to cover to reach to our FY '21 gross margin levels.

Pritesh Chheda: And the FY '22 gross margin, which you lost about 200 basis points, that you'll recoup at least or even that you?

Management: That we recovered already.

Pritesh Chheda: From last quarter, we have already recovered, which means you'll recover this 200 basis point at least. And for you to recover FY '21 GM, you have to take price hikes.

Management: Mix of cost reductions are due to the material price improvement as well as some price increases, will deliver.

Pritesh Chheda: And the last year's price increases that you have taken, how much of it will still flow to FY '24 growth?

Management: So two third has already flown in, one third will flow too.

Moderator: Our next question is from the line of Kapil Jagasia from Nuvama Wealth Research. Please go ahead.

Kapil Jagasia: Sir, my first question is on the increase in other expenditure, which you had mentioned in the presentation, the first one being the third-party manufacturing of Glucon-D going up because of seasonal demand. So this scenario would have been the same before COVID times because these 2 years of COVID were impacted. So what was the scenario pre-COVID? Even during that time, there was increase in the third-party manufacturing?

Management: We used to have, before the acquisition, we used to have a third-party manufacturing. We had completely taken it in-house. Now that we have shut down our Sitarganj plant and we were expecting a good summer. We tied up additional quantities, just in case if the volumes go beyond the regular levels, then we should have a backup plan. And therefore that's one of the reasons we covered it.

Kapil Jagasia: So would this other expenditure be going off in next quarter in Q1 also?

Management: No.

Kapil Jagasia: So all the expenditures have been accounted for.

Management: Yes.

Kapil Jagasia: And the second thing, again, on the margin, sorry, I joined in late. Like you had mentioned your journey of operating margins towards 20%. Most of the raw materials being in control now, and you have taken price, further pricing to government table. So can we expect the journey towards 20% operating margins in FY '24? Or it would still take some time, probably more than a year for that level to be reached?

Management: It will take some time for us to get there because gap in gross margin itself is substantial. We first want to get our gross margins back with the scale, obviously, and with operating leverage, we should get that. So it will take a longer period of time.

Kapil Jagasia: Just on a broader level, if you could answer like in each of the product segments, which product segment would have reached the gross margin level as it was before this inflation scenario cropped up?

Management: Complan will be the most challenged, but otherwise.

Management: Most others are getting there. So are there or almost getting there.

Moderator: Our next question is from the line of Ajay Thakur from Anand Rathi. Please go ahead.

Ajay Thakur: I also wanted to understand on the ad and sales promotion spend, which has actually come down for FY '23. What would be the outlook for the same going forward into FY '24 and FY '25?

Management: We continue to remain interested in taking it up to 12.5%, 13%. We've -- but we balance given what our P&L can afford, and that's why we balanced it. When the gross margins can afford, we'll push it back to those levels.

Ajay Thakur: So 13% is broadly what we are looking at in terms of?

Management: That is, again, is the range we tend to operate. It's also a function of some of the initiatives, which can sometimes drive it up to 13%, 13.2%, sometimes below tariff. So that's the range we'll operate in. We have covered our gross margin.

Ajay Thakur: And you also mentioned about one of the earlier calls about tax rate guidance. So what will be the tax guidance for '24, '25? I believe for '25, you had mentioned about taxes coming back to the full tax rate. Will that be the case?

Management: So up to '24, '25, we will not have any cash payment of tax. Thereafter it will be in the normal region of cash payment.

Ajay Thakur: So no taxes for even '25, you're saying?

Management: Yes.

Moderator: Our next question is from the line of Akshay Krishnan from ICICI Securities. Please go ahead.

Akshay Krishnan: So my question is on the Complan business. So we had this economic unrest in Nigeria and also the supply chain issue down in New Zealand. So I want to understand what will be the contribution on both on the international aspect and also on the domestic side for Complan business?

Management: Could you repeat, sorry, I didn't get it clearly.

Akshay Krishnan: Yes. So my question is on the Complan business. So we had this supply chain issue down from New Zealand and also the economical unrest in Nigeria. So I just wanted to get to know the brand contribution between international and the domestic line for Complan as a whole, on a Q-o-Q and on a Y-o-Y basis? What is the growth that we have seen in spite of this political and economic unrest?

Management: So we review them separately. And therefore, most of our answers are separate. But 7% to 8% of India business is done outside, in the international, it's all I can give you.

Akshay Krishnan: And just a follow-up on that. Now with the milk inflation prices and also the powder prices down that we get from New Zealand. Now how are you capturing the RM pressure just for Complan?

Management: So outside India, there is no significant pressure because the milk prices are actually…

Management: It's produced outside.

Management: Yes, these products, New Zealand product is -- so we have third-party locations in New Zealand as well as Oman, which cater to most of the Complan requirements outside India. And there the milk prices are actually coming down substantially. So there are no -- not very similar pressures that we face in India.

Akshay Krishnan: And then my follow-up question is on the Everyuth. So now when we see the market share change that we see a capture on between facial cleansing and the scrubs. Now towards -- who is the competent that we are gaining and are also losing these? Because I find scrubs business, you're getting a 68% market share increase on a Y-o-Y basis on a bps basis. And also the facial cleansing, some 30%. So are we getting some competition from the other players say on the natural segment?

Management: So it's still very small segment, and there are still marginal players. I think our focus is to grow these segments because the opportunity is much, much larger in terms of driving it. Obviously the smaller players who are not able to impact are the ones who lose out in this.

Akshay Krishnan: And then the final question, sir, on the rural aspect, since we have a step on the rural aspect continuing. Are we getting any hints from the rural consumers on the SKU rationalization? Are they looking at this lower SKU packs or they are comfortable on the mid-teens segments of these SKUs?

Management: The voice is not clear. I'm not able to follow your questions clearly. So if you could.

Akshay Krishnan: Sorry, sorry. So I just wanted to understand, on the rural demand, so I just wanted to know, at a rural aspect, what are the consumers' preference? Are they looking at the lower SKUs? Or are they looking at the SKU price-reduction point? So my point is, are they looking at SKU price points of 5, 10, 15 bucks? Or is the demand overall been impacted?

Management: So I think both are at play. I think overall demand has been impacted in rural. Obviously some traction has moved towards higher access packs, which are the lower price packs, which has helped us stay in the game, but it's a mix of both. There is a general reduction in demand and LUPs have filled in part of that demand, whatever exists. And therefore there's a downtrading as well. So it's a mix of the 2.

Akshay Krishnan: So can you just highlight what will be the contribution from the lower SKU packs, like INR5, INR10 pack, what will be the majority contribution from the total sale compared to the normal?

Management: So for us, that's not such a significant driver of numbers beyond a point on LUP. So Complan, like we are doing, but it's not just the rural, it is also in other markets. Glucon-D, we just launched the sachets, which are more on the go than rural. In Everyuth where we have a good realization on the sachets, there -- I think that's been growing fairly well and the contribution continues to go up. So that's largely how it is. But I think at a market level, I will explain to you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Management: Thank you, everyone, for your questions and your suggestions. We will meet next quarter. Thank you.

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