Marico Limited
Q2 FY22 Earnings Conference Call

October 28, 2021

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MR. PAWAN AGRAWAL – CHIEF FINANCIAL OFFICER, MARICO LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY22 Earnings Conference Call od Marico Limited. We have with us today senior management of Marico represented by Mr. Saugata Gupta – MD and CEO and Mr. Pawan Agrawal – CFO. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Before we get started, I would like to remind you that the question-and-answer session is only for institutional investors and analysts and therefore if there is anybody else who is not an institutional investor or analyst but would like to ask questions, please directly reach out to Marico's Investor Relations Team. I now hand the conference over to Mr. Saugata Gupta for his opening remarks. Thank you and over to you sir.

Saugata Gupta: Thanks. Good evening to all those who of you have joined the call. I hope all of you, your friends and family are keeping safe and healthy. I think, after six quarters we are having this call where my colleagues and I are together in a physical setting. It is very reassuring and a welcome thing.

I would like to start with a perspective on how the operating environment has shaped up over the last few months. It is certainly relieving to see COVID caseloads recede across the country. As India has successfully administered at least one dose of vaccine to 75% of the eligible adult population. We are grateful to the government authorities and all the frontline warriors who have worked tirelessly to achieve this feat. Mobility levels now above pre-pandemic level is gradually rising across all sectors of the economy. Positive signs are showing up on some of the macro indicators while the meaningful and sustained recovery will depend on maintaining the velocity of vaccination drive, employment growth and keeping inflation under check.

As far as the quarter is concerned, consumption sentiment in our categories largely held up but there was a moderation in run rates on a sequential basis, especially in rural and this happened towards the end of the quarter. While it is too early to call out any underlying trend, I would like to share our hypothesis for the same. Given that spending on out-of-home categories and services had plummeted sharply, the unleashing of the pent-up demand in this segment has possibly taken up disproportionate share of wallet as consumers increasingly step out of their homes. This coupled with significant inflation could have further impacted the share of spend on FMCG but I believe this is temporary. Also, the relative advantage of direct distribution enjoyed by larger players would have reduced as some of the smaller players are back on their feet. Even Nielsen data indicates a certain slowdown in recent times. However, we are not yet jumping to any definitive conclusion as retail audit pick up has yet to stabilize. Therefore, we would wait and watch for a few months before calling out any slowdown trend, if at all. We have had normal monsoons and government stimulus continues to benefit a large section of the population in rural

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which should help over the near to medium term. In addition, we expect continued overall economic recovery which should help stabilize consumption. However, the continued high inflation and the global supply chain disruptions are two definitive risk factors to watch out for. In most of our international businesses, in all geographies other than Vietnam, consumption or the market situation continues to be largely stable. Although there is cost inflation in each and every market, Vietnam had a tough quarter with severe COVID surge but we expect it to do better as curbs are being gradually lifted with cases coming down and vaccination picking up in the impacted areas.

I will now talk about the business performance in the quarter and the outlook going forward; in Q2, consolidated revenue from operations grew by 22% with an underlying volume growth of 8% in the domestic business and on a constant currency growth of 13% in international business. Gross margin improved sequentially but was under pressure year-on-year with vegetable and crude oil prices staying at elevated levels. A&P at 8% of the sales was up marginally as we maintained optimal investment across key categories and new foods, EBITDA grew by 9% and like to like PAT was up by 8%. Reported PAT was up 17% due to an exceptional item in the base.

The India business delivered 24% revenue growth with an underlying volume growth of 8%, 2-year CAGR was 9% and revenue CAGR 2 year was 15%. We continued to gain market share in more than 90% of the portfolio on a MAT basis. We also showed sequential market share gains in the same segments of the portfolio. GT was stable with rural staying ahead of urban. The alternate channels grew in double digits although the exponential growth pace of e-commerce have slowed down to some extent with part of the demand shifting back to modern grade which is showing signs of recovery and slowly going back to pre-COVID levels. CSD recovered sequentially on a year-on-year basis.

Parachute coconut oil registered 7% volume growth and market share gain of 180 bps in a rigid tax on a MAT basis and also gained sequentially. Copra prices up corrected sequentially with a supply outlook improving. Prices are expected to be in a narrow range. Owing to this scenario the brand is proactively passing on value to consumers through tactical consumer offers. We expect copra prices to be largely range-bound in the balance half of the year. Therefore, I think on the margin situation on Parachute, we are very comfortable. As we drive penetration in both core and non-core markets, we expect to grow volumes in the range of 5% to 7% over the medium term.

In the Saffola franchise, comprising edible oils and foods, we delivered a 46% value growth year-on-year. Saffola edible all had a muted quarter on a strong base of 20%, mainly due to trade destocking in response to volatility in edible oil prices. In the first two months of the quarter, there was significant expectation of prices coming down, which never happened and that led to a trade destocking. In addition to that, there was lower in-home consumption as the economy opened up. Vegetable oil prices remained at high level, the import duty correction has not yet reflected in the prices but we expect some correction in the coming quarters but it is also linked to crude. As you know that crude continues to reach higher levels every day. Saffola Foods grew by about 70% with base oats growing at 36% and the recent launches scaling in line with expectations. Saffola Honey is tracking in line and should exit the year at INR 100 cores run rate. Saffola Meal Maker Soya Chunks has exceeded aspirations so far and gaining penetration in key markets of north and east. It's now got a 20% market share in modern trade and also doing well in GT. However, Nielsen doesn't capture the market share in GT. It is well poised to scale up for the next year. Saffola Oodles also scaling up well in GT and MT and is regularly featuring among the top five best sellers in the pasta and noodles category on Amazon. We have taken learnings from the erstwhile Chyawan Amrut and relaunched the new Chyawanprash with a new mix in time for the forthcoming season. Broadly we are well set to deliver the INR 500 crores aspiration in foods this year.

Value added Hair Oils grew 16% in value terms, largely on the back of volume. The portfolio consolidated with 27% value share and 37% volume share with a market share gain of 40 bps on a MAT basis and some sequential gain versus previous quarter. Mid and premium segments showed stronger traction. While maintaining our presence in the bottom and the mid segments of hair oils, we aim to sustain double-digit value growth momentum over the medium term by focusing on expanding value share ahead of volume share by driving a richer mix and participating meaningfully in the premium segment through innovation.

Premium Personal care portfolio had its best quarter since the onset of the pandemic. Livon Serums is now well ahead of pre-COVID run rates. Male Grooming is steadily recovering. Beardo and Just Herbs tracked well in line with internal targets and acquisition assumptions. We remain positive on the growth prospects as discretionary consumption and out of home activities are picking up.

Moving on to international, Bangladesh had a stellar quarter with 16% constant currency growth. The performance of Baby care and Natural shampoo ranges along with core Hair oil portfolio continue to strengthen the diversification journey. The Southeast Asia business declined by 2% in constant currency terms. The lockdowns in Vietnam hit the Home and Personal care category while foods benefited from the in-home consumption tailwind. MENA business grew 20% on a low base. We have forayed into hair oils in Egypt and Foods in Middle East, thereby expanding the total addressable market in the region and boosting medium term growth prospects in

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MENA. South Africa had a stable quarter driven by the healthcare portfolio and the New Country Development and export business recovered well on a low base.

While the demand trend in the near term could be slow, we are certainly moving in the right direction in terms of our strategic priorities that will be key in establishing a sustained broad-based and profitable growth trajectory over the medium term. We are not seeing any roadblocks even in the near term on our portfolio diversification journey in India and the foods and our digital first premium personal care portfolio are making healthy strides along with rapid recovery of our discretionary portfolio. Likewise, the diversification journey in Bangladesh will continue to trend very well in the coming quarters along with some new green shoots of growth in other international markets.

Our number one priority is to strengthen the core power brands, drive premiumization across portfolios through innovation and infuse new energy in our brands through renovation from time to time. Right pricing will continue to be a key factor in our core portfolio to ensure volume growth. We will also continue to explore TAM expansion with our power brands. We are doing a great journey in Saffola in India and Parachute Advansed in Bangladesh and we will continue to explore these in other markets.

Secondly, we are enthused by the tremendous opportunity in value added foods, immunity and nutrition. We have tasted success in our initial bid to increase Saffola's addressable market and we are on course to reach the INR 500 cr. mark this year. We will continue to be aggressive in driving market share gains and market development on these categories we have forayed into as well explore a couple of new launches in early FY23 in order to build a INR 850 to 1000 crores portfolio by FY24. The confidence levels in doing this is very high.

Number three; we believe our efforts towards go-to-market transformation in urban and rural will enable us to maintain our competitive edge over the longer term. In rural we continue to enhance our direct reach by expanding our stockist network. In urban, we are sharpening our focus on the chemist and food outlets. We have launched a separate go-to-market model of our food business in three metro cities where we have segregated food outlets, deployed dedicated feet on feet and made specific investments towards merchandising, in-store visibility and promotions. We will extend this across once the prototype is successful and also experiment the same in chemist and cosmetic outlets later. We are also increasing leveraging automation and analytics to enhance the productivity of our entire sales and supply chain network.

Number four; digital is a key pivot for all consumer facing businesses today. We are consistently learning and building future ready capabilities, thanks to brands like Beardo and Just Herbs being in our fold, while they operate independently of the mothership. Both brands are tracking in line with internal aspirations and will enable us to effectively tap into what is likely to be the fastest growing channel. These capabilities will help us scale and broaden our D2C play through both organic and inorganic routes. We continue to aspire to build INR 450- 500 crores digital brand business by 2024.

Number five; we aim to maintain predictable double-digit constant currency growth in international business given the minimal exposure to volatile economies. We have renewed our focus towards expanding the total addressable market, especially in MENA and Vietnam which will enable us to deliver a broad-based performance over the medium term, in addition to Bangladesh.

Next, we continue to chase aggressive targets through institutionalised cost saving programs and refine our cost structures that allow us to remain competitive and deliver profitable growth. The sharp inflation in input costs has made cost management an imperative. While crude and vegetable oil prices stay firm currently, gross margins will move up sequentially in Q3 and Q4. However, the improvement in operating margin is likely to play out only in Q4. This is because of two counts. First, while we have been able to maintain an optimal share of voice and visibility without significant increase in ad spends in the last few quarters, we must note that A&P spends are likely to rise in the forthcoming quarters given more media clutter and everything opening up. Secondly, the second round of cost improvement measures, which we initiated in Q2, will only start giving accruals in Q4.

Last but not the least; Marico is committed to safeguarding the interest of its stakeholders. Our ESG agenda to be an irreplaceable part of our ethos. Recently we adopted a hybrid working model to build locational and flexibility requirements for the millennial workforce of today. We are also immensely proud to launch Marico's Inclusion and Diversity council and charter that reinforces an equally diverse and inclusive workforce in terms of skills, ethnicity, nationalities and gender. We aim to maintain best in class governance standards which we believe provide the structural framework to shape a sustainable future.

We believe that as long as we stick to these fundamentals and adapt to the vagaries of the operating environment with agility and innovation, we can stay resilient and deliver 13% to 15% revenue growth over the medium term, on the back of 8% to 10% volume growth in the India business and double-digit constant currency growth in international business, while keeping our operating margin above the threshold of 19%. However, in H2 of this year, in view of the current conditions and the very high base of 15% and 25% in India, we are looking at double-digit revenue growth with mid-single digit volume growth in India at this point in time. This will also

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translate into a healthy double digit 2-year CAGR in volume terms. And we might also see a movement to a high single digit volume growth in Q4, if consumption situation does not worsen.

I would like to close my comments by conveying my gratitude to all Marico members and associates for their tremendous spirit and resilience through these challenging times. We hope to keep moving ahead together to build an even stronger and lasting ecosystem by staying true to our purpose of making a positive difference in the lives of all those we touch along the way. Thank you for your patient listening and we will now take your questions.

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: Just one data point, first can you give some idea on what is the volume growth for Saffola oils business.

Saugata Gupta: It's very muted.

Percy Panthaki: But not in the negative territory, right?

Saugata Gupta: No.

Percy Panthaki: Secondly, just wanted to understand in the digital brands, we have only one brand of material scale which is Beardo. The others are really very small. What really gives us confidence that we can go to that 400 to 500 mark? I understand it's good to have a vision or ambition. But at this point of time what is the level of confidence of achieving that vision or ambition? Just like you said in foods 850 to 1000 seems like there is a high level of confidence. How would you rate your level of confidence in the digital brands reaching that target?

Saugata Gupta: Just to give a perspective, yes you are right, Beardo is going to exit at a run rate of 100 crores. Now if you look at even Just Herbs, it will get into a reasonable high-scale. Therefore, I think what we will be able to share is our exit run rate in Q4 and we have a certain milestone to bridge. We have a reasonable amount of confidence there. I think that should be able to give the confidence in terms of our ability to reach that 450 to 500 cr. But as the things stand now in terms of sequential growth, Just Herbs will get scale by the end of the year.

Percy Panthaki: And lastly can you give some idea on the moving parts on your EBITDA margin going ahead in terms of either any pricing actions that you would need to take the cost environment, ad spend

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already you mentioned will go up. What would be the moving parts, if you can discuss these two or three moving parts as well as some idea on the overall EBITDA margins at the consol level?

Saugata Gupta: Let me give you a broad perspective. Now, the first thing is when it comes to cost, copra is under control and we believe it is going to be range bound. As far as edible vegetable oil and crude is concerned, it's a very difficult one to guess and we believe that the earliest softening that can happen could take a quarter or so at least. There is some visibility in Q4. And as I said that we were expecting some softening in Q2 but when it didn't happen, we initiated one more round of cost saving measures. Last year we did structural changes leading to 150 to 200 crores of costs being taken out. Now we have started the second round and while we have visibility of those measures, I think we are going to accrue those only sometime in Q4. Therefore, just as there wa a 140 basis points improvement in gross margin, you will see sequential improvement every quarter from now on, especially given the fact that copra is reasonably under control. The EBITDA margin improvement we'll start seeing in Q4 because we believe that there could be at least a 100 basis points increase in A&P. As you know that, as the market has opened up plus you have IPL, you have T20 World Cup, to maintain the certain SOP, the ad spends have to go up. Plus, we have also started spending on the discretionary part of the portfolio. Given the fact that we'll be spending higher on A&P, the gross margin you will see sequential improvement every quarter, but the large part of EBITDA improvement will happen in Q4 onwards. The visibility of the cost improvement project which we started in Q2 we already have a visibility of that but the approval will start sometime in Q4 only.

Percy Panthaki: And overall EBITDA margin guidance remains unchanged?

Saugata Gupta: Yes, the medium-term EBITDA margin guidance of a threshold of 19% remains unchanged.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Couple of questions, so first is on the disclosures, if there is one thing consistent in FMCG or staples is your disclosure and that has been the case for 15 or 20 years. Now last quarter you discontinued Saffola volume growth. This quarter you have discontinued VAHO volume growth. What is the sudden thought process change over here and what is it that we should expect as we go forward?

Pawan Agrawal: It's not that we are cutting down on disclosures or transparency. There are specific reasons as to why we are not giving certain things in the public domain. Let me first talk about VAHO. In VAHO, we have significant delta currently in terms of our volume and value market shares and to bridge this gap we are internally moving from volume targets to value targets as the key performance metric. So, this is a step towards driving premiumisation KPIs in the portfolio and thus what we are doing is that we are aligning our external communication with our internal management KPIs. Moreover, there is not much of a difference in volume and value growth and that is the reason we think it better to stick to value growth reporting. Saffola, in fact, we were discussing in the last quarter also. With the extension of the brand Saffola to multiple foods categories beyond Oats and edible oils, we have actually expanded the overall Saffola foods total addressable market to nearly 5000 crores. We also expect that disproportionate growth in this franchise will be led by value-added products in the foods and immunity categories. Therefore we see merit in reporting growth for Saffola as a franchise. Moreover we also believe disclosing volume growth of Saffola oil specifically works to our competitive disadvantage and therefore we would rather not disclose the same and we keep giving broader indication. So that is the thought process. I think apart from that if you look at our disclosures, it will still remain in the top quartile in the sector and we stick to that.

Saugata Gupta: Just to add, we did a net revenue management exercise in the organization last year where we have now changed the KPIs. One of the things which we realized is that obviously premiumization in VAHO has to play a role. So, what we have done is internal KPI in which the management is measured is now going to be value growth where we have just aligned it and I don't think you will see any more changes from there because we have just done the alignment. We will continue to indicate the volume growth and volume share. I can assure you that is something which we will continue to indicate and in VAHO actually there is hardly much difference between volume and value growth really. So, it's just that all internal and external KPIs are now aligned because otherwise it's very difficult to have two different KPIs, one external and one internal. I don't think you can expect anything more, it's more or less done. It is a part of the NRM exercise which we did with one of the large consulting firms last year.

Vivek Maheshwari: That doesn't change the medium term 8% to 10%?

Saugata Gupta: Not at all. Are we going to stop chasing 10% volume growth in VAHO, the answer is no. We will continue to chase 10% volume growth in VAHO.

Pawan Agrawal: It's just that there has to be alignment with respect to what we are tracking internally and what we are reporting externally.

Saugata Gupta: As I said this time also, we have disclosed that Saffola volumes are muted. So, we will not stop from giving you an idea of how are they doing. You need not worry on that front at all.

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Vivek Maheshwari: That's reassuring. I think just with due respect to Pawan's point, I would just like to correct you; you are not in top quartile. You are number one in disclosures as I always state. So, looking forward to the same thing in future as well. My second question is on the EBITDA margins, Saugata. When you say that fourth quarter will show up some of those benefits, the measures that you have taken but is that also because of base issue because last year when I look at your fourth quarter margins, those were at about the 16% at EBITDA level?

Saugata Gupta: I am talking about the absolute margin and not YOY growth. The other reason you must realize what is happening is, it's also the denominator effect which will also start neutralizing. When you have high inflation, the denominator goes up and therefore if its inflation led top line growth, the margin automatically reduces in percentage terms. That will get neutralized and we are also expecting that I think someday the crude and vegetable oils will also start stabilizing. Right now, we are facing three challenges, let me tell you, out of which one is crude which is impacting LP, packaging and vegetable oils. Thankfully, we have a minor issue, but I am sure other brands in personal care globally will face a bigger challenge. We have a similar situation like semi-conductors, on silicones, because of the energy crisis in China. Silicones have gone up 100%. Now, fortunately we only use that in serums, we don't have much shampoos and other categories in personal care. So, there is one hit after the other. If I look at even vegetable oil, the crop across the world has been good. So, right now the inflation is led more by crude but as you know that if crude prices go beyond $65 or $70, then there is a diversion into vegetable oils and in petrol, they add 10% to 20%. I think that is supporting, but in terms of the output of the crop, whether it's in LATAM or Europe, the crop is decent. We expect veg oil someday to correct sometime in Q4. We were expecting the correction in Q3. Unfortunately, in spite of the duty cut, with crude suddenly going up, this never happened. I think it's a combination of all this and we believe that you will start seeing the medium term targets happening by Q4 or Q1 definitely. The good thing is that South-West monsoon has been good. North-East initial indications seems okay and therefore copra next year also will be comfortable.

Vivek Maheshwari: When you talk about Beardo turnover, 100 crores exit or 450 to 500 crores by 2024 of D2C. These numbers, when you talk about, these are accounting revenues or so called GMVs?

Saugata Gupta: Unfortunately, I wish I could have done this. Then I would have been having a valuation 5 times GMV and 1000 crore valuation of Beardo. But, unfortunately, we have to go by net realization.

Vivek Maheshwari: Beardo 100 crores net?

Saugata Gupta: Yes, net revenues, which is unfortunate part of it. We don't have the luxury of GMV. I wish my Board would have allowed that.

Vivek Maheshwari: Very small question on Chyawanprash. You have mentioned and the release also talks about Chyawanprash the mix reformulation or whatever, was it a mix related issue? Because I am guessing at that point of time when you launch there was a fair amount of science which got into it. I would have imagined it would have been more about customer off-ticks because there are some entrenched players in that space. So, mix itself can that product formulation?

Saugata Gupta: Let me address this issue. We wanted to give a differentiated product. Now as per norms, we can't call it chyawanprash, so we called it chyawanamrut. Now what happened is consumers didn't quite understand it. Number two, in terms of the packaging and the market, we tried to go head on and now we have a different strategy. It's modern Ayurveda, Saffola is a modern brand and what has happened post COVID is that earlier the significant dominant consumption of this category was in the Hindi heartlands which has stayed on, although the growth rates of these categories have gone down. Post COVID, there is now adoption of this category in West-South and amongst higher LSM consumers. And this is where Saffola comes in and if you see this packaging is differentiated, its far more modern. And we believe that given our experience in honey; for example, in honey, where we still have +20% share in e-com and nearly 10% share in modern trade, we know how to play these categories in these two channels. I think we started out trying to do GT in one or two markets. I think we have completely revamped this strategy and we believe by doing this, our resource allocation and our channel strategy is far more focused, which is our strength as opposed to places where we don't have a right to win. These channels now have a critical mass, which didn't happen when COVID had just struck. So, let's wait and watch. As I said that I think we have done four-five things in food, you have a certain success rate and therefore we should have the appetite of some failures. But we are determined to make it a success. The resilience in the team and our ability in foods has improved by at least 10X times. So, even if we fail, we stumble, we will get up and start running again until we get the success.

Moderator: The next question is from the line of Prakash Kapadia from Anived Portfolio Managers.

Prakash Kapadia: VAHO, despite the low base growth seems to be slightly on the lower side. Is it fair to assume with opening up of work, offices and the entire unlock, this should grow at a much faster pace in the coming quarters?

Saugata Gupta: The base is 4% and you have to look at from a run rate basis. On a run rate basis, it's fairly healthy on a sequential basis. So, there has been a double-digit volume growth and as I said that out of the 16% largely it has been volume growth led which is a double-digit volume growth. Also, what is most encouraging is it's a broad-based growth where some of the mid to premium brands have also started showing growth. As you know historically, between '18-19 and '19-20, we had growth largely led by BOP and Shanti Amla where we had an issue with some of the other brands. Now all the brands are growing, it's a pretty broad-based growth. I believe that we still have a task to do at the top end, which is hair fall and others but that is something we are determined to do because that will start bridging that volume and a value share gap. I don’t think in terms of a run rate there is any concern as far as value-added hair oils is concerned. As I also alluded to it, if you look at all HPC categories, especially rural, it has shown some kind of a slowdown in August-September. This is the data as per Nielsen also which is showing some rural slowdown in all HPC categories, but slightly less in foods.

Prakash Kapadia: You mentioned about some of the cost initiatives, which will show up in Q4. Can you quantify a number for FY22 and which are the areas?

Saugata Gupta: No, it’s not possible. We keep looking at costs. It’s a very institutionalized approach in our organization. And as I told you, in between the last 18 months, we had taken anything between 150 to 200 crores out because if you look at the inflation, the inflation is anything between 600 to 800 crores, if you add everything. That's the kind of inflationary hit we have had. In spite of that, we are holding on reasonably well. That is because we have had these things. To be frank, we never thought that there will be one more surge of inflation which is crude and vegetable oil in Q2 which started happening in August. We have started a series of measures. We have the visibility of those initiatives but since some of them take time, it will start accruing it Q4. As I said that, while in Q3 the sequential gross margin increase will get neutralized by A&P. In Q4, these measures along with the sequential gross margin growth, gross margin movement will actually lead to a leg up in EBITDA margins in Q4.

Prakash Kapadia: We have always maintained, taking calibrated price increases and focuses on maintaining volume growth and market share. On the domestic business, given whatever has happened on the input side, what kind of a price hike would have we taken at a domestic portfolio level? If you can share a number?

Saugata Gupta: You have to see the volume value difference is 8 and 24. The price factor is 16%. Obviously, it varies from brands like in Saffola, where it has been as high as 50% almost.

Prakash Kapadia: Just one data keeping question. What could we be the CAPEX for next year?

Pawan Agrawal: Will be about 150 crores odd.

Moderator: The next question is from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra: My first question was actually on Saffola edible oil volume. So, this quarter, muted volume growth as you mentioned; in your assessment, how much of fixed could be due to the state destocking issue. Why I am asking it is, ever since the pandemic started, we have had six-seven quarters of very high growth. Do you see this as a situation which could last for many quarters as we can go back to their normal life or is it lot more to do with the trade element of component of destocking?

Saugata Gupta: Let me give you a flavor of it. The STRs in trade has definitely come down around 3 to 4 days. As you know, in edible oils, the STRs anyways are thin. So, percentage STRs are quite significant because people don't keep more than 7 to 10 days stock because the reason is that we are anticipating every week that there will be a fall. The second thing that has happened is, in terms of the channel mix, while modern trade growth in Saffola has not got compensated because e-com has come down. With the economy opening up, we believe that the total consumption at high LSM households, which are Saffola consumers, have gone down. Lastly, now we will have to get data whether that we believed that this continuous high inflation in prices could potentially slow down adoption into the brand but we are waiting and watching on this because as you know, the second half also has a 17% of volume base. Having said that, once prices start softening, which should ideally happen sometime in Quarter 4 or definitely next year Quarter 1, things will come back to gradually to normal.

Arnab Mitra: This carrying on from one of the previous questions. If your Saffola volumes are going to remain muted in the near term and the base for VAHO is definitely higher and you had a very strong pickup last year, second half. Do you we feel confident about that mid-single digit kind of a number, especially in the context of, as you have mentioned some form of a rural slow down also coming through. Or is there a risk to that number also, if the current situation continues?

Saugata Gupta: Let me just break it up. We don't see any issues in Parachute. As far as VAHO is concerned, while the base growth is high, in terms of run rate and the given the fact that we are now having broad base growth and especially in the mid to premium brands, I think we will be able to deliver this double-digit value growth which we have taken into account. Foods again, doing well, and we are seeing a recovery of the discretionary. So, even if Saffola continues to remain muted and that is the reason, we are indicating a mid-single digit as opposed to a high single digit which we were earlier gunning for. I don't think there is any stress in what we are looking at currently. Now this so called slow down, we have to wait and watch because if I look at other economic indicators, they are fairly in control. The monsoon has been good. So, as I said that it could be two things and I am talking of the sector and not specific to us. It could be that there was in June and July a lot of pipeline fillings which did not translate to that kind of offtakes. When things opens up and there is high inflation there is a challenge in the share of wallet between out of

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home and the fact that there is inflation in food, inflation in petrol, transport and all that. I think if things stabilize, fundamentally the reason we are happy about is that all our brands in terms of brand equity, health, penetration, distribution, everything is in order. I think that gives us the assurance that while we have been giving you a cautious outlook compared to earlier, there is no stress there.

Arnab Mitra: My last question was on the new Saffola food categories. The first big success outside of Oats is honey just wanted to understand the journey of distribution expansion, how you entered into GT, what kind of distribution do you have there? And I see uptakes in GT, if you haven't entered in these areas or is the brand still very much econ modern trade and it will remain so for at least the foreseeable year so?

Saugata Gupta: I think we have started our GT expansion and as I also alluded to that given now we have critical mass in foods, which should be hitting INR 500 crore, we are also starting a differentiated GTM for foods in three metros, which we will extend subsequently. I believe in the high weighted distribution outlets today, honey is present and the next leg up in growth will be through GT because I think we have had significant gains in both modern trade and e-com. Soya chunks is actually a significant GT product. Therefore, while we have 20% share in MT, in West Bengal which was our test market or prototype market, we have a very high presence in GT and significant distribution. I think now the journey is going to be significant investment behind food GTM in GT and we expect the next growth to come from there. Even if we have to succeed in Oodles, we have to move and get a critical mass, therefore in the high weighted distribution outlets in Foods, we will definitely have a significant presence and investment.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: I have two questions. The first question is that, you said you are seeing this strain. Is there any specific pockets you are referring to say middle India or it's in general you're saying this comment?

Saugata Gupta: There are certain pockets but as I said that see this is something which started happening towards end of August, we're seeing it in September and it continues. All I can say is it is better in the South. I can tell you South is not that impacted.

Shirish Pardeshi: The other question I have, you play to target about 500 crores from the digital brands next 2-3 years, if I do quick maths it's roughly about 5% of the business which you are targeting from this channel or maybe products. So, your commentary what you're saying single digit looks little lower or are you being trying to be more conservative?

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Saugata Gupta: The 500 cr. target is by 2024 and by that time I think turnover of the company will be higher than 10,000 crores.

Shirish Pardeshi: Ok, I understand, just one follow-up on that and that's my last question. This 500 crores that you're targeting, will it also have the impact on the margin movement on the positive side or it will you will keep on investing?

Saugata Gupta: I think the gross margin obviously of this portfolio will be high. I think we have a strategic funding policy, which is where we invest a certain percentage of our PBT into strategic funding. Now that policy remains the same. It's just that we are investing in digital brands. So, I don't see any significant impact on that, but certainly this will positively impact the gross margin.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: I have two questions. First one is on the new go-to-market investment that you've made in food business. I just wanted to understand, is this a precursor to probably over the next say 12 to 18 months even more new brand launch or looking at new products to kind of get you at 850 to 1000 crores target and enhance to kind of building this up over and above the fact that you want to build GT into the existing brand as well?

Saugata Gupta: I think one thing we realized that, our current strength was modern trade, e-com and grocery. Therefore, when Foods got launched our right to win in modern trade and e-commerce is very high and we established significant share. If you look at penetration of oats and savory oats it's still consolidated penetration. Now that we have range of foods, it makes sense because replenishment, selling in pieces, managing stock freshness, etc. are different skill sets and in the current set up, the last mile distributor sales force or the current set of merchandisers may not be equipped to handle specialized food outlets, which today, are largely open format and need a certain level of servicing, which could be even twice a week. Therefore we have set this up. Secondly, yes, we are looking at entering one or two more categories. Also, we believe food GTM will become an attractive proposition for potential startup acquisitions, because they will now have ready-made GTM to scale up and tomorrow we can look at even acquisitions in the food business.

Harit Kapoor: The second point was on the VAHO business, now that you've got the mid-premium and premium business also kind of firing and it's broad-based growth, you know assuming that you continue to do well here and probably add new products here, is there a view that maybe within the next 2-3 years structurally the margin profile of this business, especially in the gross margin levels can be higher for the overall India business?

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Saugata Gupta: I think you're largely right, given that a significant part of the growth of VAHO was led by Shanti Amla and since we have a discounted price strategy and also the fact that the significant action in the market in the previous 2-3 years happened in the bottom of pyramid, which is mustard, etc. Now if you ask me, a substantial improvement will happen only when we have a significant presence in things like hair fall or a premium Almond kind of an oil or we get into premium segments with WOW, Mamaearth and those kinds of brands. I think it's a journey I will think it will happen in two stages. First, the fact that we have stabilized the mid which is premium for us but what is not still premium for the market. The next stage has to be participation in premium with a far better presence in hair fall and some other segments there. So it definitely will happen in phases, but you're absolutely right, one of the reasons we have changed the KPIs to value growth is to focus and endeavor to improve the margins in that part of the business.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: Can you give us a sense of how inflation playing out in international market and whether you have enough pricing power to offset that and secondly in terms of Parachute will there be in terms of price increase, how much further price increase you think you need to take assuming that, the input cost inflation does not change from here? Just to assume that if you were to take it to offset the margin impact, how much price increase?

Saugata Gupta: I think the international market given the portfolio is completely different and also as you know that in Bangladesh and other markets, the Copra is sourced from other markets. While there is inflation, impact is a little less and therefore we have managed wherever possible and we don't see any significant margins strain there. Obviously in some of the places where we export some of the Indian products, there will be some impact. But largely I think it has been contained, as you know last year also, we did significant exercises in cost management especially in Vietnam and some of the other markets. So, as you know that there has been a significant diversification of our portfolio in Bangladesh which includes shampoo, baby and other things which are not so input cost heavy in terms of commodity, so I think we are in a fairly okay space in that. Coming to Parachute actually Copra has sequentially reduced and therefore we have taken little bit of a price correction. There's an 11% sequential reduction in copra prices and as you know that we are very clear now we are being extremely proactive in managing prices because we have learned the lessons from the past. We have actually taken tactical price promos in September and even now as we speak.

Aditya Soman: There would be some inflation because of the packaging materials but do you feel that the reduction in Copra prices sufficient for you to offset on the cost?

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Saugata Gupta: I think its fine. I'm talking about the total cost, so if you look at the total cogs it has sequentially reduced.

Moderator: The next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah: My question pertains to margins and not in the near term but medium to long-term. This is led by the mixed changed which may happen based on our thrust on increasing thrust at least what I'm picking up the last couple of calls on the food part of the portfolio. Do you see that as the personal care buyers comes down in the portfolio, there'll be volatility also increasing and the margin profile at the company level also might change as we go along on this path?

Saugata Gupta: I think there are two elements to it. In the medium to long-term the food portfolio will certainly have an accretive gross margin compared to Saffola edible oil and therefore as and when the dependence on food keeps on increasing, the overall Saffola blended margin will increase. The second thing is there are two other drivers of growth. One is we have talked about the premiumization of hair nourishment and increasingly in VAHO we want to look at value growth. Secondly, the digital business we spoke about will have a higher gross margin. Thirdly, I think we believe now that COVID caseloads have stabilized to a large extent, some of the drivers which were stagnating, like male grooming; serums and other parts of the business will also start growing. If I look at the delta of topline coming from these versus foods, they are more or less aligned and therefore, we believe actually the blended gross margin will improve because we are reducing our dependence on commodity and pricing driven businesses, basically Parachute Coconut Oil, Saffola and Shanti Amla which is a price point driven brand. So, the proportion of these three to the total sales will actually come down and our problem as I said therefore that will also ensure that the volatility is slightly lower.

Tejash Shah: Second question on digital first brand portfolio. So today when we look at the portfolio does again personal care heavy. So, is that platform not suited for food launches or D2C experiments there or as of now we are consciously focusing one part of the portfolio only?

Saugata Gupta: If you look at the unit economics, it is far more conducive to personal care because you need a AOV of $8 to $9, you need a CM 1 of 65%-70%, and you need a high ACOS. ACOS is usually 100% in year one for any successful D2C brand, and then drops to 80% and 50%. So, this kind of unique economics it's very difficult. It's perfect for a brand which is INR 350 to INR 500 with a 65-70% GM. This is very difficult for other than you know the kind of products which are high on nutrition or very specialized foods. But if you look at food brands, easier crossover can happen with availability in modern trade and specialty food outlets versus a D2C brand, where I think the crossover to brick and mortar can happen only after 60-70 crores of NR or 100 crores+

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of GMV. I think that's the difference. Therefore, to have 60% gross margin food, there are brands today in the space that do it, but then what happens is that total addressable market becomes limited and in foods our focus is far more on scale.

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

Pawan Agrawal: Thanks a lot for listening on the call. To conclude, we had a satisfactory quarter 2 performance with largely broad-based growth both in India and international markets. However, the demand trend in India in the last month or so keeps us watchful in the near term. While there is a comfort around copra prices, high inflation in other raw materials will put pressure on the margins and that can lead to modest profit growth in second half. If you have any further queries, please feel free to reach out to our IR team and we'll be happy to address the same. That is, it from our side. Wish you all a great festive season ahead, please stay safe and take care.

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

(This document has been edited to improve readability.)

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