February 10, 2025

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 February 4, 2025**

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa)(iii) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached Transcript of the Company's Q3 FY2025 Earnings Conference call held at 5:30 p.m. (IST) on Tuesday, February 4, 2025.

Please find the same in order.

Thanking you,

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

NANDISH PRADIP JOSHI
Digitally signed by NANDISH PRADIP JOSHI
Date: 2025.02.10 16:37:46 +05'30'

NANDISH P. JOSHI
COMPANY SECRETARY

Encl.: As above

"Zydus Wellness Limited
Q3 FY '25 Earnings Conference Call"
February 04, 2025

MANAGEMENT: **MR. TARUN ARORA – CHIEF EXECUTIVE OFFICER AND WHOLE-TIME DIRECTOR – ZYDUS WELLNESS LIMITED**
MR. UMESH PARIKH – CHIEF FINANCIAL OFFICER – ZYDUS WELLNESS LIMITED

MODERATOR: **MR. KARAN BHUWANIA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Zydus Wellness Q3 FY '25 Results Conference Call hosted by ICICI 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. Karan Bhuwania from ICICI Securities Limited. Thank you, and over to you, sir.

Karan Bhuwania: Thank you. It's our pleasure at I-Sec to host Q3 FY '25 Earnings Conference Call of Zydus Wellness. From the management, we have Mr. Tarun Arora, CEO and Whole-Time Director; we have Mr. Umesh Parikh, CFO. I would now hand over the call to management for their opening remarks, post which we can open it for Q&A. Thank you. Over to you, sir.

Tarun Arora: Thank you, Karan. Good evening, and welcome to the post-results teleconference of Zydus Wellness Limited for quarter 3 financial year 2024-25. We have with me Mr. Umesh Parikh, CFO, on the call.

During the quarter, amidst muted demand in the FMCG industry, we have observed green shoots of growth in some of the categories. While rural consumption continued to expand steadily, the urban demand remains sluggish. Notably, small unit packs are growing at a faster pace, while the trend towards premiumization remains strong. Inflationary pressures are impacting consumption patterns and driving input costs higher. However, these challenges were managed through operational efficiencies, strategic sourcing and calibrated price adjustments.

Meanwhile, organized trade continues to surpass expectations with both e-commerce and modern trade channels experiencing sustained upward momentum.

During the quarter, company successfully completed the acquisition of 100% equity share capital of Naturell (India) Private Limited. As a result, the financial results include about one month's performance of the Naturell business.

As a result, the company recorded a consolidated net sales growth of 12.7% with volume growth of 4.8% year-on-year. Since the acquisition concluded in the later part of the quarter, a few weeks of business contributed low single-digit share of top line and operated at breakeven EBITDA level.

The Personal Care segment witnessed strong consumer demand, achieving a remarkable double-digit growth of 50.3% for the quarter and continuing its upward trajectory over the last few quarters.

At the same time, Food & Nutrition segment recorded a growth of 8.8% for the quarter.

Leveraging on company's strong research and development capability, a few more product launches and extensions were introduced this quarter.

- Nutralite DoodhShakti professional range expanded into processed cheese category.
- Naturell business introduced a choco-filled fiber bar, melting chocolate, along with 2 variants under the fruit-filled bar range, Blueberry Blast and Berry Delight as well as protein bar bytes.

Despite inflationary pressure, gross margin has held steady with a slight upward trajectory in both sequential and year-on-year basis. This stability is driven by effective hedging strategies of favourable product mix and well calibrated price adjustments.

Here are some highlights of the consolidated financial performance of quarter 3 financial year 2024-25.

- Our net sales grew by 12.7% to INR 4,508 million.
- EBITDA grew by 16.5% year-on-year to INR148 million. Net profit after tax surged to INR 64 million.

With that, let me share some of the highlights of the operations for the quarter gone by, which will also cover category growth and market share numbers as per MAT December 2024 report of Nielsen and IQVIA.

On the Personal Care front, Everyuth continues to outgrow the category growth, maintaining a strong and consistent performance. Recently launched Everyuth Pink Clay and charcoal infused antipollution range has received a good response in the market. Face scrub category has grown by 18.8% at MAT level. Everyuth scrub has maintained its leadership position with 47.3% market share in the facial scrub category, marking a remarkable increase of 418 basis points over the same period last year. The peel off category has grown by 29% at MAT level. Everyuth peel off maintains -- remains the market leader with a 77.8% market share, reflecting a 106.7 basis points increase over the same period last year. Everyuth brand holds the fifth position in the overall facial cleaning segment with a 7.2% market share.

Nycil surpassed category growth, delivering strong and consistent performance. The Prickly Heat Powder category has grown by 20.3% at MAT level. Nycil has maintained its number one position with a market share of 33.9%. On the Glucon-D front, Glucon-D maintained its leadership in glucose powder category with a 58.9% market share at MAT level. The glucose powder category has grown by 18.7% at MAT level.

On the Complan front, the nutrition category shows a sign of revival across key metrics. The category has grown by 0.9% and Complan holds up 4.1% as a market share at MAT level. Sugar Free brand continues to maintain its dominant position, holding a commanding 95.4% market share in the sugar substitute category, which has grown by 6.3% at MAT level. Sugar Free Green is experiencing a strong double-digit growth driven by increasing volume uptake. In quarter 2 of financial year 2025 company extended Sugar Free Delight cookies offering in the domestic market, which has received favorable feedback and contribute to build on it.

On the Nutralite front, the brand launched AI-powered recipe platform to tap into digital food market, offering unlimited recipes at a touch of a button through various methods, such as uploading a photo to get a recipe or sending a message with a dish name to a Whatsapp number. Nutralite brand continues its upward trajectory this quarter, driven by well-planned digital and on-ground activations.

On the Naturell business, engaged in the business of manufacturing, research and development, marketing and selling of nutrition bars, cookies, chips and other food products under the brand Right Bite and Right Bite Max Protein. This business continued to support the brand through digital media, e-commerce activation and consumer engagement at marathons and other events.

Looking ahead, we are confident in our strategy to drive sustainable long-term growth on the back of innovation and staying in tune with changing consumer preferences. We expect that the demand setback, especially in urban areas is temporary in nature and anticipate a revival in the coming quarters. Additionally, supportive measures in budget 2025 are expected to boost the user sentiment and drive upward consumption trends.

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

Moderator: Thank you very much. First question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, I wanted to understand, sir, what would be the margin differential? Or how -- what percentage would be the margin lower for smaller packs, which has grown at a faster rate?

Tarun Arora: Typically, it varies from category to category. Some of the categories actually see a very similar margin, some have a tendency to be lower because it's a low unit price tag, so some of the categories will work. So, on an average, we are able to balance between -- across the portfolio.

Madhur Rathi: Okay. And sir, what percentage of our revenue would come from smaller packs, if I consider YTD FY '25?

Tarun Arora: It's small. We don't share those specifics, but it's building up much faster. In some of the categories like Personal Care, we've seen a very smart uptick of that, which is driven by, like I mentioned, small packs being low unit price, but also consumer behaviour, which is shifting to onetime use packs for freshness and experience. So, here, the share of the smaller packs is much higher than other categories.

Madhur Rathi: Sir, when would we come to come to pay 21% taxes? When will the tax rate shift to that?

Umesh Parikh: Yes, from FY '27.

Madhur Rathi: Okay. Got it. And sir, you've guided that our margins should improve to 17%, 18% with some gross margin improvement as well as operating leverage. So, we have already seen some improvement in our gross margin. I realize -- when do you expect this to improve from 15% to 17%, 18%? And what kind of operating leverage would Zydus require. So right now, we are growing at mid-20. So, does it need to grow at mid-20 to improve the margin?

Tarun Arora: So, I think you've got it right. We continue to focus on 2 drivers of our journey to a 17%, 18% EBITDA margins with the mix of gross margin and operating leverage. We are already seeing, like you mentioned, gross margins moving up, and operating leverage is also moving up. Now the specifics will vary because it's also a function of the quarter-by-quarter what is happening in the environment.

But if you see last 4 quarters, I think we've consisted -- actually more than 4 quarters, about 5 to 6 quarters, our gross margins are constantly going up. And we have also been very sharp in focus -- in cutting our operating costs.

The only place where we are investing more aggressively is that since '21 to '23, FY '21 to FY '23, we saw gross margin dilution and we had cut some advertising. So, we have invested part of the gross margins back into advertising, which will not necessarily continue to grow at that same pace.

So it will be a balancing effect where some of the gross margin improvements will -- and operating leverage will translate into this. But most other things, we are very conscious of balancing our cost structures as we move forward. So, in next, I think 6 to 8 quarters, we should see us touching a much higher level of EBITDA margins.

Madhur Rathi: Okay. And sir, how is the Q4 -- this summer season which is starting right now, so how is that panning out?

Tarun Arora: So it's early days. We can't share any specifics, but we remain optimistic given our last 4 quarters of how our business performance is. We remain optimistic on our numbers, and we've been able to demonstrate also over the last few quarters.

Madhur Rathi: Okay. Sir, the final question from my side. So, in FY '26, what would be our ballpark range of guidance? Where we see our revenue and margins going?

Tarun Arora: Double-digit growth. I think we remain double-digit growth on our top line and EBITDA growth to be in sync or faster than our top line growth.

Moderator: The next question is from the line of Anshan Jain from Integer Consultants Private Limited.

Anshan Jain: Actually I had two questions. So first one would be, can you give some insights on the sauce/condiment category like Heinz?

Tarun Arora: We don't sell Heinz. We do a third-party manufacturer for them, which is a very small portion of the business. So it's not something we can share. I mean we don't have anything. We don't -- it's not a part of our business.

Anshan Jain: Right. Any broad high-level sense on the size of margin or growth for this category?

Tarun Arora: No, we are not into -- that's not our business. Heinz ketchup is not our business. Sauces, condiments, that's not our business. I think...

Tarun Arora: We are just third-party manufacturer for them.

Tarun Arora: That is, which is continuing since the acquisition, which is a very small portion, not being meaningful for any number. We are just a third-party doing work for them, small.

Moderator: The next question is from the line of Kinjal Mota from Banyan Tree Advisors.

Kinjal Mota: I have two questions. First question is on the acquisition that we have done of Ritebite. If you could give some flavour on what would be the sustainable margin that we see moving forward once it turns profitable?

Tarun Arora: So I think we can't say specifics, but what we can tell you is, prior to acquisition, we saw a 3% to 5% kind of margins, but with synergy and scale and our work with them, we obviously expect the margins to grow in -- to a much higher level. And we believe FY '26, we could have an EPS accretive on this business.

Kinjal Mota: Okay. And sir, second question is, given that our beauty and personal care segment, very good growth in the last couple of quarters. Given the market is really suffering a loss on that part, sir, if you could elaborate that what has driven this sort of growth? Is this the new products that have come in, on what has changed? Because Everyuth has been there for so long and scrub and peel off, we have always been the market leader and the good chunk of market share. So, what has led to this kind of growth?

Tarun Arora: So I'll just say that we have now reported segmental numbers on Personal Care for now 7 quarters, if I remember correctly. And you would see that we have consistently delivered a good double-digit growth. That has gone up further, specifically in recent quarters because we've been very consistent with our strategy on building the category, especially building around the spaces where we are market leaders both in Everyuth and Nycil.

Everyuth, particularly since you asked about it, scrub and peel off, we are the market leaders -- and significant market leaders, our task is to grow the categories. And that focus on category building is helping us not just expand the categories but also help us improve our share. So we are getting the benefit of both of them coming together, and that really is helping us size up the whole personal care space.

Moderator: The next question is from the line of Aiswrya Dave from ithought PMS.

Aiswrya Dave: So, I wanted to ask you about your revenue share from all your brands. If you could give me a breakup of all the revenue share coming from your brand, the segment share?

Tarun Arora: Unfortunately, we do not share brand wise revenue share.

Aiswrya Dave: Okay. So one question I had regarding Nutralite, I would love to know where are these markets, where Nutralite is being performing good, like which are Nutralite markets?

Tarun Arora: So there are two or three spaces where Nutralite is performing extremely well. One is the food service, where we are able to sell a lot of focus on both fat spreads. We're also building mayonnaise and now launching more products like cheese like that I mentioned in my conversation. The other space we are seeing a good traction is the CSD market where we are able to sell this well, especially Nutralite Sampriti. And these are the main markets. We are also seeing good traction now when the quick commerce is picking up the cold chain, we're seeing good traction there, though it's still very small, but we are seeing good traction on that as well.

Aiswrya Dave: Okay. So it is mentioned that you have certain B2B like you sell to restaurants, if I'm right...

Tarun Arora: Yes. Food services, largely what is also called as HoReCa - Hotel restaurant catering. So it could be a small dhaba, sandwich guy, it could be a large 5-star hotel, could be a catering house, cloud kitchens, whole lot of them, all varieties. There are various segments within that food service that we cover.

Aiswrya Dave: Okay. So why I'm asking this is because since Zydus Nutralite brands is like the Nutralite is also from Gujarat, and Gujarat has Amul everywhere. Like if I see a small dhaba, there also I see people making food in a mode, for example. So I just wanted to know what kind of -- what is the different thing that we are doing to -- for distribution that we are doing good from other competitors? What is the different things?

Tarun Arora: I think this needs a little bit more conversation, but sufficient to say that if -- especially on a fat spread, if Amul launches a product away from the dairy into their brand Delicious, they obviously think we are doing something meaningful impacting their business. Otherwise, why would they move out of dairy and get into butter substitute with another brand. So that shows that we have a decent reach through our cold chain, which is Pan-India, and we are able to do a good job in terms of reaching out to food service channel.

Aiswrya Dave: Okay. Sir, one last question? Which -- is it doing really good in the South, West, North, East, where is it more?

Tarun Arora: Sells across India. We are a Pan-India distribution. We have more than 20 cold room servicing across the country, across states from Northeast to Kashmir to Gujarat to right down to Kerala.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical PMS.

Madhur Rathi: Sir, I wanted to understand, when I look at our market share, in most of the categories that we are, we are number one player. Sir, so that would mean that it is good concession -- is difficult for us to protect our market share as well as difficult for us to grow. So sir, I wanted to understand how are we planning to either grow these segments or get market share from other players?

On complementary portion would be, sir, why are we not focusing on launching extension -- branch or extension products of these brands that we have rather than going and acquiring brands and turning it around? So these are my questions.

Tarun Arora: Mr. Rathi, I think you had mentioned your question, but could you -- if you could -- because we lost you in between when you were saying that why are we not launching extensions...

Madhur Rathi: I wanted to understand like in most of our brands, either we are a market leader or we have a majority of market share. So that would mean that it's difficult for us to grow this because the market is growing at a certain amount of pace to grow at a faster pace as well as to protect our market share. Sir, I wanted to understand how are you protecting this or what are the strategies that we are following? And the second thing was our rather than going and acquiring the brands with lower margin and then turning it around, why are we not launching extension brands?

Tarun Arora: So thanks for asking this question. You're right, and that's a good observation because if you look at it, most of our brands with an exception of one is actually a market leader. And we have -- most of the brands are market leaders. So therefore, you will see that all our conversations are focused on category growth and category development rather than just market shares. A good example will be on, say, Glucon-D, where I'm focusing on how do I grow the category, which is about INR1,100 crores to INR1,500 crores rather than worry about a 1% market share gain because, for us, that's a bigger opportunity.

We have been able to demonstrate, and just now somebody was asking us about what is driving Personal Care. Over the last 7, 8 years, we have demonstrated since we focused on scrubs, peel-off where we are a significant market player where we've grown the segments and also strengthened our shares. So our focus remains on priority one, to grow the segments we play because we do believe that penetration levels are still much lower than what the opportunity is, and therefore, expand through increasing penetration and also drive consumption.

Having said this, the second opportunity obviously does exist in terms of extending our brands into spaces which are adjacent to us. A good example, let me take you through is Nutralite. Now Nutralite till 5 to 8 years back was only a fat spread brand, which was basically a butter substitute. Over the years, we've been able to extend it into other spreads like mayonnaise, chocolate spread, we've also been able to extend it into daily range where we have Ghee, we have butter and we are also launching cheese.

So clearly, the brand has got into a much wider presence and much larger scale. Having said this, there are opportunities where we are not able to extend everything. So acquisition comes, like we have explained even in earlier calls, more from a point of view as a bolt-ons where we believe there are gaps which the external opportunities can fill much faster than we'll be able to extend.

But be assured that we are quite focused on growing the categories and segments, and therefore, our investment is largely focused on category development, followed by extending -- making our brands much larger so leverage our brand presence, which is much larger than the category that we already operate in.

A good and other example will be Sugar Free extending into chocolates and cookies, which is what we are doing. And within the Sugar Free portfolio, the sugar substitutes, we also launched Stevia and building that segment. So a lot of our work goes around this. And acquisition is clearly a bolt-on gap filling. And there also, we are very focused on being, should I say, financially prudent where we see an opportunity of bottom-line expansion is where we are looking at.

Madhur Rathi: Sir, just a follow-up question. What I understand was like launching extension brands, what we are doing in Nutralite but sir, the market is already -- there are a lot of competitors in either chocolate spread or mayonnaise. But when we think about the sugar free cookies maybe there are not. So how do we decide on this extension brands to follow? Yes. So that will be my last question.

Tarun Arora: Largely, we look at differentiation, what do we bring to the table? If we are launching a new extension, how will we differentiate in an already crowded market. I don't think we can shy away from the fact that market is going to be crowded. So I can't shy away from that. So if I have a differentiation, I am new to the market, I will do it.

A good example is while we are doing a lot of extensions, we realized, we could launch a blended sugar. And that's what we have right now. And like we had launched this SugarLite, it got into some trademark issues, which will resolve at a period of time, but we launched I'm lite, which is a completely new space, no player, and we are doing category building there as well.

But existing spaces like cookies and chocolates, I think there are very few sugar -- I mean, low calorie players. And we believe there is -- by replacing sugar with sugar-free, we are able to bring some differentiation. And finally, we have to deliver on the category codes of taste and experience. So we clearly look at extendable -- what is extendable within our portfolio, and how do we bring differentiation.

Madhur Rathi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jay Modi from EML. Please go ahead.

Jay Modi: I had a question around Foods business. So while we've been growing really well in our other portfolio, how do you look at growth in the Food and Nutrition segment? Because, see, if you were to consider the lower base of Q2 and Q3, the growth would be around 3% or 4%. So how are we looking to address the growth for this segment?

Tarun Arora: No, you're talking about how you are calculating lower growth?

Jay Modi: No, no. So basically, my question is that if I were to adjust for the lower base in Food and Nutrition, right, Q2 of last year had a decline of 1% and Q3 a decline of 5%. On that base, we've grown at around 10% and 9%, respectively for Q2, Q3, right? So if you were to adjust for lower base, the growth would be around 4%, 5% for this segment. So I just wanted to understand your views on this segment and the growth that we should look forward to?

Tarun Arora: So there are 2 or 3 factors when we look at Food & Nutrition. I think one of the factors that really impacts us on the growth from a Food & Nutrition part is that, we have a low growth sizable brand, which is basically the nutrition drink, Complan, which impacts our mix. Now we have launched some various initiatives that's building up, but that's a larger category issue, which we are tackling and building on. So that's one thing that impacts us.

And I think having said that, we have few things which do very well. For example, Glucon-D becomes a very small portion of this business and a lower growth sizable brand. So therefore, there is, I think, I don't have to look at in isolation in one quarter. But, at an overall level, if you look at moving averages, I think it's improving and moving faster. But obviously, there are opportunities for us to do -- to keep working at it in Food & Nutrition. And since it's a large -- it's a sizable portion of our business, we do aspire to improve our growth.

It is also something which has got impacted by the consumption because of the inflationary impact on this category where the consumption has got impacted. So we hope that we will bid further on it as we move forward.

Jay Modi: Okay. And also, sir, the inflation for this, so for HFD category, the input costs have been fairly stable for past two quarters. So have we seen any improvement in demand with stability of prices?

Tarun Arora: So yes, it's a still -- if I look at a moving average thing, it's still a low -- very low single digit is what Nielsen is reporting as I mentioned earlier, and therefore, yes, we've seen improvement in the category growth, but they are still very small. And at MAT level, Nielsen is still reporting a 1% kind of growth, 0.9% as I mentioned in my conversation earlier. So we're seeing improvement.

What I'm seeing improvement actually is better traction on organized channel and which is working for us. So if I look at e-commerce, we are seeing a good traction. We are seeing a good traction in non-trade as well. In the general trade, we are finding that the low-price packs are driving much faster, which we are a little bit held back in our effort on because we are also conscious of a profitable mix of our portfolio

Jay Modi: Okay. Understood. And sir, I know it is early days, but any read-through for protein chips and cookies that we've launched? How has the demand been acceptance…?

Tarun Arora: So we are quite -- should I say, positive and optimistic on this category. There are good tailwinds given the fact that we are operating in the protein range and Max Protein as a brand fits in very well for it. So we remain optimistic and bullish about the prospects of it. We've now had it for a couple of months, and we're seeing a good build-up. We'll have the full quarter results at the end of this -- once we report our Jan -- our quarter 4 Jan, March results, and we'll be able to share more color to this.

Jay Modi: Got it. And sir, a last bookkeeping question. Have you recorded any consultant expense for the quarter and 9 months? And if so, could you give the numbers, if possible?

Umesh Parikh: Yes. So we have recorded consultant expense, but we won't be able to share that number specific engagement confidentiality. But...

Tarun Arora: But we've recorded those numbers.

Moderator: The next question is from the line of Akshay Krishnan from ICICI Securities Limited.

Akshay Krishnan: So FY '25 indeed, it's been a great quarter-on-quarter with double-digit growth. But given the current macroeconomic condition, how do you see the company plan to maintain or sustain the growth momentum in the coming quarters? And second thing is, is there any specific market or a segment that we are targeting on to see expansion opportunities to contribute meaningfully to the growth lever down the line?

Tarun Arora: So we do believe that current momentum on growth will continue. And our belief is because if we look at last to 6 to 7 quarters, I think Personal Care has shown a consistent growth. So across both the brands, Personal Care has shown a consistent growth. Glucon-D also over the last 3 to 4 years, if I see I can tell you that it's a double-digit growth. So it's a function of season, but in the short term, that impacts, but over 2 to 3 years, there is no concern about growth.

Nutralite also continues to move forward in the right direction. We had challenges in FY '24, largely in the early part of FY '24, which is related to Sweeteners, both from WHO and some trademark issues, which have got reversed and which have been addressed by us, and we've seen a positive momentum back on the brand on the portfolio of sweeteners between Sugar Free, Sugar Free Delight and I'm lite.

And Complan also has seen at least a positive movement. It's not to my satisfaction, but yes, we have work to do. So, across our portfolio, we're seeing a good reason to believe that we will continue the momentum. Plus our acquisition also is showing good tailwind in terms of moving forward. So my belief is, our double-digit growth is something we can sustain over the next few quarters and build further on it.

Akshay Krishnan: Perfect. Perfect. Sir, on the margin side, so we've been sustaining our gross margin despite the commodity price inflation. Now are there any strategic pricing action that is on the pipeline? And how are we mitigating the cost so that we maintain this margin level? Any strategic supply chain back-end integration that's coming into play? Or what is the efficiency improvement that's getting up so that you can ramp up your expectations of EBITDA margin reaching up to 17%? How is the play and action that's working around in this particular segment?

Tarun Arora: So as a company, I think we are quite focused on playing both back and front, the full value chain on this. Typically, being a leader and premium player across most of the segments that we operate, we are able to price up our products and drive the margins individually. Sometimes, the product mix can be not necessarily in our Favor. What we saw in between the years of '21, '23 range where -- they were -- I mean the whole commodities across the board went shot up, and it was no way we could escape that.

But otherwise, we are well equipped to hedge ourselves when some commodities go up. It could be through a mix of buying forwards wherever we see opportunity, do a replacement opportunity, various things that we are doing in terms of formulations, buying forward and pricing up to ensure that our gross margins are protected. So FY '21, '23 was really a tough time across the board for the industry. But as Zydus Wellness being the market leader, we have a decent pricing power across our portfolio.

So we are -- we remain focused that we have to keep moving up our gross margins as a part of strategy to build up.

Akshay Krishnan: But is there any pricing that's coming into play in the coming quarters?

Tarun Arora: Yes. So there would be a price increase across multiple products wherever we are seeing the costs going up, largely commodity-led products, we are taking whatever required price increases. Even the last quarter, if you see, our volumes are 4.8% versus 12.7% overall sales growth -- revenue growth. So clearly, there is a price space that we work on.

Akshay Krishnan: Okay. One final on the e-com or the quick commerce channel, that's becoming a very important space, especially for all the FMCG brands. And you did allude that it's a strong growth area that you'll have to focus on. So what is the total revenue that the digital channel is actually contributing to our company as a whole? And second thing is, how are we leveraging the digital transformation through AI or data analytics so that you get some consumer insights, which will help you in improving your distribution efficiency as a whole?

Tarun Arora: So Digital, AI and data, I think we use at multiple levels. So first of all, from the online business perspective, about 10% to 11% of our revenue comes from selling in online platforms. And that's been growing at a much faster pace than the rest of the business, and we are quite conscious of the fact that since the consumers are shifting to this, we should be ahead of the curve. And typically, we find most of our market shares higher in these channels, and therefore, we are embracing it very fast.

But we don't stop here because if you have to win in the online marketplace, we must engage with our consumers in various formats. So the share of digital marketing, online marketing as an overall investment has gone up significantly over the last couple of years. And even the TV channels are struggling today and we find a lot of shift happening to online marketing.

Having said this, we are using AI in various forms. One such example is where we've launched Nutralite Chef, where consumers can engage any idea, any food product they want, they have a picture, they have an idea, ingredient, anything, we are able to recommend them recipes of what to do. And simultaneously also support with some Nutralite product in that recipe.

Having said this, we're also using AI -- not AI, but digital data and analytics on recommendation engine for our salesmen at the last mile. So almost 1,500, 1,600 of our salesmen at the last mile who service more than 6 lakh outlets, they work on handles, which are -- where they pickup orders. Now there is a recommendation engine based on data and analytics which suggests them what they could sell more in this shop given a certain profile of outlets.

So we're using our data analytics engine to build on that as well. So we're using data analytics, AI, all those things as we build forward. We are also building a strong back end in terms of dashboards, which is, again, will rely on a lot of digital data that we are pulling together. So as an organization, we are focused and we believe decision-making business will shift a lot more to data and digital world, and we are well equipped to be ready for the future for that.

Moderator: The next question is from the line of Viren Deshpande from Alphapeak Investments.

Viren Deshpande: Okay. Congratulations for good results. I would like to know what will be our effective tax rate for the year because if you take in this quarter because of a comparatively lower profit, our tax rate has gone up to 35%-odd, but what will be the effective tax rate for the entire year, '24, '25?

Umesh Parikh: So yes, it all depends on the amount of EBITDA and profit that they're going to generate, the profit before tax. But certainly for 3 quarters, you would have noticed that we have recorded deferred tax liability in the range of about INR3.5 crores to INR4 crores, right? So that's the deferred tax liability and that is the reversal of the earlier gains that we have accrued in the books of account. So that the reversal of deferred tax asset, which is happening now. And about INR3.5 crores to INR4 crores, you can assume as a deferred tax liability getting recorded in the Q4 as well.

Viren Deshpande: Because in 9 months...

Umesh Parikh: It's a non-cash item.

Tarun Arora: It's a not non-cash item. So we don't really pay it around deferred tax.

Viren Deshpande: No. That is true. But in the 9 months, if we see the tax, it is only INR10.5 crores, if you take the net of deferred. So INR10 crores on...

Umesh Parikh: Whatever has been accrued so far, which you are seeing INR10 crores, what I'm saying is that we are going to accrue more about INR3.5 crores to INR4 crores in next quarter.

Viren Deshpande: So our effective tax rate will continue to remain low for the last quarter?

Umesh Parikh: It will depends because the quarter 4 is very heavy in terms of the sales and EBITDA and profit before tax. So the effective tax rate will come down significantly. Amount-wise, it will remain the same, about INR3.5 crores to INR4 crores, but the effective tax rate will come down.

Viren Deshpande: Naturally because of the higher profit before tax. Normally our Q4 and Q1 are the -- constituting almost 85% to 90% of the total profits of the year?

Umesh Parikh: Yes.

Tarun Arora: Yes.

Viren Deshpande: And they will continue to be there. The -- is there any way we can even it out with some product line, which can be addressing that issue?

Tarun Arora: We would love to, but I think to change the structure of business takes a much longer time. We are keen, but we will see. It will take some time. But for now and next -- in short to medium term, I don't see that changing.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, do we sell our sweeteners to FMCG companies or pharma companies?

Tarun Arora: You tell us. We believe we are largely FMCG company, but...

Madhur Rathi: Sir, so my question was regarding -- my question was regarding the company called Blue Jet Healthcare that does high-intensity sweeteners. So they earn very high margin. So my question was regarding that. Do we plan to sell this? Or are we selling them currently?

Tarun Arora: I don't understand.

Umesh Parikh: In fact, we serve every channel, including GT/MT e-commerce as well as we serve B2B as well, some part of a very small part, but we serve most of the channels.

Tarun Arora: Yes, we have food services. We have CSD. We have grocers, chemists, even cosmetic outlets, food outlets, all sorts of -- so we have -- actually our variety of outlets, the retail environments service is wider than many FMCGs typically, you'll find that because most FMCGs are very limited. Because of our diversity of portfolio, we have more FMCG than many others.

Madhur Rathi: Okay. And sir, what would be the B2B portion of our overall sales as well as modern trade and general trade?

Tarun Arora: So B2B, how would you define B2B? If you are saying food service -- if you're looking for food service, which is largely the HoReCa channel, that would be about 8% to 10% range.

Madhur Rathi: Okay. And for the institutional kind of clients, that would be additional or...?

Umesh Parikh: Also about it is just not…

Tarun Arora: It's just not institutional clients. It is a lot of -- I mean, these are businesses, therefore, we're calling B2B, but there is also a distribution part to it. There are wholesalers, vendors who buy from us and sell to some of these institutions, some of the small outlets, dhabas, small bakeries, food stores, a lot of variety of spaces who are making food and use Nutralite as -- largely Nutralite as ingredients. And even large hotels and cloud kitchens also.

Madhur Rathi: Sir, I'm trying to understand that between our general sales trade business, between modern trade, e-commerce and quick commerce which channel has the highest return on capital? Which is the lowest credit period and the highest margin? So if you could tell us in each of these segments, how does our profitability differ?

Tarun Arora: We -- that would not be possible for us to share. What I can tell you at a high level is that our general trade business and our food service business is serviced through distributors who are on same-day payment -- I mean, cash, and carry kind of a system. We don't have any significant credit on a routine involved. The e-commerce and non-trade business, since we deal directly with the banners, large organizations.

We have a credit system, which is standard to any terms of trade that we would have, whether it's Reliance, Amazon, Flipkart. We deal directly with them or through the sellers. So there is a standard thing. So those are things, but beyond that, return on investment and margin profile, I think we'll not be able to share...

Madhur Rathi: So sir, I'm not asking a specific number. If you could just tell us that whether the profitability overall that the company enjoys with each of these channels, sir, for example, if the profitability is highest in general trade than sir the mix is shifting towards e-com and modern trade. So that means that over the long period, the profitability is expected to decline. So that's what I'm trying to understand.

Tarun Arora: So all I can explain you is cost to serve are fairly comparable because general trade also, while may have supposedly higher profitability, but there is a cost to serve because there's a large number of people involved to serve it while e-commerce has fewer. So it's also a how we manage it, but cost to serve are reasonably similar across channels as we find.

Umesh Parikh: And in the evolved channel like e-commerce, we also tried to sell the big, big packs with a higher profit. We balance the profitability.

Tarun Arora: So we largely are cost-to-serve level. We are -- with the profitability we are quite balanced across.

Madhur Rathi: So sir, is it fair to assume that going forward, as the proportion of e-comm and modern trade increases, the working capital intensity of the business will increase, though the margins might not get impacted by that?

Tarun Arora: Yes. Yes.

Umesh Parikh: Yes, that's how we see it. That's right.

Tarun Arora: That's right. That's how what we are dealing with.

Madhur Rathi: Sir, but on the other hand, in the general trade, I think we are more and more -- we are doing direct selling to the retailer and setting out the distributors. So will that not balance out the working capital increase on the e-comm and modern trade side?

Tarun Arora: So I think the market is shifting towards organized trade in the urban India, while we are expanding our general trade. And we are continuing to work with distributors. So I mean, we'll have to see how the market moves, but we are responding to the consumer purchase behaviours, and we see that the shift towards organized trade to be a secular trend and that will continue to move at least in medium term.

Moderator: The next question is from the line of Lokesh Gusain from BOB Capital.

Lokesh Gusain: So my question is around growth margins percentage. Just a follow-up on that on how you have been able to offset the inflation to maintain improved gross margins? So you mentioned buying forward replacement opportunity, formulation and pricing as the key drivers. Are you able to -- I understand the breakup won't be possible, but are you at least able to rank them in the order of which ones have help you the most and which ones down the rank?

Tarun Arora: So I think one of the important thing is when the costs go up, we look to increase the pricing. So that remains the number 1 lever for us more often than not only in the categories where we are not able to be the price driver or there is a significant problem in the market, which seldom happens, but sometimes it does happen, we usually drive the pricing as the first lever.

We also look at what we can do from a sourcing point of view if there are opportunities or reformulation part. But reformulation is a very long-run process. So unless there is a fundamental issue, we don't go back to changing structural issues. But largely, it's led by pricing. Of course, there is a product mix issue. There is a cost measures in terms of our actions. They also follow through.

Lokesh Gusain: And in terms of cost efficiency, do you have a certain -- like some FMCG companies have a certain annual run rate at some quoted as 2% of sales. They take out 2% of sales equivalent of cost every year from their operations. Is that -- do you also have a similar internal target on...?

Tarun Arora: Yes. We have a fairly stiff taken by manufacturing and supply chain teams, both procurement and manufacturing teams who work on cost efficiency and improving costs on a regular basis. In fact, we've -- Zydus Wellness does it consistently, but Zydus Group also has a very strong program, which we work with them, and we've been constantly been able to build our capability around that. So these targets are taken by the teams on a consistent basis.

Lokesh Gusain: So is there like a standard thing that you follow like some companies follow 6% of sales, some follow 2% of sales on an annual basis to take the cost out, just so they have some lever against inflation as and when it comes? Or they can use that efficiency to kind of get more volume share. So just trying to understand if you have a similar target and what it is, if you can share that?

Tarun Arora: We -- I cannot share a specific target, but I can tell you that there is, every year, we plan a certain numbers to come through, better efficiency, better cost takeouts, which work across various levers, which could be in terms of vendor negotiation, vendor develop -- new vendor development.

Various -- I mean these are standard things that most procurement teams will do. There is yield improvement. There are so many other factors that we do, which work on -- which contribute to this. So there is a clear targets taken by the team, which are gone into several level of details and do not work at just high level of saying 3%, 5%. If the opportunity is 8%, why would I do a fixed 5%.

So I would look at every year as a part of the process. We go into depth of what are the opportunities, identify and work through a plan. Some are aspirational targets also taken sometimes because I think that we don't have a visibility, but the business needs it, we do that as well. But we don't have just a fixed number and just deliver on that, but look at opportunities specific to each space that we work on.

Lokesh Gusain: That's very clear. So just one more follow-up. You mentioned you're using buying forward, like you're buying your raw materials in advance. So is there a company-level policy like how much in advance do you buy?

Tarun Arora: Category to category. For example, when we buy palm oil, Malaysian palm oil would share the forward numbers for several quarters. Now if the procurement team with some advice does feel forward, we will do it. And that too also the seller should be available. It's not just palm board because we buy refined palm oil. We do some cover.

So it's specific to categories that we have commodities we are buying. We -- there have been opportunities in the past where we said the price was right. We have covered for a full year also, not on this specific, but other categories. So it's opportunity and understanding led. But we are -- we do have product-wise policies of what we would cover and what we would not, which is based on our learning and experience and some advice that we get from expert groups.

Lokesh Gusain: Understood. So just one more clarification. So when you're buying your raw materials, is that sourced from the local like the Indian vendors or you directly buy it from overseas, for example, palm oil requirements?

Tarun Arora: So I think our -- we are clear that we are sizable. Wherever required, we work with our global vendors also. But like you mentioned, palm, no -- there's no point buying from international vendors because we buy refined palm oil. International vendors will be selling crude. So refined has to be bought locally.

So I mean, these are things which matter step -- product to product, and therefore, we try to buy from the best sources available, which have a strong capability. And whenever global is required, we are able to work with the global partners as well.

Moderator: The next question is from the line of Mayur from Wealth Managers.

Mayur: So sir, just two questions. One is on the margin side. And if you have given some answer on that, sorry for repeating it. Just to get some clarification again. When you look at the margin performance over September and December quarter related to the September and December of previous year. So we understand that is good seasonality. We understand it is a weaker quarter?

So keeping that in mind this question, so it's not that we don't understand. We understand the seasonality for both these 2 quarters as weak. The margin improvement has been largely flattish and the year to date, which is a 9-month performance, margin improvement of more than 200 basis points has largely come in the June quarter, which was a -- which is normally a very strong quarter for us.

And March is also a very strong quarter for us. So what I just wanted to understand is the fact that the margin performance in September and December is lower despite we are comparing year-on-year is only because of the lower seasonality and product mix issues and this should -- the improvement should come back in the March quarter, again in June quarter?

Or there is -- the large part of that improvement is now behind us as far as the whole year is concerned, and we are heading into -- the low-hanging fruits are behind us, and we may be heading into some kind of margin stability as we go ahead, sir?

Tarun Arora: So let me ask you -- are you talking about operating margins or gross margins?

Mayur: Sir, while the focus is on the EBITDA margin, but if there is a lever on the gross margin also, you can -- because gross margins have been improving, and now they are getting stabilized. So maybe if you can along combine that to the gross margin, it will be okay. But the primary question is largely about profit?

Tarun Arora: So let me answer at 3 levels, gross margin, EBITDA margin and net profit. So first of all, if you look at it, almost for 6, 7 quarters, except for last quarter, which is flattish, we have constantly improved our gross margins like-for-like over previous year. So gross margins, we've been very, very focused on driving it back to the levels.

And I think October, December numbers would reasonably matched October, December '21 kind of level. So we've been able to recover back what we lost between FY '21 and '23. So our focus remains on improving our gross margins because that's the first port of call in terms of improving our profitability, and we are, as an organization, quite focused on driving that inflationary challenges.

So it's a journey which will continue. We believe there is some more margins to pull out if there is a stable inflation, we could manage to build further on this. But we'll have to see how much our actions play out versus the environment.

Now looking at EBITDA margins, I think you will find that last 2 quarters, our EBITDA growth is faster than our top line growth. So there is a small movement consistently up on our EBITDA margins versus the earlier year. Yes, one would like to see more, but like you also mentioned, it's a small quarter so you can't really show a significant shift, but our EBITDA growth has been faster and leading to a small improvement on EBITDA margins as well.

Net profit is a different piece altogether because it's a function of 2 or 3 non-operating variables coming into the piece, which is largely impacted by tax. And that impact, whatever is happening, is because we have a deferred tax liability, which plays out. But otherwise, from an operating piece, we are quite focused at our margins -- operating margins will continue to improve.

So beyond EBITDA, in fact, because our -- largely the debt has also come down over the coming years. So we believe our -- we'll keep getting better at it, and therefore, you should see some further improvement. And depreciation is...

Mayur: The point was the fact that March and June is a good quarter, the improvement which we have seen in the past, last March and June should broadly continue because we will get the benefit of seasonal mix and operating. It's not that the -- all the low-hanging fruits are behind and we may see stagnation of the improvement?

Tarun Arora: No. We do believe that there is still scope for us to continue. We believe our journey is still not completed where we have stabilized. It's still going to go up.

Mayur: Right. Sir, one more question is in a slightly different direction. I understand -- we understand for so many years in markets that what market does is not in the hands of the -- in terms of the investor returns is not in the hands of the management fully, but just to give a broad point, and I'm sure you will also be sensitive to it.

And if you can add some understanding for long-term investors. We have seen last 5 to 4, 5 years have been -- investor returns from our side has been lower. And yes, there have been reasons we understand, there's no --

But the point I was trying to understand is from twofold. One is just when we have started to improve the performance, the overall market sentiments are down. So that much more pull we will require in terms of our execution, because the past 5 years has been many years low for us in terms of investor wealth creation and significantly lower compared to even in many other?

So that is on one side, do we believe that we will be able to recover this and the pull will be -- which is required and expected will be there? And secondly, a slightly more specific question, Shakti has been now the private equity kind of I don't know too much about it, but they have been on the selling side?

And given the large stake which we had, there's a continuous selling pressure, which from Shakti, which has been there. So just -- we are not trying to understand that strategy and not -- given the large holdings, is there any kind of understanding that by when this is expected to complete and what -- any directionally -- anything which you have, any color?

Because I'm sure, given that stake of holdings, there will be some understanding which directionally, nothing specific on strategy and company, but just directionally, how does it play out?

Tarun Arora: Sure. Let me answer the first question. I think you've rightly said management has that much limited degrees of freedom. If I look at trailing 12 months numbers for us, from a top line point of view and not just last 1 year, but even a 3-year, we've been growing -- top line has been growing much faster than most of the other peers that you could bunch up as a group.

We do believe that our -- the expectation from the management is to improve performance, and therefore, we are quite focused on driving growth ahead of the industry. So we are -- I would look at it not just 1 year, trailing 12 months, but even a 3 year, if you look at it, our growth rates have done reasonably well. 23' was a hard year because of seasonality, but 1 and 3, if you look at it, we are reasonably sorted.

Secondly, having said that, within that, profitability, the journey, which we've seen 5, 6 quarters, we hope that we will continue. So we appreciate your point of view, and we believe that as a management, we -- the expectation from our critical stakeholders, the shareholders, specifically, is to have a better performance, and we are quite focused on that. And that, at least from our execution and our intent, you will see those things playing out where results will start to speak for themselves.

Having said this, moving on to your second question, I think True North is a large investor who came on board at the time of acquisition. They have run the full cycle from their fund point of view. We're not specific privy to their plans. So they will take the call when they have to.

So I'm here, the selling pressure, but I also hear some investors also talking about liquidity of our shares. So I can only say that you will have to reach out to them to understand. But beyond that, we would not be privy to any of those things.

Moderator: Thank you. As that was the last question for the day. I now hand the conference over to the management for closing comments. Over to you, sir.

Tarun Arora: Thank you very much. We've had a good run over the last few quarters. With the government also showing signs of taking -- supporting consumption, there is a movement on rural. We also believe that our actions are in place. We are hopeful that we'll continue this double-digit journey and execute well on our existing brands as well as new product portfolio. So look forward to talking to you again after this quarter and the full year performance. Thank you. All the best and take care.

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