May 23, 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 May 19, 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 Q4 FY2025 Earnings Conference call held at 5:00 p.m. (IST) on Monday, May 19, 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: 2025.05.23 18:22:56 +05'30'

NANDISH P. JOSHI
COMPANY SECRETARY & COMPLIANCE OFFICER

Encl.: As above

"Zydus Wellness Limited Q4 FY-25 Earnings Conference Call"

May 19, 2025

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

MODERATORS: **MR. DHIRAJ MISTRY – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and FY '25 Earnings Conference Call of Zydus Wellness Limited, hosted by ICICI Securities Limited.

As a reminder, all participants' 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 * then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Dhiraj Mistry: Thank you, and good evening to everyone. I would like to thank the Management of Zydus Wellness to give this opportunity to host this call.

We have with us Dr. Sharvil Patel – Chairman; Mr. Tarun Arora – CEO; Mr. Ganesh Nayak – Director; and Mr. Umesh Parikh – CFO.

I would like to hand over the call to the Management for their Opening Remarks. Thank you.

Tarun Arora: Thank you. Good evening, and welcome to the Post Results Teleconference of Zydus Wellness Limited for Quarter 4 Financial Year 2024-'25. Like mentioned earlier, I have with me Dr. Sharvil Patel – Chairman; Mr. Ganesh Nayak – Director; and Mr. Umesh Parikh – CFO on the call.

During the quarter, while the overall FMCG demand remained stable, several categories exhibited notable growth, reflecting positive consumer traction and evolving preferences.

Consumption trend overview indicates that rural markets continue to outperform urban areas, buoyed by stronger consumer sentiment. This momentum is reflected in the robust growth of smaller unit packs, indicating increased accessibility in consumption at the grassroot levels. At the same time, the trend towards premiumization remains strong across geographies.

Digital commerce continues its rapid expansion. Quick commerce is accelerating instant small basket purchases in metropolitan areas, while marketplaces are deepening their reach into smaller towns, supported by rising digital adoption and increasing appetite for premium offerings. On the macroeconomic front, easing food inflation is contributing to a decline in overall inflation, though volatility in edible oil prices and dextrose monohydrate remains a key concern.

The Company recorded its consolidated net sales growth of 17%, reaching INR 9,106 million rupees, accompanied by a volume growth of 13% on a year-on-year basis for the quarter. For the Financial Year 2025, the Company achieved growth of 16.2% with a volume growth of 12.4%, amounting to INR 26,912 million rupees, resulting in a healthy CAGR of about 10% in revenue from operations based on the FY '21 base.

The Personal Care segment continued to demonstrate strong consumer traction, achieving notable double-digit growth of 22.5% for the quarter, along with 33.4% growth for Financial Year 2025. This sustained momentum highlights the segment's resilience and brand strength, giving a robust CAGR of 16.5% from our FY '21 base. Concurrently, the Food & Nutrition segment maintained its upward trajectory, registering a solid quarterly growth of 15.4%, along with 13% growth for Financial Year 2025, fueled by category expansion, product innovation, and strategic acquisitions. This translated into a consistent CAGR of about 8.5% from FY '21 base, reinforcing segment's long-term growth potential.

Organized trade saliency continued to improve, reaching 23% for Financial Year 2025, of this e-commerce contributed 10% and non-trade contributed 13%. Quick commerce now accounts for 41% of total e-commerce, benefiting from a lower cost to serve compared to overall e-commerce.

As per MAT March 2025, Nielsen and Kantar Worldpanel household data reported that the overall FMCG market in India, both urban plus rural, grew by 9% in value, 6% in volume, and at an overall level saw a 3% increase in household penetration. While Zydus Wellness outperformed in all these parameters, primarily driven by rural markets where it was higher, while urban also contributed well on this platform.

Let me give you an example. The Overall you know the household penetration for Zydus Wellness grew almost 4x that of the market average, reflecting the strong brand equity, expanding reach, and strong resonance across households.

We continue to drive innovation by leveraging Company's strong research and development capabilities. While a comprehensive list of launches and extensions for FY '25 is available on our website, this quarter saw Everyuth brand entering sheet mask category with the launch of 3 exciting variants, Golden Glow, anti-pollution, and Aloe Cucumber.

Gross margins have demonstrated stability with modest upward trend in a year-to-year comparison, despite ongoing inflationary challenges. The performance is a result of prudent strategic hedging, favorable product mix, and a calibrated pricing strategy. Consequently, we have seen consistent margin expansion to net sales across all quarters on a year-on-year basis, delivering 42 basis points in the quarter, 168 basis points for the year, and a total of 361 basis points over 2 years, financial year '24 and financial year '25. These results further strengthen our confidence in the effectiveness of our plans and actions.

On the EBITDA front, the Company delivered a growth of 17.1%, reaching INR 1,900 million rupees for the quarter, while net profit after tax increased 14.4% to INR 1,719 million rupees. For the Financial Year 2025, EBITDA grew by 23.2%, closing the year to INR 3,797 million rupees. And net profit, excluding exceptional item and one-time deferred tax assets rose by 30% to INR 3,410 million rupees.

Additionally, reported net profit as a percentage of revenue from operations improved by 1.3% on a year-on-year basis. Earnings per share also registered a strong growth from INR 41.94 to INR 54.52 in Financial Year 2025.

We remain focused on consistently enhancing shareholder value. In line with this, the Board has recommended a final dividend of INR 6 rupees per equity share of face value INR 10, which is 60%, representing a 20% increase over the dividend declared in the previous financial year.

The Board has also recommended a stock split in the ratio of 1:5, reducing the face value of INR rupees 10:2 to improve share accessibility. Both proposals are subject to shareholder approval at the upcoming AGM.

The Company's cash conversion from operations at INR 3,800 rupees million to EBITDA of INR 3,797 million rupees reflects a strong realization of 100%, demonstrating its ability to effectively support growth initiatives, maintain financial flexibility and reinforce its commitment to disciplined capital allocation.

Alongside financial performance, the Company recognizes its responsibility towards environmental, social and governance factors. As a result, our recent ESG publication and S&P Global rating for FY '24 reflect a significant increase of 36.2%, reaching ESG score of 79. Notably, we have secured 99 percentiles amongst 390 companies in our peer group with a 96% disclosure rate covering both required and additional disclosures.

With that, let me share some of the highlights of the operations for the year gone by, which will also cover category growth market share numbers as per MAT March 2025 report of Nielsen and IQVIA.

On the Personal Care front, Everyuth continues to outperform the category, delivering strong and consistent performance. The face scrub category grew by 20% at MAT level. Everyuth's Scrub maintained its leadership position with 48.5% market share, marking a remarkable increase of 321.4 basis points over the same period last year.

The Peel-off category grew by 24% at the MAT level. Everyuth Peel-off remains the market leader with 77.7% market share, reflecting a 6.1 basis point gain over the previous year. Everyuth brand holds the fifth position in the overall facial cleansing segment holding 7.7% market share.

Nycil outperformed category growth, continuing its strong and consistent performance. The prickly heat powder category grew by 21% at MAT level. Nycil has maintained its #1 position with a market share of 33.8%.

On the Glucon D front, Glucon D maintained its leadership in the glucose powder category with a market share of 58.8% at the MAT level. The glucose powder category grew by 19.7% at the MAT level, reflecting the continued consumer demand and regional relevance. The nutritional drink category has reported a decline of 2.1% at MAT level with a continued softness across key metrics. Brand currently holds a market share of 4.0% at the MAT level.

On the sweeteners' front, Sugar Free brand continues to maintain its dominant position, holding a commanding 95.9% market share in the sugar substitute category, which has grown by 6.7% at a MAT level. Sugar Free Green is delivering strong double-digit growth, fueled by rising consumer demand and increased volume uptake over the last several quarters.

During the year, Company extended Sugarfree D'lite cookies through organized channels in the domestic market, receiving favorable consumer feedback. I'm Lite, a low-calorie sugar alternative blended with stevia, continues to receive positive market feedback, showcasing strong consumer adoption and potential for future growth.

On the Nutralite front, continuously expanding and diversifying the product portfolio, delivering double-digit growth with a 5-year CAGR supported by consistent volume growth in a wide-ranging product portfolio, growth driven by dedicated B2B and B2C teams, ensuring sustained demand across multiple channels.

On the new business of Rite Bite, following the 100% acquisition of Naturell India Private Limited in the later part of the previous quarter, the business is performing as expected. The integration and digitalization transformation are progressing smoothly and with the business continuing to deliver strong growth across its product portfolio.

Operational and strategic initiatives are on track, further reinforcing confidence in the long-term potential of the acquisition. We remain committed to improving margins and profitability in the coming quarters.

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

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone, if you wish to remove yourself from the question que you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question que assembled. The first question is from the line of Tejash Shah from Avendus Spark. Please go ahead.

Tejash Shah: Hi sir, thanks for the opportunity. Actually, the first couple of questions are around the quarterly numbers. So how did the organic volume and value growth trend this quarter? And employee costs seem to have some inflation in this quarter. So, any one-off or should we consider this as a new run rate?

Tarun Arora: Thank you, Tejash. First, I think comparable base business growth is low double digits. So, we continue on a double-digit trajectory on a business as is and reflected in mid- to high single-digit volume growth. So, it's backed by consistent volume growth as well.

Employee spends growth is driven by a couple of factors. One, of course, is the fact that we have variable pay as part of the cost structure, and there has been good performance, which we have to do.

Secondly, there is a higher cost of people, because the entire team of the acquired business is on payroll, some of yes, the last mile sales, which typically most FMCGs work on a third-party payroll or a distributor payroll. So therefore, there's a slightly higher percentage cost, therefore, there is a disproportionate increase in the base. But going forward, I think there should be some moderation, but this is the base. This is the broad reason.

Tejash Shah: Perfect, sir. Very clear. Sir, EBITDA margins on an annual basis have improved after a gap of 4 years on a Y-o-Y basis. So, first of all, congrats for that. But is there a sustainable shift here? Or any guidance would you like to call out at this point?

Tarun Arora: So, Tejash, I think we have been maintaining our clear intent is to move these numbers to 17%, 18% in the next couple of years. Most of our actions are in this space where we are strongly starting with our gross margins to stay positive.

So, basis of some gross margin, which is going back into investing for the brand and growth, rest of that, we'll take it to EBITDA, and we'll also hope that with this growth momentum, we can also get some operating leverage. So, we do believe that structurally, we want to drive the EBITDA back to higher levels that we missed over the last 3, 4 years on a consistent basis.

Tejash Shah: Yes, got it sir. Sir, last one, if I may squeeze in on quick commerce. You made a very strong remark on that, that channel is doing fabulously well. So, is it helping us to premiumize and reach new consumers, which we were not catering before? Or is it largely serving the existing customers through a new channel?

Tarun Arora: I think it's a bit of both because quick commerce increases accessibility in the urban space, top 10, 15 towns, top 10, 12 towns is where the max impact you find, and it increases the accessibility because distribution, however good it may be, has its own nuances, has its own challenges. So, it obviously helps democratize better, and therefore, be able to reach some new consumers.

We are finding at least a few of our new spaces that we have got ourselves, we get much better, faster response in quick commerce. The challenges in the limited availability of retail shelf is overcome by this. So, it's doing both. It is obviously replacing some of the existing spaces, but it is also helping us reach out to a new set of consumers.

Tejash Shah: And sir, any brand which is over-indexed on growth in this channel?

Tarun Arora: There are 2 or 3 brands which we believe is doing very well. But let me give you one example which stands out to my mind, one is Complan. We find online and quick commerce has a higher than Company index. Even a cold chain product like a butter does exceedingly well in this than in retail. So clearly, some of these brands do find good traction with this.

Tejash Shah: That's all from my side, and sir all the best for coming quarters.

Moderator: Thank you. We'll take our next question from the line of Kinjal Mota from Banyan Tree Advisors. Please go ahead.

Kinjal Mota: Hi. Thank you for the opportunity. My question is on the Rite Bite acquisition that we did. If you can give any comments on what is the growth that the brand saw in FY '25? And moving forward, what is the growth and margins that we could expect from Rite Bite coming off?

Tarun Arora: So, while we don't share exact, but we can tell you right now, because to give you a flavor of it, the business has been only for about 4 months with us. We have seen higher than 50% growth on this brand, supported by tailwinds and a lot of good execution by the team. The margins have been positive, low single digits, and we hope to build on this as we go along with the operating leverage and synergy benefits coming.

Kinjal Mota: Sure, sure. So, moving ahead, what would be the sustainable growth that we expect in the next 3 years or so, if you could comment on that?

Tarun Arora: I think it's early days because we do believe there is a very high growth, something we mentioned at the time of acquisition also that over the last 3 to 5 years, the business has done about 25% plus as a CAGR. We hope to continue doing that. Right now, we are tracking reasonably well on that.

Kinjal Mota: Sure, sure. Thank you. That's all from my end. Best of luck.

Moderator: Thank You, the next question is from the line of Mayur from Wealth Managers. Please go ahead.

Mayur Parkeria: Good evening, sir, and thank you for taking my question. So, sir, actually, just a couple of questions from a seasonality perspective. For us as a Company overall, this Q4 and then the upcoming Q1 is the lion's share.

Now I understand it's a very short duration of the quarter, but it's an important season because it's almost a reflection of the entire coming year. So, in the early Jan, Feb, March, we saw South and East summer were not so strong. It was much milder compared to previous trends.

And then lately, we have also seen West early monsoons and things like that. And then on the other side, the previous year, we have seen phenomenal growth, which was there in the 2 quarters. So, the base to that extent is larger.

Would you like to call out something on that and how do you see the current quarter going by, since we are already almost close to 1.5 months going by? And the inventory channel for some of our main products, especially for Q1? And how does that pan out and impact the margins overall, sir?

Tarun Arora: Thank you, Mayur, for detailing it out, but we do not give forward guidance, so we'll not be able to comment specifically on it.

Mayur Parkeria: Sir, some qualitative understanding of how is the market shaping up broadly, because it's a very important understanding. I am sure you will appreciate all investors understanding on that. And it's been some time since we have seen such good improvement. So, we would like to understand if it is possible, some trajectory, some color, whatever you feel comfortable, not numbers, not but how qualitatively you see growth panning out? And how do you see the FY '26, if at all, broadly?

Tarun Arora: So, I think let me just give you just a little bit of qualitative view. First of all, I think it's just 2 months, and we have the full year, and yes, quarter 4, quarter 1 are the most crucial ones, and quarter 4 is far away.

Quarter 1, some markets have got affected, but we do believe that we are working our bit to ensure our commitment to our double-digit remains on track. So that's really what I would say. Everyone is seeing what you have seen in terms of some markets getting impacted. Some of them are crucial markets for us, but we are working on solving for those, given our portfolio and opportunities we have to double down on markets where there's still positivity.

Mayur Parkeria: Okay sir. Just a small extension in a different way just to understand. Sir, especially for Glucon D and Nycil, what kind of percentage of demand broadly is non-seasonal, because while these are seasonal products, we understand, but there is a base demand also and these are products which are consumed broadly throughout at different places, geography. India is a very tropical. So, from that perspective, just some broad understanding, will it be fair to say that 20%, 25% of these products are consumed throughout the year? Or is the skewness much larger? Some way to understand the seasonality of especially these 2, which are heavy quarters for us, which are heavy products in the quarter?

Tarun Arora: For these 2 products, skewness is much larger. So only 10%, 15% of these products sell in the quarter 2, quarter 3.

Mayur Parkeria: Quarter 2, quarter 3. Okay. That's it from my side, sir. Thank you and wish you all the best.

Tarun Arora: Thank you.

Moderator: Thank you. Participants in order to ask the question please press * and 1 now. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, thank you for the opportunity, Sir, I wanted to understand regarding our Rite Bite acquisition and the capital allocation policy regarding that. So, sir, if I consider the Complan and Glucon D brand that we bought for INR 4,600 crores in FY '19, sir, that has incrementally added only INR 100 crores to INR 150 crores in our PBT.

So, sir, that is less than 3% yield, if I can understand and that too after 4, 5 years. So if I am trying to understand that some valuation multiple that you did for Rite Bite, and sir, how has the valuation policy changed in acquiring different businesses, post this disaster that we had for Complan, where considering inflation, it's even lower the incremental PBT that we have added.

Tarun Arora: First of all, your assessment on the other acquisition is not accurate, but we'll let that be. We will focus our answer on NIPL on the valuation piece.

I'll let Umesh answer that.

Umesh Parikh: Yes. So, we actually do due diligence and value the Company using multiple parameters and methods. So also, the latest one that we use is the market benchmark of the recent acquisition. So based on that, because generally, first start-ups, which are growing at a high speed, there is a likelihood that there is hardly any operating margin there. But we were, I think it's a good acquisition because when we acquired it was almost out to breakeven.

So, in terms of the sales multiple, it was about 3x of sales multiple by FY '24. And that we thought is really a good price to pay. And that's what we have been currently also realizing that the growth that we have been getting through this acquisition and the operating margin, we have, it has become positive over the last 4 months.

Tarun Arora: And we expect it to be FY '26 cash EPS accretive.

Umesh Parikh: Yes. If it runs the same way, and we are hopeful, it's going to be EPS accretive by 2026.

Tarun Arora: Cash EPS accretive, yes.

Madhur Rathi: Got it. So, if I look at our Company, so the main strategy that we are following is acquiring brands, dominantly market leaders in smaller segments and growing them out. So, sir, going forward, is there a certain criteria like IRR or a payback period we would expect before doing any of these internal acquisition going forward?

Tarun Arora: So, we can discuss in more detail, but we do follow a detailed discounting method for valuation.

Madhur Rathi: Got it, Sir, those were questions from my end. So, thank you so much and all the best.

Operator: Thank you. We'll take our next question from the line of Umang Shah from Banyan Tree Advisors. Please go ahead.

Umang Shah: Hi sir, thank you for the opportunity. Sir, first question was how is the response to our new launches, especially in adult nutrition, in Complan and Activors in Glucon D?

Tarun Arora: So, I think Glucon D Activors we have got a reasonably good response. It's in line with the numbers we have set internally. So, we are satisfied with the direction which it is building up. It's small, but it is meeting all the milestones.

On the adult nutrition, VieMax, we have got a fairly good response. The market is sluggish, but we are quite hopeful to build on it, and it's a long haul because these brands, we have taken a route of expert marketing, which is we are only detailing to doctors and a little bit of digital. So, it will be a slow burn, but that's also looks to be on track on most of the feedback that we have got. So early days, but very important for us to build on the new products that we have started off on.

Umang Shah: Right, sir. And sir, of the INR 6,900 crores category of nutrition drink, how much would be adult nutrition? Any idea?

Tarun Arora: It will be, I think, if I remember the numbers right, about 18% to 20% approximately.

Umang Shah: And we would like to index our presence here as much as we have in children nutrition, right?

Tarun Arora: At least that. Our wish list is that at least that, maybe more, but we'll get there first, we have to get our fair share.

Umang Shah: Sure, sir. And sir, in facial cleansing segment, we have been present in this segment through scrub and peel-offs since many years now. But it's only last 2 years that we see a slew of launches in segments like facial masks and face wash, the anti-pollution, anti-tan range, et cetera. So, sir, what gives us this confidence right now to enter into this category in such an aggressive way, considering the fact that we are #5 in this market?

Tarun Arora: So, the good news is we were #7 in the overall facial cleansing. We have reached #5, and we are growing our market share. The growth on this brand is coming from the core, which is led by scrubs and peel-off. We launched tan removal in 2018, if I remember right. We had very good response during COVID. So, 2022, we had some drops, but we have recovered, and we are building it back. And we have also been in the process of launching more products.

So, we have seen the activity levels for us has gone up. In between, we also launched, which you probably missed, the body lotions. So, we have had every 1 or 2 years, a launch. Some of them have had fairly good success and each one of them have contributed to the revenue. So, we are quite positive about playing a larger role in skin care, led by more facial cleansing, but in other parts of the skin care through this brand.

Umang Shah: Right sir. Great sir. And sir, last question, if I may add. How are we positioning I'm Lite Sugar in the market? And what has been the feedback so far?

Tarun Arora: So, I'm Lite was launched only last year, because we had the earlier brand Sugarlite, which got into trademark issues. So, we are almost recovering. We are still a little behind, but most of the critical markets we have started recovering whatever we had on the earlier brand that we have built over 4 years, we started recovering closer to those numbers in key markets and key platforms, not fully there in a couple of them, but some markets, some channels, we have already recovered those numbers, so at a higher price. So, we are quite positive that in another 6, 8 months, we should be beyond the past and building forward on it. The proposition…

Tarun Arora: We believe it is still --

Tarun Arora: So, we obviously believe most of our brands, and this is practically while it's in the sweeteners' platform, it's a brand on its own right, should be sizable at least 3 figures eventually. So, it's a journey which we are doing. So first, let it cross those milestones and then eventually, it should have a 3-figure number, which is necessary for it to be. So at least 15%, 20% of the overall sweeteners' portfolio should come from this brand eventually.

Umang Shah:: Great sir. Thank you so much, and all the best.

Operator: Thank you. Participants who wish to ask the question please press * and 1 at this time. The next question is from the line of Lokesh Gusain from BOB Capital Markets. Please go ahead.

Lokesh Gusain: Hi, thanks for taking my question. So, it's on your margin guidance. So, 17% to 18% over the next 2 to 3 years, I am assuming FY '27 to FY '28. I wanted to understand the drivers for that, because in the current inflationary environment, commodities have obviously gone up quite a bit, and that's probably a base as well.

Your gross margin expansion slowed down to about 25, 30 basis points in the fourth quarter. So, while I understand percentage margin is a target, but maybe at this time, it's more about offsetting inflation, like just the rupee inflation rather than restoring percentage margins. So, is there any revision required in the percentage margin guidance that is 17% to 18% right now which was called out before this phase of inflation, I guess?

Tarun Arora: I would say this is a business objective that we have taken, because we believe to even invest back in the business, we need to make it profitable. And therefore, we are looking to 17%, 18% as a journey. We do recognize that there will be ups and downs. There will be inflationary points. It's been a volatile market. We have seen last year, the oil prices shooting up substantially, which are cooling down right now, and we have been able to pass in steps as a following measure on those costs. Now the milk is going up in recent few weeks, we have seen. So, some of these parts are part of life and part of doing business.

We are quite conscious of the fact that we intend to get there. We will, therefore, use our pricing power, mix of cost management actions to keep on the journey of gross margin improvement, which still has scope for another couple of percentage point improvement over the next couple of years. And remaining is to be a bit of operating leverage to get there.

That's how I would look at it. But I can't tie myself and say this is exactly what it is, and I'll change my guidance every time I face pressure. This is the intent, and our action is going to be guided by this intent. But we will not compromise short term, we'll not compromise on the growth actions. So you have seen part of our gross margins being invested in the growth as well through marketing activity. So that's a broad way we are envisaging our business to build up.

Lokesh Gusain: Got it. And then just a follow-up on that. First, for operating leverage, so wanted to clarify if you are going to maintain the A&P to sales ratio going forward since these are good categories. And secondly, are you assuming any certain level of commodity inflation when you are looking at a couple of percentage points improvement in your gross margins?

I know there could be quarter-to-quarter fluctuations, but palm oil was up quite a bit in December quarter and in March as well, but then cooling down. So, there would be that volatility, but then you must be building in some level of commodity inflation to come up with the 200 basis points improvement that you are looking for in gross margins.

Tarun Arora: So, I think it's a mix of product mix portfolio that we want to drive as an agenda. Second is large part of our business, we have been the leaders, we are able to pass on the prices. So, we do believe with the lag maybe we should be able to pass on the prices. The past challenges we faced between FY '21 and '23, which led to a large drop in gross margins, which we faced was a global issue where the commodity cycle was globally badly impacted, which impacted our ability to price up disproportionately at the pace it went through.

Going forward, we do believe better product mix, catching up on the commodity inflation should help us move this up. But any specifics will have to be dealt quarter-to-quarter. I can't give you more details than that today, but we do believe there is room for us to keep building further on that, especially for our top brands.

Lokesh Gusain: Got it. And the A&P then?

Tarun Arora: A&P, I think we have started hitting closer to our wish list percentage to sales. Maybe there is room for another 0.5% or 1% improvement, but that will play by the year essentially because it will be led by initiatives and what growth we can handle. So, I think we typically want to operate closer to a 13% (+/-0.5%) as a way to build our business.

Lokesh Gusain: Got it. Thank you.

Moderator: Thank You, before we take a next question, we will like to remind participants that you may press * 1 to ask a question. The next question is from the line of Agam Shah, an individual investor. Please go ahead.

Agam Shah: Yes. Sir, quick question. So, 2 things, depreciation has increased, and the employee count has also increased. So, I missed your earlier remark on that. So, if you can elaborate on that. And broadly, qualitatively or quantitatively, whichever you want to answer. So where are we seeing provisions here, let's say, 2030 or 2028 as the Company evolves? Thanks. These are my 2 questions.

Umesh Parikh: So, on depreciation, because on a consol level, we are depreciating the acquired brand from NIPL, Rite Bite and Max Protein for a period of 15 years. So that has led to the increase in depreciation in the brand. And about your second question, can you please repeat the question?

Agam Shah: On the employee cost?

Umesh Parikh: Employee cost has already been answered, but if you were to tell that of the acquired entities of the employee costs have been part of our regular payroll, and generally, such field force employee costs go and sit in the other expenses is not part of the employee cost.

Agam Shah: Okay. And my second question was, in terms of FY'28 or FY'30, if you can broadly talk on your terms of vision, where do we see the Company heading towards as an organization of whatever it can come in quantitatively or qualitatively?

Tarun Arora: So as a Company, I think there are 2 or 3 things that we would like to see over the next 3 to 4 years. I think first, qualitatively, we want to strengthen and broad base our consumer franchise. We are market leader, and therefore, we want to play a significant role in category development. And therefore, you would find our presentations reflecting our intent to increase the penetration level.

So, we want more consumers to come in the fold of these categories, and we, being market leaders, are playing the categories development role. So, we want to be a stronger, larger science-based, high-performing product business with credible evidence of performance in 2 spaces.

One is food and nutrition, which is like macro nutrients like protein, micronutrients could be vitamins, probiotics, several other factors. The other is, of course, calorie management, which is cutting calories through sweeteners or high calories through energy products that we have. So, food and nutrition is a very critical base, which we expect an expansion on.

We also want to expand our portfolio around personal care, where we are looking at both facial cleansing and eventual a larger play in skin care through Everyuth as well as the prickly heat, and its extension through Nycil. So, we believe that each of these have enough room for growth.

Put together, quantitatively, we would like to cross a benchmark of INR 5,000 crores, whether it happens in 3 years or 5 years is mathematics. But I think our actions are basically driven in franchise expansion and getting more consumers to the base.

We are also seeking to expand our presence outside India. We do believe there have been some challenges in our critical markets. Earlier, some African markets were under pressure. Of late, some South Asian markets have been under pressure. But having said that, we do believe that every 3 years, that business can double eventually getting to 8% to 10% of our portfolio.

So that's really the gist of our business. We have already talked about the bottom-line profile of the business, which we believe 17%, 18% can be done. So good profitable, sizable business as we enter in the next quarters.

Agam Shah: And just last question on the tax front. So next year, will be in tax or how is it on the tax front?

Umesh Parikh: So, FY '26 and FY '27, there won't be any cash tax payout. There would be certainly deferred tax liability on the tax front, but there won't be any cash tax payout.

Agam Shah: Similar to the current levels?

Umesh Parikh: You are talking about the deferred tax liability?

Agam Shah: Yes. So, for FY '25, also we haven't paid much, right? Similar…

Umesh Parikh: Yes, we won't be paying in cash tax up to FY '27.

Agam Shah: Okay. Got it. Okay, sir. Thank you and all the best.

Moderator: Thank you. The next follow-up question is from the line of Umang Shah from Banyan Tree Advisors. Please go ahead.

Umang Shah: Hi sir, thank you for the opportunity again. Sir, the channel inventory currently, especially in Glucon D and Nycil, is it significantly different as of now, compared to last May?

Tarun Arora: No, I think it's in line with what we expect the sales. So, we have a replenishment-based system and any challenges that we see are corrected fairly quickly. So, we expect in line in terms of days of our forward covers. That's how we work. So, channel inventory should be there.

Umang Shah: And sir, ideally, how much inventory since it is a seasonal product, ideally, what is the level of inventory that you are comfortable at the dealer level in terms of days?

Tarun Arora: So typically, there is a spike which comes at the start of the season. So, we start building the inventory. So typically, Jan, Feb, March, especially January and February, the distributors are carrying fairly high inventory, and we support them in various ways for the inventory buildup. Towards the May, June, the inventory actually starts dropping. So, the peak can go up to 40 days. When it drops, it comes down to almost 30 days, sometimes 20, 25 days level also. So, it varies. And also, it's a function of how the season plays out.

Umang Shah: Right, sir. Right, sir. Fair point. And sir, just last one thing. On the Sugar Free India website, we were not able to look at the D'lite cookies, while you have chocolates and sugar free and everything. So that was one thing. And second question was how have we positioned Sugar Free Plus as opposed to Sugar Free and a lot of things and how are we reshaping the brand in any way?

Tarun Arora: Sorry. So, thanks for the feedback. I will check it because we are also building our Sugar Free D'lite site, which will eventually capture a lot of our domestic and international portfolio on sugar free extensions, but I'll check on the cookies as well. So, your next question was how are we positioning Sugar Free Gold Plus versus Sugar Free Gold? Is that the question?

Umang Shah: Yes.

Tarun Arora: So, what has happened is if you go back to May '23, WHO had put aspartame in possibly carcinogenic, not enough evidence of grouping. And therefore, last year, we had moved out of aspartame to sucralose plus chromium, which offers a better experience to consumer with an added benefit of better insulin management, which the chromium offers. And therefore, the positioning is that it is more suitable for people who want to control their insulin levels while keeping the calories lower and not have sugar.

And it's been liked by a lot of diabetics because a lot of new consumers come through Sugar Free Gold Plus and many of them are diabetic. So, it's been received very well with both the consumers, new consumers as well as by the doctors.

Umang Shah: Got it, sir. Got it. Thanks a lot sir.

Tarun Arora: Thank You.

Moderator: Thank you. We'll take our last question from the line of Dhiraj Mistry from ICICI Securities. Please go ahead.

Dhiraj Mistry: Yes. Hi. Thank you very much, sir. Sir, my only question is regarding capital allocation that how should we think that whether there would be any inorganic growth going ahead, and in which category we can look for? And also, in that line, what would be the key metrics we look for, while acquisition? Thank you.

Tarun Arora: I think, first of all, we stick to what we have said over the last 2 to 3 years. We are not seeking acquisition for scale. That's one of the key tasks we did when we did with Kraft Heinz India acquisition. Right now, the only way we will look at acquisition will be bolt-on spaces which we believe are very good. We organically, would like to participate. Those are the spaces where we will evaluate acquisitions coming from.

So typically, something that we would have loved to do ourselves. The Naturell India is a classic example of we wanted to participate in protein and nutrition, protein-based nutrition. It fits in very well. It's a market leader, science-based product. So, we are looking for products which fit into our portfolio. and therefore, are synergistic with that, adjacent to our existing category.

Secondly, we are looking at which are relevant for India or outside India, which help us expand our base outside India, for example, something in Sub-Saharan Africa, Nigeria, et cetera, GCC or South Asia or even the Southeast Asia, wherever there is opportunity for us as a Zydus wellness to expand on. So, there is a clear geography space we have defined. There's a clearly product portfolio space we have defined.

And largely, the mandate we have right now, we would look at any acquisition to come forward will be from our internal accruals. We'll see if there is something disproportionate comes, but I don't see that in the current horizon. So, we will stick to this knitting for our approach to acquisition. And therefore, if you look at it, even Naturell is something which has been acquired from our existing resources, and that is the existing approach and our own ability to grow those organically. Those will be extremely critical for us to make it work.

Dhiraj Mistry: Got it. Got it. Any financial metrics that we would be looking out for the revenue side of, let's say, INR 200 crores to INR 300 crores or whether we will not be paying certain x amount for the acquisition?

Tarun Arora: So, we won't do anything very small, INR 25 crore, INR 30 crore, INR 50 crore. Chances are we'll not do that unless we are too excited about it, which is an exception. INR 100 crores, INR 200 crores typically does fit in. It gets consummated far more easily. There is a proof point of the performance and there is a headroom for growth. Those are typically spaces which we like from a bolt-on acquisition.

But obviously, these are evolving things. They are also opportunity based, but these are typically something which will get worked from us, our point of view. These are broad guidance but not cast in stone though. But these are something which work best for us.

Dhiraj Mistry: Got it. Thank you. That's it from my side.

Moderator: Thank You, Ladies and gentlemen, this is our last question. I now hand the conference over to the Management for closing comments.

Tarun Arora: Thank you, and we will see you in next quarter call.

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.