"Marico Limited Q3FY14 Earnings Conference Call"

January 31, 2014

MANAGEMENT:
MR. MILIND SARWATE – GROUP CFO
MR. SAUGATA GUPTA – CEO
MR. CHAITANYA DESHPANDE – EVP AND HEAD M&A AND IR
MR. VIVEK KARVE – EVP AND HEAD CORPORATE FINANCE

MODERATOR:
RAKSHIT RANJAN – ANALYST, AMBIT CAPITAL

Moderator: Ladies and gentlemen good day and welcome to the Marico Limited Q3FY14 Earnings Conference Call hosted by Ambit Capital. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you.

Rakshit Ranjan: Good evening everyone. We welcome you to the conference call of Marico. We have with us the senior management team of Marico led by Mr. Saugata Gupta – CEO; Mr. Milind Sarwate – Group CFO; Mr. Chaitanya Deshpande – Executive Vice President and Head of M&A and IR; and Mr. Vivek Karve – Executive VP and Head of Corporate Finance. I will hand the call over to Mr. Milind Sarwate to give an overview on the quarterly performance and then we will open the call for Q&A. Over to you sir.

Milind Sarwate: Thank you Rakshit. Good evening everyone. Welcome to the earnings call for the third quarter of FY14. You would have received our information update and I hope you would have been able to go through the highlights of this quarter. I will repeat a few for the sake of jogging your memory.

This has been a quarter in which our net profit went up by 31% and our operating margins expanded by 217 basis points. But there were a few underperforming areas such as our volume growth which was on the lower side however we have continued to hold our market shares. We have continued to grow in core areas. The fall in the growth rates of the consumer sector might have bottomed out and in the coming quarters we might see a better growth. This quarter, we launched Livon conditioning crème colour in the hair care segment; it's a new offering, we will have to watch and observe its performance as we go along. We believe that we will continue to be present in categories where we have a right to win and which are replicable in our other geographies.

Our rural growth and modern trade growth both were commendable; they were both in double-digits during this quarter. In Bangladesh we entered two new categories one was deodorants and the other was edible oil. Egypt and Vietnam have continued to grow well; Egypt on the back of its performance which was not so well in the financial year has done well. We have declared an interim dividend of 100% in this quarter; this takes the total dividend during the year to 175% and so with these few highlights I open the call for questions from you, thank you.

Moderator: Thank you very much sir. We will now begin the question and answer session. First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the volume growth in your hair oil businesses. We have seen a marked slowdown across the industry and so we have seen a lot of price hikes in the coconut segment.

How you are seeing volumes going ahead? You see the marked slowdown continue for a fairly long time?

Saugata Gupta: There has been a significant increase in input costs which have necessitated a price increase of around 13-14% in the Parachute franchise. We believe that going forward we might not need any further price increases because what is most important is to get volume growth back. What has perhaps happened with respect to the Parachute slower growth is that we had a significant decrease in input cost prices and perhaps we were slightly late in decreasing our price points which affected volume growth. Then it was followed by a sharp increase in input prices and therefore we took a few rounds of price increases just when the price decrease was just about settling down. So there has been tremendous volatility in the market with multiple price points. We think that the market was trying to settle down; however, there is one significant difference between the last time where we immediately got volume gains during inflation versus now where there has been significant food inflation and therefore volume gains haven't come thus far. Now what happens in a food inflationary scenario is that down the population strata, food is a significant portion of the consumption basket and therefore brings pressure on the share of wallet of personal care products. That is why this time we have experienced some pressures in getting an immediate uptake of volume growth. Having said that, we believe that the worst is over and we expect the Parachute volume growth to climb up in the next couple of quarters to 5-6%.

Abneesh Roy: Just a follow up on this. Three price points at very close timelines to each other but we haven't seen volumes grow for the listed entity. So these volumes would have gone to the unorganised players?

Saugata Gupta: In a soft consumption environment, the category growth is not significant. What has happened is that a significant source of volume growth, which is to come from up trading from a loose to branded has decelerated. That's the reason perhaps we are not getting uptake in volume growth.

Abneesh Roy: Just one more follow up on this. Is your hypothesis of a slowdown in hair, is there any reason to worry this time because in Indonesia we have seen the hair oils category slowed down significantly over the years and this time in the slowdown if you see hair oils have seen the brunt. So are you unduly worried that when customer is cutting on discretionary consumption, hair oil seems to be at the top of his table, so is there any concerns over the sustainability of hair oiling habit in India?

Saugata Gupta: No, not really. In items which are slightly more premium, there has seen perhaps a sharper deceleration and items of more mass consumption have seen a lesser deceleration. So, I don't think that hair oils have seen a significant drop. Yes, there has been a little bit of volume drop versus the historic double-digit growth, but that has happened in the entire FMCG sector and something which is not pertaining to hair oils alone.

Abneesh Roy: My second question is on the Paras portfolio, 13% growth rate, if you could tell us within that three sub-segments how the growth has been and similarly on the oats and your food business, if you could give us some more details?

Saugata Gupta: As far as the oats and the food business are concerned, we are tracking well. We will cross Rs. 60 crores of sales this year. We are the number two player and our entire focus is on the value-added space where we have a significantly superior and a differentiated product and will continue to innovate and expand that category because we believe plain oats is commoditised. We expect to hit around Rs100 crores in the foods business in FY15. As far as youth is concerned we have grown 21% on a YTD basis like-to-like including the Reckitt Benckiser sale of April and May to the base. This quarter has been a little soft primarily because of the fact that some of the category growths which have been high have slowed down a bit this year. Having said that, we are fairly confident that, with a much more powerful innovation programme, the growths will be back from 13% to 20% plus over the next one year. Maybe one or two more quarters will be soft but we are pretty confident of getting it back to 20% and with that kind of a growth we will be tracking around acquisition assumptions.

Abneesh Roy: One follow up on this, Rs 60 crores number or Rs100 crores how much will be oats in this?

Saugata Gupta: Plain oats you are talking about?

Abneesh Roy: No, overall masala plus plain.

Saugata Gupta: We are not trying to give a break-up but the skew is moving significantly towards masala oats because that is the value-added part of the game.

Abneesh Roy: My last question is on Bangladesh. All companies have been impacted this quarter and so now the elections are over so what’s the sense you are getting in terms of when normalcy will come?

Saugata Gupta: I think while there is an uncertainty, we believe that the worst is over. You must also realise that we are reasonably entrenched in Bangladesh and managing volatility and uncertainties is a way of life. What we intend to do is to make significant investments behind innovation and marketing to diversify the portfolio. We have taken small steps whether it’s in hair dyes, value added hair oils, hair serums, edible oils or deodorants. But what we intend to do is be far more aggressive in expansion and diversification of our portfolio notwithstanding the political uncertainty because at the end of the day if the GDP growth is 4% to 5%, CPG sector should grow twice at GDP and an aggressive player should grow more than that. So we have to take this in our stride and build it into the base. Uncertainty is inevitable in doing business in emerging markets and we have to get back growth. So, I think we will be in an investment mode in Bangladesh and we will have a sharp innovation programme. In the last one month things have been slightly more stable than what it was perhaps in the October-December quarter.

Abneesh Roy: One last maintenance question, ad spend was very low this quarter around 100 bps quarter-on-quarter and 270 bps YoY, I am comparing like-to-like. So was this a conscious measure to prop earnings or why because I am seeing innovations also happened this quarter? Why we have done this and do you see next quarter itself the number revising to the more normal rate of 12-13%?

Saugata Gupta: Well some are phasing issues because I believe on an annualised basis we should be spending in the region of 12%-12.5%. Three things happened, there was a phasing of innovation spends in India because one big-ticket innovation is being launched as we speak now, which is the Livon hair colour. In the case of Bangladesh, because of the political uncertainty we actually decided not to spend on advertisements as much because we were not sure of how much we will be able to serve the market and what will be the availability situation. Thirdly, in Vietnam some of the innovations are happening in quarter four. So, the medium-term outlook of an operating margin of 14-15% is something which is sustainable. Also, we must realise two things have happened; we have undertaken a huge cost transformation exercise in the India business, which we are replicating in the international business and one part of that cost exercise is actually a serious evaluation of all our trade spends and consumer spend. So one of the things we also did this quarter was reduce some of the consumer promo spends especially in Parachute. So, going forward I would say that in the international business there were significant step jump in operating margins from last year, some of the gains are here to stay but I think more 14-15% operating margin is sustainable while we pocket some of the gains and plough back the rest in driving aggressive innovation. Towards that, we are building significant organic growth capability as opposed to just focusing on acquisition integration.

Abneesh Roy: Cost rationalisation is below the line, right?

Saugata Gupta: Cost rationalisation happened at each and every stage because it could be below the line, it could be in terms of the COGS structure, and so if you see that in spite of a significant cost push, our gross margins are fairly in shape because of the fact that there has been some cost improvements in the India business also.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from I-Alpha Enterprises. Please go ahead.

Prakash Kapadia: Wanted the sense on Saffola edible oils, what is happening in the market, are we getting squeezed on from the high-end olive oils and increase competition in rice bran brands which has affected volume growth and historically if we were to look at sunflower oil versus safflower the premium was quite high and with that shrinking premium is that a case for increased growth back in Saffola or that has changed due to the scenario that is the first question. Secondly, on the deodorant portfolio again we have seen lot of competitive intensity increase, Engage, Fogg, some of the media says they have been gaining market shares so what is happening in terms of Zatak. And thirdly, on the Middle East, what is the sense we are getting from distributors in terms of acceptance of the product the communication after the new packaging and how critical is the Middle East to increase international profitability?

Saugata Gupta: Okay, first I think you asked a question on Saffola. I think in Saffola you have to not only look at the competitive issue but also at the macroeconomic scenario. Saffola operates in the super premium space and the soft economic growth is resulting in softer consumption especially in discretionary categories. Now, yes there is threat in terms of competitive intensive on one side from the Olive space and the bottom side from rice brans. I think Saffola's endeavour has been to always go for products which are far superior in terms of scientific offerings which are best for a consumer's health. Therefore we have just launched a product which is significantly superior to olive oil which is Saffola Total and we will be supporting that product with sufficient marketing spends. As far as the bottom end is concerned, there was competitive intensity for rice bran, but rice bran is a commodity today. What we offer are blends with high science which supports all of our offerings. We believe we have a differentiated offering which will continue to command a premium. You must realise that Saffola had some issues where the sales had gone down to some 4%, which we have moved back to 9-10%. I think the effort will now be to move it to 10% plus and that is what we will make an effort in the next two or three quarters.

Prakash Kapadia: Okay so we could expect double-digit growth in the coming quarters?

Saugata Gupta: You can't expect a very sharp uptake given the soft economic and consumption situation, but I think it will be slow and steady. I think your next question is on deodorants. You are right that there is hyper competition; there are some new players who have attained leadership. As far as Paras is concerned, about 30% comes from deodorants. There is Livon, Livon Hair Gain and gels and in all these categories we are number one. Now, in deodorants, yes there is hyper competition but what has happened essentially is that when the brand was with Reckitt Benckiser there was a share loss. We managed to do the first thing which is getting back that lost share. And the second step is to increase the rate of innovation and get market share gain, because in the deodorants category we are not the market leaders and so we don't have a goal to drive category growth but our role is to drive market share.

I will now come to address your concern on the Middle East business. Middle East business is on the road to recovery. We are seeing a significant shift and the business will fully recover by FY15. We have made significant changes to the distribution infrastructure, operating models management, so all these things are in place. We are in a far better shape now to expect some growth as compared to two or three quarters ago. The full recovery will only happen in FY15 but there has been a significant reduction in losses and therefore we will hopefully get back into the profit zone sometime in the next 2-3 quarters.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Just wanted to understand your hair oil overall growth around 8% how much would the Shanti Amla growth be in this quarter and also you have mentioned Shanti Amla market share is 24% versus the 30% we had achieved earlier and so is there a fall in the market shares there?

Saugata Gupta: Shanti Amla market share is 30% on MAT basis. The corresponding market share last year was 24%. We have, in fact, gained approximately 600 bps in the last one year.

Percy Panthaki: What will be the volume growth this quarter for Shanti Amla?

Saugata Gupta: Around 31.4%.

Percy Panthaki: 31% volume growth?

Saugata Gupta: That's right.

Percy Panthaki: Okay so overall hair oils has had 8% volume growth and Shanti Amla is 30% plus so does it mean that some brands have actually declined?

Saugata Gupta: No, the decline in CSD has impacted overall hair oils growth.

Percy Panthaki: Okay, fair enough. And Bangladesh just wanted to understand one thing see there is 14% decline in Bangladesh, so just wanted to understand whether this is just a pipeline issue or the consumer demand itself is that low?

Saugata Gupta: See, most of our brands are in home consumption and so it is more of a pipeline issue and lack of availability in the last quarter as there were 40 days of hartals. Having said that, what is imperative in Bangladesh is to reduce our dependence on a single category, single brand because at the end with 80% plus market share and 80% branded to loose coconut oil market, the growth in Parachute coconut oil from now on will not be more than 2-3%. So what we will do in the next couple of quarters irrespective of the political situation is that we will continue to have a much more aggressive diversification of portfolio. We believe Bangladesh is an India forward model in terms of plug and play and adapt. With the integration of India and international business that process is surely going to get accelerated further.

Percy Panthaki: Right and my next question is on copra cost, they are up almost 80% Y-o-Y. Of course your purchasing would be more efficient and you would have faced lower cost inflation but still I mean if market prices are 80% up, how are you able to manage with the 10% increase? Don't you think that like 2-3 years back you had to take 30% plus increase that kind of increase would be necessary if copra maintains at this level?

Saugata Gupta: So, see 13-14% price increase is on a sequential basis on a base where we had taken some downward price corrections. And we believe this is reasonably sufficient because at the end of the day we have to see what is the sustainable margin which we should make to drive volume growth and for us maintaining a certain volume growth and market share is critical. We don't expect the market prices of copra to increase further because the flush season is coming and so the prices are expected to soften.

Percy Panthaki: Just wanted to get this clarity that let's say hypothetically if the copra cost remains where it is today for into perpetuity for example, would you think there would be a necessity for you to take price hike or you are comfortable with whatever you have taken as of now.

Saugata Gupta: See, it's a hypothetical question but we will balance the volume growth and the margin needs of the business.

Percy Panthaki: But as of now let's say if it remains like this at least for the next 12 months and so you think that you will be able to maintain the current prices?

Saugata Gupta: Again, as I said, I will first get the volume growths working and at that point we will see. Because what is most important is to get the volume growth back into the business and operate with it because our operating margin in this quarter is not sustainable. We would like to maintain only 14-15% operating margin and maximise volume growth within that.

Percy Panthaki: Understood. And if I might just one more question, I mean I noticed on the call of Agro Tech Sundrop this quarter I think has declined some 10-12% and so keeping that in mind I am surprised how on a Y-o-Y basis Saffola shares are marginally down. They should have been up, and so is this an AC Neilson measurement issue or is it something else?

Saugata Gupta: See, the Nielsen pickup is low because it's a super-premium ROCP category with a huge modern trade skew. Directionally I would say that shares are more or less maintained.

Percy Panthaki: Okay because they have actually declined and you have grown by 9-10% they have declined 9-10% and so actually it's been a huge gain for you, I mean if we just look at the reported numbers maybe at the retail level it is something different.

Saugata Gupta: Yes, because it's a niche category the deviation error will be far higher.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: Just wanted to know that you have put in your forward-looking statement that you expect the volume growth to improve to 7-8% in the immediate period and probably improve going forward. So are you seeing something now immediately or I mean and what is the basis for this or on what logic is you are seeing that 7-8% can be happening immediately and it can further improve?

Saugata Gupta: I think when I define immediate future I am talking of 3-4 quarters. Two things, one is as I said bottoming out we believe has happened. Some of the factors for slowdown are external, some of which are consumption led and some of the factors are also internal like multiple Parachute price changes in four months which has led to some kind of instability in the market. So, I would think that 3% growth is an aberration and we will get back into 7-8% growth in the immediate two quarters and this growth is imminently achievable, especially with the innovation also coming into place and that is something which we are fairly confident of.

Sanjay Singh: But ideally you had taken a price increase in December in Parachute, there should have been some kind of probably pipeline build up in Parachute in the trade when the prices are going up and so that should actually drive volumes up this quarter and probably going forward it would have softened a bit but do you think the pipeline in the trade or in retailers or distributors or wholesalers is sufficient or as per actual norms and it normally should be.

Saugata Gupta: Yes, pipeline is more or less in place. A brand like Parachute which is very well distributed, when you take three pricing actions which was one drop and two increases within the space of four months, it leads to some kind of a situation in the marketplace, especially in the wholesale. So, if the copra prices are stable, as this pricing settles down, notwithstanding the food inflation the volumes are bound to go up a little.

Sanjay Singh: And let me say margins are 14-15% for the overall business, currently I mean if I do a nine-month number it is very high but of course your 4Q margins are always lower because of the lower sales, so still essentially if I do some kind of basic maths your full-year number this year should be around 15.5.

Saugata Gupta: We are giving a medium-term outlook over the next 3-4 quarters and not the next quarter.

Sanjay Singh: Yes, so what I am trying to say is what can create an upside here and or rather what can create a downside also and so 14-15% is a guidance but what will make it take higher to 16% or above or around 16% or even lower 13-14% which you have seen earlier in the past and so what are the factors which changes the game?

Saugata Gupta: Yes, so I think as far as downside is concerned there could be significant inflation but we believe that again there is no trend to suggest such a significant inflation in the input cost which will ensure a sudden sharp drop in GM. One thing is certain is that the international business margin expansion is definitely here to stay and I think we have mentioned about aggressive cost efficiency exercises which had been undertaken in the India business being replicated in the international business and some of the synergies which will start coming into play. So, 14% is a number which is now the new base line or the new normal as far as the international business operating margin is concerned.

On the upside, I would rather plough the upside into A&P investments to drive growth because for us growth is very, very important. Even if there is a significant upside in operating margin, I would rather invest behind growth and capturing market share. An upside can come from raw material prices falling down or some more than expected cost efficiencies. So upsides can come but we would like to be in an investment mode in terms of driving growth in the immediate term.

Sanjay Singh: And someone asked previously on whether hair oil consumption is going down or whatever I mean I think the whole debate has started because one of the larger company which is also, I think the debate on hair oil has recently increased a bit because one the numbers have been pretty poor and across the board, across companies and also I think one of the larger company which is also into hair oil mentioned that coconut oil could be in a structural decline. It could be a possibility and so I mean you will also see this YTD its 2% number which is significantly below what you are used to doing. So can you throw some light into it, as is it your 7-8% earlier growth long-term growth still stands or do you see some signs of pain at this point of time?

Saugata Gupta: I think you can't judge consumption trend in just one or two quarters of sales. The decision to reduce Parachute prices at the time of softer input cost environment was delayed and that perhaps allowed some of the local players to enter into the market and that was the reason for slowing down of Parachute during 2013.

Also, what is happening is that we are experiencing food inflation and then multiple price increases. Volatility in normal circumstances of price inflation helps us in terms of driving growth. Now, that has not happened. Having said that I would say that in the immediate term the Parachute rigid growth should move into a 5-6% volume growth and then we will see over the long term what pricing calls need to be taken. We don't see any significant structural changes that have happened in the category because a marked structural change doesn't necessarily happen in 3-4 quarters. We are leaders in this category and perhaps we know the market slightly better and we are not seeing any such trend.

Sanjay Singh: If I ask you just one question, which will probably get some sense, is your share of specially Parachute coconut oil, not hair oils but contribution of modern trade to Parachute coconut oil has it increased or decreased over the years?

Saugata Gupta: It's not decreased over the years; it has been flat to a slight increase.

Sanjay Singh: And it would be in what low single digits?

Saugata Gupta: Which one? Our modern trade contribution itself is 9%.

Sanjay Singh: To Parachute coconut oil, not overall company?

Saugata Gupta: No, it will be in single digits because as I said overall company is 9% and some of the new categories such as Youth brands and Saffola have a higher share in modern trade.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Firstly, on the pricing that you have taken off in the last quarter that this happened in December but has it completely translated into an increased pricing in the retail level?

Saugata Gupta: So, I would say you will get the full impact more in February-March, a little bit in January.

Aditya Soman: OK, but in terms of your numbers, there will be almost no impact in the previous quarter right?

Saugata Gupta: There were some price increases which were taken in October, but the larger part of the price increase would have gotten factored in December. So some impact is seen in December but you will get more impact in Jan, Feb, and March. So the average price increase impact which you will get in Jan-March quarter perhaps is around 11-12% in Parachute, in hair oil it's around 6% and Saffola 4-5%.

Aditya Soman: And in terms of your overall slowdown in growth is there any regional trend to it or has there been such slowdown in sort of consumption in south India or west India which are your largest markets or is it more?

Saugata Gupta: No, we have done 9% in value on an overall basis. Our urban has been a little lower around 6-7%, rural is around 16-18%, modern trade is around 13-14% most of which is in the urban volume and CSD is the one which has declined 2%.

Aditya Soman: OK that I think answers the questions thanks.

Moderator: Thank you. The next question is from the line of Madhav Mitra from Credit Suisse. Please go ahead.

Madhav Mitra: I first wanted to know if you were to include Nihar and the small pouches overall coconut oil, for you would it has still grown in volumes or you would have seen small decline there?

Saugata Gupta: That would be flattish to a slight decline because we are defocusing on that part of the business. We believe that is commoditised and that doesn't have long-term growth potential or margin potential.

Madhav Mitra: Just coming back to a question that Sanjay raised a while back on the structural question around coconut oil. Basically, two things I wanted your view on—one is, is it in your dipsticks are you seeing the fact that the loose oil market has now become quite small because you have grown so well in the last few years and that cannot be a very big source of growth, I mean just wanted your views on that. And secondly, this whole question about upgradation to value-added hair oils picking up and hence taking out consumers from coconut oil and so if you could just throw light on how you look at these two things as a trend impacting overall growth for coconut oil.

Saugata Gupta: See, the loose coconut oil market is still 35% of the total coconut oil market and I would say in the last one year that share could have actually increased because of pricing and inflation. Also, our market share is 56% in urban and around 40% in rural, so there is a lot of headroom to gain market share in rural. So there is no structural shift because the rate of volume growth in value-added hair oil space has actually come down. So if you look at the proportionality in which the growth rates have come down is also of a similar nature.

Madhav Mitra: On your launch of crème hair colours is it a full-fledged national launch or you are looking at top few cities at this stage, just wanted a view on how aggressively you are looking at this category?

Saugata Gupta: In rural you will be seeing it as it pans out. I would not want to share the strategy but we believe that we have a very good product at a very great price point. What is going to happen in this category essentially is that people would like to upgrade from powders. So you have an aspirational brand along with affordability which is a sweet spot and this segment of the market is expected to explode.

Madhav Mitra: And actually I was asking also from the point of view that this is also very highly advertised category and so would it not take up your ad spends because to do a national kind of thing here will be quite a lot of expense upfront ended.

Saugata Gupta: Obviously, we will be giving it its due advertising support required for this launch. On an annualised basis we would move in the next one year to more towards 12.5% kind of ASP rather than what we have been tracking, specially this quarter.

Madhav Mitra: And just couple of housekeeping questions on some numbers, one, you see that the depreciation rate went up between 2Q and 3Q and you have said there some one-off impairment there, if you could just quantify that. Secondly, the interest cost run rate has gone down quite sharply and thirdly the other income is quite up, so these three line items between 2Q and 3Q there is a swing. So if you could just tell me on these three how we should build it going ahead?

Vivek Karve: On your first question on the depreciation hit. There have been certain provisions made towards impairment of certain assets, aggregating to about Rs 4-odd crore. On your second question about the interest reduction, it is a result of increase in the surplus both in India as well as some of the overseas territory, and so that was on the other income and the third question was on interest expenses that is also because the gross debt has come down from both Q2FY13 to Q3FY14 as well as Y-o-Y.

Madhav Mitra: So, these are numbers which are normalised numbers on the interest and other income?

Vivek Karve: Now what do you mean by normalised numbers?

Madhav Mitra: Meaning there is no one-offs in the quarter specifically in terms of other income. It’s kind of normal income on the cash.

Vivek Karve: Yes, you are right.

Moderator: Thank you. The next question is from the line of Abdul Kari from Narnolia Securities. Please go ahead.

Abdul Karim: On profit and loss portion during the quarter, the company had been very efficient to control its expenses on quarter-on-quarter and year-on-year basis like imply cost is reduced by 25% year-on-year. I just want to know how did you managed it, is there employee layoff or attrition?

Vivek Karve: No, actually we did not manage it that way because if you look at the Q3 FY13 numbers they are inclusive of the Kaya numbers, and so your observation is correct but the reduction is because of the demerger of Kaya business from Marico, within effective date of 1 April 2013. So, the current quarter that is Q3 FY14 numbers do not include any Kaya-related employee cost whilst 3QFY13 numbers did include employee cost of Kaya business.

Abdul Karim: And second one, how do you see the impact of the coming general election in India and so the demand discretionary environment in rural as well as urban areas?

Saugata Gupta: I think historically the election year drives a little bit of consumption but I think for the long term economic growth it’s important to have a stable government and that we will get to see only when the elections happen.

Abdul Karim: What’s your next launch in the next quarter or next financial year?

Saugata Gupta: Well, I will not be able to share with you that.

Moderator: Thank you. The next question is from the line of Ashish Upganlawar from Elara Capital. Please go ahead.

Ashish Upganlawar: Continuing that question on the margins basically if I look at the raw material index that has moved up about 25% in last more than that actually we have taken prices by about 5%. So out of that suffice and is it that we are anticipating any decline in the overall raw materials and that’s why we are maybe postponing some price increases there?

Saugata Gupta: No, the weighted average price increase that will pan out in quarter four will be higher, around 10-11% and if you are a smart buyer the entire cost inflation doesn’t get into your bottom-line. So whatever price increases we have taken are reasonably sufficient for us to operate within a certain comfortable gross margin and we have to also see that we get back volume growth. So we are comfortable as far as this next 2-3 months are concerned, unless there is a significant input cost increase, I don’t see any pricing action in the next 2-3 months.

Ashish Upganlawar: So, we are targeting absolute margins as we have been doing historically and so that would mean basically that your percentage margins, gross margins might be lower next year if things remain the same.

Saugata Gupta: We will operate within a band and protect our absolute margins.

Ashish Upganlawar: And even at the cost of maybe next year we might see EBITDA margins going lower that would be a right statement to make?

Saugata Gupta: That could be but as I said that we have also done a lot of cost transformation exercises and so we have to see the net impact on costs but we have already said that the operating margin which has happened this quarter will not be sustainable in the medium term because we would like to plough back some of the gains in investment behind growth.

Ashish Upganlawar: Secondly, on volumes you have shared a lot of your observations. Is it that the premiumisation that we talked about in an inflationary commodity environment that you are building in your assumptions of about 7-8% volume growth going ahead, is that the factor that would be driving your expectation?

Saugata Gupta: I think in urban India the growth rates are expected to be a little soft, although it will recover. I think the bottoming out has happened but that recovery according to us will not be very sharp but very, very slow and steady recovery. We expect rural and middle India to continue with the current pace and with that into account, we have built in the number of 7-8% which we are talking about.

Ashish Upganlawar: So, it's not essentially the upgradation from unorganised plus the loose oils?

Saugata Gupta: No, so that's for Parachute growth and we are saying that the Parachute growth is expected to recover to 5-6% in the immediate term.

Ashish Upganlawar: Yes, but it gets a fillip when commodity prices increase that's what has been the case historically so that would be one of the assumptions is it?

Saugata Gupta: Yes but as I said that if food inflation continues to be very high that will discourage that up-trading.

Ashish Upganlawar: One more question, Bangladesh, we had a decline this quarter and so would that mean that things are getting normalised probably to my understanding, so we will have some pipeline filling next quarter and we might see a decent volume growth?

Saugata Gupta: Yes, you are expected to see a good performance in Bangladesh this quarter. Having said that you never know how the political situation pans out. But yes, there would be some kind of a correction in the pipeline this quarter.

Ashish Upganlawar: I mean what would be a normalised growth rate that you would expect in Bangladesh because it's been pretty I mean volatile with this country?

Saugata Gupta: Yes, I would not like to get into country wise growth rates but at constant currency we would expect 15-20% growth in the international business.

Ashish Upganlawar: One more if I can ask this bio oil, the marketing and distribution that we have undertaken, what would be the commission or whatever we would be getting?

Saugata Gupta: We are not in a position to disclose commercial terms. Bio Oil, we believe is a very niche but differentiated product. I think it will give us a lot of learning and more importantly our portfolio will get a critical mass as far as the chemist channel is concerned. We believe that the chemist and cosmetic channels are the channels of the future and we are investing significantly to increase our distribution in these channels along with food channels. So this is a part of the game to have a very strong portfolio for the channels of the future because we intend to expand significantly and add direct distribution in these channels in the urban market over the next 3-4 quarters.

Ashish Upganlawar: And the income out of this will come in other operating income right?

Vivek Karve: Yes.

Moderator: Thank you. Next question is from the line of Vishal Jain from Peerless Mutual Fund. Please go ahead.

Vishal Jain: Most of the questions had been answered, just one thing when will we get to know the Kaya's balance sheet numbers and by when the Kaya is expected to list all our markets?

Vivek Karve: Yes, the listing process will begin soon. The allotment of the shares happened on 9th of November. Right now we are in the process of preparing the information memorandum as required by the SEBI listing rules. This is a new regulation and we expect that the listing should happen sometime in the month of April.

Vishal Jain: And by April end or by when the next results come, we will be able to get the balance sheet numbers for Kaya?

Vivek Karve: Yes, as and when we list as required by the SEBI.

Vishal Jain: Yes, so hopefully by April we will be able to get that?

Vivek Karve: Yes, you can say that.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Most of the questions have been answered but if you could talk about oats as a category which seems to be doing very well and obviously you have taken double-digit market share, can you give a little bit more details about it perhaps in my hypothesis it has also started eating into space of other cereals or other breakfast mixes. So don't you think it's quite a bit of a situation where other players will become increasingly restless to get into this category and at least try to capture that growth and why not competition will perhaps become more and more intense and the gross margin if my understanding is correct it's very low in this category. What are your thoughts on your profitability? How it could evolve and with this market share where your profitability perhaps is and five years down the line how do you see it panning out? Some colour would be very helpful.

Saugata Gupta: Our entire focus is to grow the value-added space and not participate too much in the plain oats category because plain oats is a commoditised part of the category and also hyper-competitive. What is important in foods is you can drive gross margins through differentiation and delivering on taste and therefore that gives you the right to charge premium. So our endeavour will be to do that and focus on a value-added part of the space. We believe that these kinds of offerings not only participate in the breakfast arena but also have the potential to move into what I call in-between meals arena very soon. Saffola, as a health brand, has a better chance of winning in this category than any other brand because we are going to focus on the healthy eating option space. Yes there would be competition but I think the endeavour is to continuously innovate. We will clock around Rs60 crores plus this year and we are pretty confident of hitting close to Rs100 crores in the next financial year. As far as gross margin is concerned, it happens with scale and increases in the value-added component. So we are trying to reduce our focus on the commoditised part and focus on the value-added part of the portfolio and with scale automatically there is huge reductions in the manufacturing and supply chain costs. So, if traction continues to remain good, we will have reasonable margin on food. Obviously personal care and coconut oil has higher margin but in foods with scale we will be on a pathway to profitability.

Amit Sachdeva: OK. So you see say single-digit margin. What is your dream margin like where you think you could easily possibly reach as well as this would be considered as a successful plan executed like would it be 6-7%? Do you have any sort of picture in mind that?

Saugata Gupta: Are you talking about gross margin or you are talking about operating margins?

Amit Sachdeva: Overall net margin but obviously since the scale would drive gross margin and some amount of operating margin that you would target?

Saugata Gupta: So, I don't think we will get into operating margin of foods business, we will need to look at gross margin and ROCE and scale, because if you try to manage only margin you will not get scale but if you get scale you will get margins. Our focus is to get scale along with margin and any initiative in food will give a maximum of 25-30% gross margin. You have to look at our overall portfolio and overall business operating margin rather than getting into segments and as long as there is a path to profitability and growth I think we are happy about it.

Amit Sachdeva: OK, sure, thank you very much that was precisely what I wanted to know. But do you plan to like expand this portfolio very soon? Do you see some amount of supply chain efficiency will increase when you have like 10 SKUs rather than few especially on the oats side? What is the past to like grow faster there or at least more action there?

Saugata Gupta: I think you have to continuously innovate and ensure consumer delight and also manage cost tightly in a food business. I think these are the three things we would like to do.

Amit Sachdeva: Okay, just one small bit if you could share a little bit more on the hair colour product. Where it is getting manufactured and what is the target like first year, two years? How do you see and this is a great price point but what kind of margin this product can command at that price point?

Saugata Gupta: I think it's too premature now to talk about it as it has just gone into the market. I think we will be exposing our competitive position and we don't want to get into details on it. I think you should wait and watch as it pans out and we will be in a position to share some more details sometime in the next quarter, in earnings call maybe.

Amit Sachdeva: Sure, is it like getting imported or is it domestically manufactured?

Saugata Gupta: Domestically manufactured but it is as good as any imported product.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: My first question is on the distribution bid. You have mentioned various times in your press release about how the focus will be not only in rural but also in urban channels to increase distribution. Just wanted to understand is there a specific target in mind? Could you quantify this over the next year or two years where you plan to take this existing distribution number to?

Saugata Gupta: One of the exercises which we have undertaken in this organisation is to make it ready for the future. I am talking of a 4-5 year timeframe and the approach towards this is future backwards and not present forward. To achieve this, we are about to embark on a go-to-market transformation journey. Now, if you really look at it, our entire go-to-market efficiency was primarily focused on our old portfolio which is coconut oil, hair oil and edible oil. Over the past few years, our portfolio has undergone a significant change, first with the launch of body lotion, then the launch of foods and now with the acquisition of the Youth portfolio and launch of hair colour which demands a significantly different profile of outlet reach which is chemist and cosmetic and modern trade. Now, this requires a different way of doing distribution and therefore one of the things we are now focusing on is a much more focused segmentation in the urban space, with focused what I call assortment place and also direct distribution or direct reach in this set of outlets which were normally not serviced by us because our portfolio was not there.

Now, we have had a huge IT backbone and we are the pioneers to drive PDA. Therefore the second thing which we are doing is investing in analytics which will help us focus on effectiveness of spends driving a right assortment. So this and a stronger pay for performance which is through the retailers and the distributors will be driven in the urban market. Our rural contribution was 25% three years ago; it has moved to 31%. We intend to move it up to 35% because it is still not commensurate with some of our peer companies. So, this is something which we intend to do and you can certainly expect a step jump in our distribution and direct reach in the next 2-3 years. A huge portion of the savings due to smart analytics in terms of the effectiveness of spends of consumer and trade offers is now being ploughed back into this distribution increment exercise since now we have the right portfolio to do that.

Harit Kapoor: A lot of your consumer and trade offers you are saying will be coming off, in the interim. In the interim do you see any disruptions because your go-to-market may change a little bit in terms of primary or secondary sale?

Saugata Gupta: No, we don't see any disruption. What we are doing is reducing wastages. As you know a famous saying in marketing, you don't know which half works and which half doesn't work. With smart analytics perhaps that number can move up to 75% of the money which is working.

Harit Kapoor: Fair enough, lastly just another thing just wanted to understand again in your press release you said that you are now focusing on scaling up the presence in all the sub-segments of value-added hair oil, obviously you are there in a large number. Do I read the statement as a statement of intent in terms of increasing presence in more categories and you are already there in value-added or is there going to be more action in terms of new launches within that space or trying to get into another space or is this just a continuation of what you have been doing?

Saugata Gupta: I think it's a continuation of what we are doing, we continue to gain market share. We are the number one player in volume and I am pleased to inform you that in December, although it's just one month, we are also the number one player in value share of the value-added hair oil market. We have to continue to accelerate this share gain and that can only happen through innovation and our approach, unlike some of the other players, is to not participate on an ingredient platform but more consumer need platform. A significant portion of the growth in the last three years in terms of market share has happened from Shanti Amla. It's important that we now get one or two more legs of innovation in the next 2-3 years.

Harit Kapoor: Agreed and one last thing. Obviously, there has been a step down probably just a quarter phenomenon and in ad spends and more so in the international front. You have mentioned that you have stepped down ad spends in Bangladesh but I just wanted to know is there any other markets where also we have seen a material step down in ad spends?

Saugata Gupta: No, it's just a phasing issue. You have to look at ad spends on an annualised basis. On an annualised basis, we should have an ad spend of around 12.5%.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from Phillip Capital. Please go ahead.

Amnish Agarwal: I have a couple of questions and first question is regarding the dividend this year. We have already paid Rs1.75 as dividend and is there now a definitive change in the policy because this year, going by the trend, in the first three quarters, we would be moving towards say 30% sort of a pay-out and secondly is it directly related to the dividend we have got in Bangladesh because our Bangladesh subsidiary has declared dividend which is four times they paid last year. So, is it one kind of an item or we will now see dividend rates being here maintained around 25-30% at least pay-out ratio.

Vivek Karve: See, sometime back while answering one question on the interest expenses as well as interest income which is the other income, we have said that the surplus has been growing, thanks to our consistent performance by the company. So the best way to utilise this surplus is to give it back to the shareholders if you don’t need it because that’s the right thing to do for increasing the shareholder value. So in a steady state we would like to maintain this pay-out of around 30% going forward.

Amnish Agarwal: And earlier there was some, if my understanding is right, some restriction on going back profits from Bangladesh. Is the restriction still there or it is not the case now?

Vivek Karve: There was never any restriction on the dividend portion.

Amnish Agarwal: My second question is in the hair oil where our volume growth is now in single digits also a part of it is attributed to the decline in CSD sales. So where do you see the market for the value-added hair oils growing and where do you see your volume growth panning out say for the coming few quarters and for FY15?

Saugata Gupta: I think we should be able to get back into double-digit volume growth.

Amnish Agarwal: But what kind of double-digit, well earlier we were going at 15-20% kind of volumes.

Saugata Gupta: See, I can’t give you a specific number in hair oils but as I said there is a softer consumption environment and so it’s important to ensure that as long as we continue to gain market share and get back double-digit growth we should be in a comfortable position but yes our aspiration is to get back into the 15% kind of volume growth which we have been tracking; that’s an aspiration, yes.

Amnish Agarwal: My final question is regarding the edible oil market where we are witnessing increased price base competition from players like say Adani, etc., so even the other listed player has reported, there is some pressure on volumes so where do you see this market going forward particularly in the light of the fact that increased price-based competition can actually start hitting your volumes or then you may have to sacrifice on your margins going forward?

Saugata Gupta: Well, I think I addressed this question sometime back that our endeavour always is to provide what is healthier for the consumer. So we will continue to differentiate our offerings and yes in the past Saffola growth had slowed down to 4-5% in one or two quarters, we are back in to the 8-9% and we intend to just inch it up to (+10%). Yes there is competition but as you know that sometimes what happens is lot of ingredient-based competition gets commoditised and then there is no differentiation in those ingredient-based brands.

Amnish Agarwal: So, you are confident that you will be able to hold on to your margins at the current level?

Saugata Gupta: We operate within a band of margins, and we find a sweet spot that ensures a threshold level of margin and maximises our volume growth.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is again on the gross margins and price hikes, so in this quarter if I look at assuming that there is no change in mix, your margins in domestic as well as at a consol level is down almost 160 basis points quarter-on-quarter. Now, with the kind of input cost inflation sequentially that we have seen in copra as well as the kind of price hikes that you have seen, does that mean that in the fourth quarter again you will have lower gross margins than what we had in the third quarter?

Saugata Gupta: Some of the price increases we have taken have been in December, so you will also see some of the impact in fourth quarter. Now it all depends on how input cost pans out. As of now if input costs don't significantly increase there won't be any significant reduction in margins.

Vivek Maheshwari: No, but mathematically how is that possible if your input cost on a sequential basis if say copra is up almost 40% on a sequential basis and the price hike is 4%.

Saugata Gupta: Sequentially the price hike is 13-14% in coconut oil.

Vivek Maheshwari: No, but I am talking about sequentially, so 7-8%, any which will what you took in the second quarter right sir, since then the incremental price hikes are only 4% right?

Saugata Gupta: Yes.

Vivek Maheshwari: So, I am saying on a sequential basis input cost is up 40%, price hike is 4%, so why shouldn't margins go down much more?

Saugata Gupta: Yes, there could be slight margin reduction but that will not be significant as what also happens normally as the season opens up towards February-March is that there is lowering and shuffling of copra prices.

Vivek Maheshwari: No, but assuming the current copra prices it should be much more or probably I will take this question offline then in that case. On the Parachute just curious, the last or I think second last piece is you had in the press release October, November, December, still some freebies and schemes in Parachute. Why would that be if prices are moving up, I mean, didn't you reduce that?

Saugata Gupta: That will be old stock. In fact, I mentioned that there is a significant decrease in consumer promotions on Parachute this quarter. So there could be some old manufactured stock.

Vivek Maheshwari: On Saffola I read about the issue in that ad, Saffola versus olive oil. I was just again curious if olive oil is incrementally becoming relevant in the urban market? Any thought process of looking at that as a category?

Saugata Gupta: Our endeavour always is to provide the healthiest oil and not look at ingredients because any ingredient-based oil is a commodity.

Vivek Maheshwari: So, you are saying olive oil is a commodity?

Saugata Gupta: Yes, today it's in commodity, it sells by price. There are no brands in olive oil.

Vivek Maheshwari: I see, OK. Third is on the CSD what exactly has been an issue before I believe few quarters back or I think several quarters back there was this CSD issue and again perhaps you are the first company to indicate that there is a decline in this, so what exactly was the issue here?

Saugata Gupta: There is a marginal decline. I would say it's a quarter decline and I don't see it happening in the next quarter. So it's not an issue, it's just that the CSD system in the last 1-1.5 years is having differential norms. We are also undergoing some kind of restructuring and therefore we are settling down to the new systems and that is what perhaps is the reason for CSD decline in the quarter. But it's not something significant.

Vivek Maheshwari: And two questions for Vivek, Vivek you explained Y-o-Y decline in employee cost, the reason for that but what is the reason for sequential decline, because Kaya was not there even in the second quarter?

Vivek Karve: Yes, you are right.

Vivek Maheshwari: So, there is a still 16% decline because going ahead what should be the base that we should be modelling on, is it Rs68 crores which is for this quarter?

Vivek Karve: In the second quarter certain provisions were made towards the VRS that we had run for the Goa plant and it was a one-time hit that we had accounted in the second quarter which is not there in the third quarter.

Vivek Maheshwari: So, Rs68 crores is basically the like-to-like number that we should be looking at going ahead?

Vivek Karve: Rs68 crore is the number for the third quarter.

Vivek Maheshwari: Yes, so that is what is the normalised number right which we should be building in or taking as a base from hereon, right?

Vivek Karve: Yeah.

Vivek Maheshwari: And second is you mentioned to one of the earlier questions about impairment included in depreciation, what is this impairment?

Vivek Karve: See impairment testing is done every quarter and so all those assets which are unusable are provided for. So as a follow up of the closure of manufacturing in our Goa plant as well as one of the Dehradun plants there are certain items of plant and machinery which have become unusable. So they need to be provided for as per the accounting standards.

Vivek Maheshwari: And what was the issue in case of Goa, I mean what exactly was the reason for the closure?

Saugata Gupta: I think as a manufacturing strategy we are in a process of consolidation.

Vivek Maheshwari: And last question I think it has been repeated several times but on hair colours since you are mentioning in your press release that that is something you have forayed in anything where exactly it is launched at least that much can we know?

Saugata Gupta: It should be available in all urban markets gradually.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: With reference to one of the earlier comments on the desire to maintain volume growth etc., I noticed that you have also taken up pricing of the small pack of Rs6 as well to Rs7. Lever recently spoke about a lot of issues on their Fair & Lovely low price packs when they increase prices by Rs1 from Rs7 to Rs8, etc. Now, if the case is that price hikes taken so far would actually hold you in good stead as far as the desirable margin goes. What prompted you to take the pricing actions on this low price pack especially given the current economic context? Why not have tinkered with one of the other 200ml or 25ml pricing instead some more?

Saugata Gupta: Are you talking about flexi pouch?

Richard Liu: If I look at your pricing info like the 20 ml pack has that not gone up from Rs6 to Rs7?

Saugata Gupta: The 20 ml SKU constitutes less than 1% of our Parachute portfolio. Our largest pack is Rs10 pack where there has been no price increase. The recruiter pack is the Rs10 and not this pack.

Richard Liu: Okay then what is this Rs. 6 pack about?

Saugata Gupta: Its contribution to total Parachute sales is not significant. Also the pouch packs is defocused and we want to ensure a certain margin in those packs. You have to take a look at Rs10 pack where there has been no pricing action.

Richard Liu: And second, I understand that there could be some kind of cost pressures here and there, definitely not on key RM though but given the discretionary spends outlook at this point in time, I mean how confident you are that you will be able to sustain or accelerate volume growth despite the price increase?

Saugata Gupta: I agree with you that it is discretionary, but what we intend to do is hold a certain level of margin and Saffola's business model is based on creating pull, as oppose to a push brand and therefore you need a certain amount of money to invest behind A&P. So we want to balance that and I think 4-5% price hike is something which even in the slightly challenged circumstances can bring volume growths.

Richard Liu: Lastly in terms of copra inflation you spoke about your consumption cost being different etc. but just to help me, get a rough idea, can you let me know that in 2012 when the market prices for copra actually moved up by as high as 17-19% in some of the months I know some of these prices could be theoretical but versus that kind of a price inflation that we are seeing how much that your consumption cost rise on an average during that phase of the price cycle?

Saugata Gupta: We as of now have taken this price increase of around 13-14% which absorbs a significant portion of that price hike. Having said that, if there is no softening we might have to relook at the pricing 3-4 months from now but as of now we don't see any reason to increase prices because we want to get the volumes up.

Richard Liu: I understand the part on volumes but is that premised on the cost coming down?

Saugata Gupta: If you see historical trends the season starts in February and March. There is usually a softening post a very high inflationary cycle. We have a very sophisticated model but it's difficult to predict copra movement. Having said that, in case there is a further inflationary trend we might have to then look at pricing but the next 2-3 months we are not going to touch pricing.

Moderator: Thank you. The next question is from the line of Pradeep Biyani from Standard Chartered. Please go ahead.

Pradeep Biyani: I had some questions on international margin. In the beginning of the year you were targeting 13-14% margin over the period of next 2-3 years that is by FY15 and FY16. And now you say the new base line is around 14%. So, where are we deriving these cost efficiencies from in the international business, which we couldn't enjoy earlier?

Saugata Gupta: Some could be raw materials benefits, some would be through much better efficiencies, some of the synergies between the two businesses and then we have started a cost transformation exercise. So, the base line is 14% and we will continue to maintain this as 14% and any upside will be ploughed back towards growth.

Pradeep Biyani: Any colour you can give on cost transformation?

Saugata Gupta: Cost transformation is a structured approach which looks into everything from buying, sourcing, all fixed overheads and manufacturing spends. So it's a value transformation exercise across the entire supply chain and below-the-line spends which we have undertaken with one of the big-four firms. We first did this exercise in India business and we have started this process in the international business. So we believe that we have got significant savings, obviously now this will become embedded into the organisational DNA in terms of trying to have an aggressive cost programme every year.

Pradeep Biyani: And just one more, one of your peers mentioned about some sort of uptake in the urban growth that they saw. So, in your case has there been any increase in the urban growth trend or whether the gap between the rural and urban growth has narrowed substantially or maybe by whatever margin?

Saugata Gupta: We are not seeing any such trend as of now.

Pradeep Biyani: Rural continuous to grow?

Saugata Gupta: For us rural continues to grow and so our urban growth is around 6% while rural growth is around 17-18% in the last quarter.

Pradeep Biyani: OK, similar to the previous quarter that is?

Saugata Gupta: Yes.

Moderator: Thank you. The next question is from the line of Nitin Mathur from Espirito Santo. Please go ahead.

Nitin Mathur: My question is regarding your payback period. Now, as per your calculations, what is for the Youth portfolio acquisition?

Saugata Gupta: I don't think we will be in a position to share that. All we can say is that we are tracking on acquisition assumptions.

Nitin Mathur: OK but have you seen some sort of change in those assumptions because clearly the growth rates that we are seeing probably about a couple of years back they have tapered down very quickly.

Saugata Gupta: We had given a guidance of around 20-25% growth. We have delivered so far 21% growth on a YTD basis in spite of softening of the consumer trends and a lowering of growth rates. We have to look at long-term and what we had given is a guidance of 20-25% growth in the next one or two years and then we will see how it goes from there.

Nitin Mathur: So, no change of sort of without getting into details but no change of sort of assumptions in the growth rates that you have done to your model?

Saugata Gupta: Yes, as of now, no.

Moderator: Thank you. As there are no further questions, I would now hand the floor back to Mr. Rakshit Ranjan. Over to you.

Rakshit Ranjan: Thank you. On behalf of Ambit I would like to thank the senior management team of Marico as well as all the participants on the call. I will now hand the call back to Mr. Sarwate for any closing remarks. Over to you sir.

Milind Sarwate: Thanks everybody for the engaging discussion notwithstanding the fact that we are pretty late in the day. So, hope to see you at the next earnings call, thank you and good night.

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