"Marico Limited Q4FY14 Post Results Analyst Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Marico Limited Q4 FY14 Post-Results Analyst Conference Call hosted by Ambit Capital. As a reminder, all participants' line 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. At this time, I would like to hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you sir.

Rakshit Ranjan: Thank you. Good evening. I would like to welcome you all to the conference call of Marico hosted by Ambit Capital. With us we have the senior management team of Marico comprising of Mr. Saugata Gupta – Managing Director and CEO; Mr. Vivek Karve – Executive Vice President and Head of Corporate Finance; and Mr. Chaitanya Deshpande – Executive Vice President and Head of M&A & Strategic Initiatives.

I would now like to hand over the call to Mr. Saugata who will take you through the highlights of Marico's performance during the quarter, over to you sir.

Saugata Gupta: Good evening everybody and welcome to Marico's Analyst call.

Just to give you some pointers before we go into the questions. I think we have had good value growth of 17% and what is most encouraging is the fact that our core volume growth in both Parachute Rigid and Saffola are back on track. There has been a permanent structural uplift in the international business operating margin structure to 14%-15%, which is here to stay. We continue to face challenges in the macroeconomic environment; however, we have managed to gain market share in most of the categories we operate and we have managed to grow significantly in Hair Oils. The fact is that as of now we do face some challenges in the input cost pressures, specifically in copra. We believe that in an inflationary phase we are much more competitively placed and therefore we are much more poised for volume growth than in a deflationary phase. Therefore, in the medium term and in a short term, while there could be certain pressures on margins, we believe that the gradual uptick and volume growth will continue.

So, we can start with the questions.

Moderator: Thank you very much sir. We will now begin with the question and answer session. First question is from the line of Prakash Kapadia from iAlpha Enterprises. Please go ahead.

Prakash Kapadia: Two-three questions, is there some opportunity to enhance Saffola growth by expanding distribution reach. I think we are currently at around 1,00,000 and any feedback if you can share on the rural initiative for the Saffola edible oil? Also sir it could be helpful if you could give us some insights on the competitive scenario in the edible oil space now that Ruchi Soya has also re-launched some of their products and what are the competitive intensity noises we are hearing from Riso and Fortune. So, does that push back volume growth? And lastly on the hair oil industry what is our sense, is there a structural change in the habits of Indians? How do we see growth panning out in the near term for the hair oil industry? So those were the broad three questions.

Saugata Gupta: So, let me answer your first question. In Saffola, yes, there is enough opportunity to expand distribution and we believe that the first phase of distribution increase can happen. Enough opportunities are there in the metros and middle India as opposed to rural because the brand has a significant skew towards modern trade. We are taking it in a very gradual phase and we are also prototyping some rural initiatives in one or two states. So results are reasonably positive but to be fair we haven't aggressively pushed Saffola growth in a lot of up-country markets because of certain issues on supply chain, shelf life, and other areas. However, the opportunity does exist and we are extremely confident now that Saffola growth is back on track this year at around 10-11% to maintain a double-digit growth going forward in the next three to four years.

Yes, we have competitive intensity but our endeavor is not to get into ingredient-based products which have the risk of turning into commodities. Our effort is to deliver the blend based on modern science, something which is best for the consumer and therefore we have launched Saffola Total, which has received an encouraging response. Now, competitive intensity will continue, but we need to ensure that we continue to meet consumer needs through innovation and at the same time continue to have the right marketing mix and invest behind the brands and therefore we are pretty confident about double digits growth this year.

Your last question was on the structural change in Hair Oils. If you look at the value-added hair oil category five-year CAGR, it is at 17% in value, the three years CAGR is 14%. If you look at total FMCG sector, those numbers are 13% and 15% respectively. If you look at Personal Care it is 11% CAGR on over a three-year period and a five-year period is 13%. So, if you look at Personal Care or FMCG, the value-added Hair Oils has performed better than FMCG overall and Personal Care. So the numbers tell you a story which is completely different from perhaps what you are hearing from some other sources and if you look at our Hair Oils value growth this quarter has been 17%. Hair Oil category is as mature as a shampoo today; in fact the branded penetration of hair oil is slightly lower than shampoos in this country. So, we believe there is enough headroom for growth in both from unbranded or unorganised to organised and growth in market share and we have been actually gained around 9-10% market share in a value-added hair oil space over the last three years and will continue to gain market share. Our aspiration is to have 40% market share. We are also now a market share leader in value as well as volume terms. So, I don't see this category as matured, it's as mature as skin care because actually by that logic fairness cream has performed lower. Nobody is saying fairness cream is also matured. I think you have to discount such hypothesis about explaining an underperformance through some kind of category restructuring. We have to see it from a two or three year period.

Prakash Kapadia: Right and you have always maintained that loose to branded conversion will continue in the near term so that in an inflationary scenario you just mentioned in your opening remarks so we continue to believe say over the next three to four quarters we could see market share increases?

Saugata Gupta: So I think the input costs and commodity market are extremely volatile so I will not venture to give you a forecast for a four-quarter period but if you look at historic trends we do perform well during inflationary times. In fact now we have a pricing model to proactively manage even deflationary scenario, having experienced two cycles where during deflationary times we have seen some lowering of the volume growth rate. So, in the immediate one or two quarters I think a Parachute 8% volume growth is imminently possible, given our current competitive position in pricing.

Prakash Kapadia: And the Saffola distribution initiative you mentioned there was some supply chain issue so over the next two-three quarters we should see increase in reach?

Saugata Gupta: The issue about supply chain is that the pouch pack has a low shelf life and as you go down the population strata the biggest selling pack is the pouch. And if you really look at our entire go-to-market thrust our entire focus is towards creating a portfolio of the future which is essentially in grocers, chemist and cosmetics. Now, what we are doing is we are going about distribution in a more methodical way because we believe there is focus in the top-10 town and maybe in the top-23 towns, the effort-to-result ratio will be far better as opposed to going down in a mass distribution.

Moderator: Thank you. Next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: I clearly understand the coconut oil conversion story which if it is always helped in this kind of an environment but I just wanted to know the view whether you also think there is some element up-stocking in trade because typically when prices tend to go up so sharply, trade tends to want to up-stock, do you think that is an element at all or it would be a very small element if at all.

Saugata Gupta: We have a replenishment model focus so I don't think there has been any trade up-stocking and even if it is there it will be very marginal. So I don't think that is a major factor on a volume growth because we maintain a certain distributor closing stock and also a trade closing stock and even the Nielsen FTRs do not reflect any such trade up-stocking.

Arnab Mitra: And just coming to the margin bit clearly you have taken 25% price hike but in percentage terms the gross margins will be lower. I was just wondering whether because the sales growth is going to be very high, the operating leverage on expenses like ad spends, staff costs and other overheads do they compensate to a large extent the gross margin percentage drop in this kind of an environment?

Saugata Gupta: See I think you have to look at over the longer term. I think we have given a guidance that our India business operating margin will be in 17-18% and in the international business 14-15% not including corporate overheads, overall company operating margin of 14-15%. Now, there could be certain quarters like Q1FY15 and Q2FY15 there could be a certain marginal drop. And you are absolutely right, when you have an inflation component suppose of 15-20% overall, sales growth will give some cushion to fixed overheads but that's not enough and there would be some margin contraction.

Arnab Mitra: And in this quarter we saw staff cost as well as other expenses being YoY lower if you see the comparable FMCG business, is that the sustainable level that currently is there in this quarter?

Vivek Karve: If you look at a full year level, employee cost in the region of about 6% odd of sales appears to be a reasonable level to look at and if you look at other costs also, as we have explained in the analyst note, other costs consist of both variable and fixed so it will be very difficult to summarise as to what is the acceptable level but if you were to look at a long-term average about 15% of total other cost to sales ratio seems to be reasonable assumption.

Arnab Mitra: And just one question if I could just put in. On the international margin you have guided for 14-15% which is lower than the 17% or 18% that you have been delivering in the last 2-3 quarters, I just wanted to understand the reason for that given that I think in MENA you are still not at your full level of profitability especially you have mentioned the KSA issues continuing to some extent. So, do you think including that you would see a reduction in margins to 14-15% levels?

Saugata Gupta: No, I think when I said 14-15% what I spoke about was a permanent shifting of base at 14-15%. That doesn't stop us from delivering 16% margin also in the immediate one or two quarters. The reason I said 14%-15% is because we want to invest to grow in international business and so the 14-15% margins is a threshold flow level of margins.

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

Aditya Soman: My first question is on the domestic FMCG business in which we have recorded a volume growth of 6% whereas the Parachute volume growth and Saffola volume growth have been in double digits and value-added is lower but does that mean that the Parachute non-rigid packs have grown much lower or how do you get it?

Saugata Gupta: Yes, there is a slight decline. As you know that during inflationary times we ensure that there is a threshold level of margin we want to make and we have been already reducing focus on the non-rigid Parachute packs and so there is a decline in them.

Aditya Soman: And the other question was on the Vietnam business here you have seen a very sharp decline in the fourth quarter but which you said was due to launches in the base but is the decline likely to be so sharp or you will just see a moderation in growth for the balance.

Saugata Gupta: For the full year, there will be a moderation in growth. This was an unusually high base where a lot of NPD happened in Vietnam during Q4 last year. So there will be certainly moderation in growth. The moderation in growth is also partly attributed to the fact that the CPG market is experiencing slowdown. However we believe that for the full year, Vietnam will get back on track in terms of growth.

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

Amit Sachdeva: First question is on Vietnam again. Obviously 24% was due to high base but I also wonder whether it's also because of some structural reasons like competitive intensity is rising say I hear you deliver and also P&G is getting very aggressive on male grooming in that segment in that country, is it also because there is not only consumer market is bad but competition is also now started perhaps becoming more and more aggressive there. Is there any colour that you could give on Vietnam then?

Saugata Gupta: So, in terms of competitive intensity, yes, I think the competitive intensity is reasonably high but in terms of our market share of X-Men which is the leading brand in the male grooming segment in shampoo we have lost only 2% market share in the whole year.

Amit Sachdeva: Okay sure and in deodorant which is again the second bigger segment I believe?

Saugata Gupta: The deodorant market share loss has been around 2-3% that is because the deodorant market is now converting from roll-ons to sprays. Now the spray part is growing at a faster space and we intend to invest behind the spray part of the market which we were not participating in actively earlier.

Amit Sachdeva: Sure, because it's slightly surprising because this market was growing at very strong double digits. Suddenly, a decline in one quarter seems sort of a bit of a challenge in terms of as if some real challenge has appeared in this segment.

Saugata Gupta: I would say that for the full year yes the growth will not be at the levels of last year but there would be certainly some growth.

Amit Sachdeva: Sure, secondly if I could draw your attention back to the coconut oil rigid growth of 10% volume which obviously is very strong and also I read in the information update that you sent is that market share has been stable around 56% and we also keep hearing that the hair oil category has seen perhaps no volume growth, etc., in the year as a category level. So it sort of looks like you have either gained market share or category has grown faster because you are one of the largest, you are the market leaders. So how do we reconcile this is that is there definitely some secondary sales happening as somebody else was also asking this question that or how do we read this?

Saugata Gupta: If you look at overall full year, we have grown in volumes by 4% and I don't know where you have picked up that the category has not grown.

Amit Sachdeva: Admittedly it's a very loose sort of statement that we have read or seen rather than any specifics, so I would perhaps ask your opinion how is it growing?

Saugata Gupta: See what happens during inflationary time is that the share of branded goes up while in deflationary times the share of branded goes down. So it is like this, I am growing and my share is constant. Mathematic tells me that obviously there is some market growth.

Amit Sachdeva: Sure indeed. So, do you see this sort of growth sustainable or when you see next 2-3 quarters since you are also seeing this April has already started and finished, do you see the same trend continuing in this quarter as well that you saw in last year last quarter?

Saugata Gupta: See as I said that it's very difficult to give a very long-term view given the extreme volatility of the input prices but certainly I can give you a colour in terms of the next two quarters you can see something like an 8% growth definitely.

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

Ashish Upganlawar: Just wanted to have some colour on a drastic shift in the volume growth rates which is contradictory actually between value-added Hair Oils and the base pack Parachute. Any comments to offer on what's happening in value-added Hair Oils? And is the Parachute growth mostly related to the inflationary benefit that we get normally, would you say that that is the most critical reason that you are confident of the volume growth in Parachute in the next 2-3 quarters.

Saugata Gupta: Inflation and a combination of right pricing during deflationary times. Perhaps we hadn't taken prompt pricing action in the last two times in our recruiter pack and so hypothetically had we taken that, we would have maintained our volume growth rate. Now, coming to inflationary times – yes, what happens since the pricing becomes more competitive, the growth rate goes up. As regards value-added Hair Oils, you should look at more from a long-term point of view and we are extremely confident of delivering double-digit volume growth in the next couple of quarters. So yes there has been a 5% volume growth partially because of two reasons – One of the biggest reasons has been in the base last year we had launched tender coconut hair oil and secondly, there were some promotional quantity last quarter. Also one of the things we have consciously done, given the current situation, is convert a lot of spends from promotion to investing behind media. So that is something which we are consciously going to do in the next year. If you really look at it, last year on a full year basis we have delivered double-digit growth in Hair Oil and this year we are extremely confident of delivering a double-digit growth in Hair Oil.

Ashish Upganlawar: I am stressing on this because other companies who have reported results they have not been so positive as far as value-added Hair Oil is concerned going forward but you seem to be pretty optimistic about getting those growth rates back basically maybe around 10-15% so.

Saugata Gupta: At least in the immediate term whatever our trends tell us and what you must realise is that we are also gaining share every year.

Ashish Upganlawar: Secondly, I just wanted to understand what would be the competitor's price hikes in the coconut oil rather the unorganised players compare to our 25-odd percent that you are mentioning?

Saugata Gupta: See normally the unorganised players pass on everything so it could be also as high as 40-50% also. You must realise also that for them the buying cost is equal to consumption cost but for a large organised player the buying cost and consumption cost are not necessarily similar.

Ashish Upganlawar: Lastly, if I could ask is this price increase sufficient to cover the 100%-odd kind of increase that we have seen in copra or any further will be needed because it's continuously increasing the price that we have seen from here, any updates?

Saugata Gupta: See 100% price hike in copra is from point-to-point. It's not necessarily in consumption terms. So we are waiting and watching and we believe that these high rates are not necessarily sustainable but as I said, it's very difficult to predict raw material prices, especially copra. So we will wait and watch, as I said, that we do maintain a threshold level of margins and therefore we will take further pricing action based on how the market is in the next couple of weeks.

Ashish Upganlawar: Anything to share on Bangladesh? The growth has strangely come back every time, so anything that has changed in your view?

Saugata Gupta: See I think Bangladesh you must realise that last year quarter four was also a lower base because there were some political disruptions. Having said that, in Bangladesh we are investing heavily behind growing the value-added Hair Oil and also getting into other categories because we believe that the long-term potential of just Parachute volume growth is only 3-4% and so we want a minimum level of 10% steady volume growth definitely from Bangladesh in the next 2-3 years. Given our relative competitive and distribution strength there will be a far aggressive play in terms of actually going in for value-added and new categories in Bangladesh and cross pollination of existing categories from India and even some of the international markets into Bangladesh. So one of the changes which we have done in terms of the international business mindset is that we are investing heavily behind organic growth capability which is essentially marketing, R&D, innovation and go-to-market and one of the biggest shifts which we have indicated in our entire mindset is that the 15-20% growth from the international business at constant currency has to be organic and any inorganic has to be a top-up.

Ashish Upganlawar: Is this growth sustainable in Bangladesh for the next 2-3 quarters?

Saugata Gupta: Yes, we believe this growth will depend on the success of the diversification of the portfolio so therefore we have to succeed in the value-added play. We are aggressively investing behind value-added Hair Oils. We are already number one in colours in Bangladesh and we have just entered into male grooming, and so the entire growth in Bangladesh is predicated on the fact that our entire value-added play has to be successful.

Ashish Upganlawar: But this is not essentially the Parachute volume growth despite the other categories being smaller in the overall Bangladesh business?

Saugata Gupta: Yes, Parachute as I said long term we are not expecting more than 3-4% volume growth in Parachute, simply because of the fact that we already have 84% market share and also branded-to-loose ratio is already over 80%. So I think it will be slightly optimistic to expect that Parachute will grow more than 3-4%. So it's important that as the rate of Parachute sales drastically goes down, we aggressively grow the value-added piece.

Moderator: Thank you. Next question is from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.

Hardik Shah: Is it possible for you to share the cash accruals generated from your Bangladesh business?

Vivek Karve: You are saying how much cash is lying in Bangladesh?

Hardik Shah: Basically, why I want to ask about that is that there is a pretty large amount of dividend which was given from Bangladesh to the Indian entity. So just wanted to understand the rationale of the same because had this dividend been lower on what's been there the standalone margins would have been comparatively lower.

Vivek Karve: Yes, so I think this question will have to be answered in two parts. The dividend from Bangladesh to India is definitely because of the fact that we have been accumulating cash surplus in Bangladesh because of steady increase in the profits. So it has been a conscious call to repatriate those profits back to India and of course it's a one-time effort just to make a one-time adjustment to the cash accruals in Bangladesh. And back in India I think as we have stated even in the past that while we continue to look for acquisitions, if there are no big acquisitions coming our way the best strategy is to give the cash back to the shareholders which is a good thing to do to improve the RoCE as well as the Return or Net Worth and that is what we have done by giving a one-time silver jubilee dividend to all shareholders.

Hardik Shah: Sir, could you throw some light on the performance of the food business?

Saugata Gupta: Yes, so the food business has done around Rs. 60 crores this year and the response to the Savory or the Masala Oats is encouraging. We will continue to scale it up and aggressively grow the food business and you can expect may be one or two innovations during the year.

Hardik Shah: And sir, the margins generally at the moment would be in low single-digit, right in food business or if I am right?

Saugata Gupta: See if you look at it, Plain Oats margin is very low but our endeavour is to ensure growth in the value-added part of the food business and it is important that the food business gets quick scale because scale is important in getting a certain margin. Also, compared to personal care A&P to sales ratios are slightly lower. We realise that there is amortisation of A&P between Saffola and Saffola Oats.

Hardik Shah: Sir, just my last question. There is a reduction in ad spend too, so any particular indication that for the next year ads spends would be at similar levels or would they be increased?

Saugata Gupta: I think given the fact that our expected topline will be higher because of inflation I think this is a fair 11-11.5% is a fair number to take.

Moderator: Thank you. Next question is from the line of Abhijeet Kundu from Antique. Please go ahead.

Abhijeet Kundu: My question was on your acquired youth brands particularly pertaining to deodorants. What we have seen is there has been the competitive intensity in deodorants has gone up, the market leaders have lost their position. So in terms of the category as a whole how do you see the competition panning out and what would really work for deodorant players because it has been a category where innovation has worked, no gas innovation has worked. And now what we see is that other players are just following up. So what would be your take on deodorant category as a whole within that?

Saugata Gupta: So the way we look at the Youth portfolio is yes, deodorants is the most salient but for us actually deodorants only contributes 34% of the turnover. There is another 66% of the turnover which is gels and serums and Livon hair gain which is much higher margin and which also is where we are market leaders. So while we want to gradually make our effort to increase share in deodorants we believe that by investing behind the other two categories we can get perhaps more significant growth and that perhaps could be a shift in our focus.

As far as deodorants are concerned, we also have launched ‘no gas’ version which is called Set Wet Infinity and we believe that will also help in our gaining market share. But again, even in deodorants we want to ensure that we maximise on the ASP amortisation opportunity because Set Wet plays between both the gel and deodorant category.

Moderator: Thank you. Next question is from the line of Sumit Agarwal from ICICI Bank. Please go ahead.

Sumit Agarwal: Most of my questions have been answered however I would just like to dwell again on the rigid pack growth. As you rightly said that a rise in inflationary environment is good for you in terms of the rigid pack volume growth. However, if I look at this time do you see that the overall consumer growth for the entire FMCG sector has been more muted and hence your growth of current 10%, how sustainable is it? My question is last time in the past you had a better overall environment and hence you were able to pass on your price increase as well as you had benefitted on the volume side. But now with 13% price hike plus 13% in April so we are talking of already a 25% price hike. How sustainable will be this volume growth? Do you still believe a 7-8% volume growth would be it likely?

Saugata Gupta: Yes, so you are absolutely right. So in 2011-12 a similar situation arose, Parachute rigids grew by actually 11%. And therefore we are saying that given the current challenging situation that number is not going to be 11%, it is more likely to be in the region of 8%. And also, we believe that the volume growth for the overall business is likely to be in the region of 8-9% because under these circumstances 8-10% growth is quite satisfactory.

Sumit Agarwal: Also on your food business can you talk more about what is your plan, strategy in terms of the Mosley business, you had touched upon the oat and savory oats which has been doing relatively well? What about the Mosley business how big it is?

Saugata Gupta: We are present in Muesli only in modern trade and it’s not something which we are investing behind at this point in time.

Sumit Agarwal: So has there been a withdrawal or say what reduction in your plans, strategy some changes in terms of your growth strategy for the Muesli business?

Saugata Gupta: Muesli is just an extension so I do not think it is such a critical part of our entire food strategy. In any category you need to focus on one engine of growth, you cannot invest behind multiple engines of growth and therefore we have selected Savory Oats because it is a differentiated product and we have a right to win there. We are going to invest behind driving one engine of growth.

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

Vivek Maheshwari: My first question is on the margins, as you mentioned that in an inflationary environment, margins may come off and your volume growth picks up. But from a longer-term perspective is it possible that the margin volatility in the overall business can come down or Marico will continue to see very high volatility? Is there any way to make margins relatively more stable than what these are today?

Saugata Gupta: It is a strategic choice whether you want to maximise opportunities for volume growth at the expense of margins. I think what will gradually happen over the next three to four years is that Parachute’s contribution to the overall portfolio will go on decreasing and therefore our dependence on the input cost volatility and its sensitivity will go down. Having said that, we have to exploit market opportunities and look at margins over 2-3 year period. So there could be a certain year where we will make 16% margin the following year we could make 14%-15% margin. As long as margin is within an acceptable band, I will not be worried.

Also you must realise that the contribution of international business to the bottom-line has also gone up significantly where the raw material volatility will be relatively less because we only sell Parachute in Bangladesh. So the margin volatility will decrease but it is here to stay and I am not particularly concerned about a 100-200 basis points margin volatility in some quarters or a certain year as long as we maintain absolute margin in a band and maximise growth.

Vivek Maheshwari: On the volume growth now 8% volume growth what you have indicated I mean you are sounding much more confident than at least the last few quarters whereas most companies are complaining that a macro environment is very conducive and its visibility is a problem, volatility is a problem. What is giving you so much confidence right now?

Saugata Gupta: Our source volume growth. Our competitive position versus the unorganised sector improves in an inflationary scenario, so our source of business is different. Number two, is the market share growth. We have been gaining significant market share in some of our categories like value-added hair oils. And thirdly, the other uncertain factor this year is the El Nino and the monsoon factor. Now compared to a lot of companies, our rural contribution is lower at 31%, although it has been significantly increasing thanks to our investment behind the rural sector. If you look at the report on El Nino, the states or the regions which are going to get impacted are North and Central. Our contribution of sales is far high in the East and South. So our contribution from the so-called potential drought affected areas is only 20% while the FMCG contribution is 30%.

Vivek Maheshwari: And are you done with the price hikes in Parachute now whatever that you had to pass is done with the hikes that you have taken in April?

Saugata Gupta: I wish I knew because it all depends on the input cost.

Vivek Maheshwari: As the commodity prices are today, as the copra prices are, are you done with the price hikes after whatever you have taken in April? I mean that there is no change in input cost from here?

Saugata Gupta: We will wait and watch.

Vivek Maheshwari: My question is - whatever is the input cost today, are you done with the price hikes, assuming that same input cost prices stay at current levels for the rest of the year?

Saugata Gupta: I think it is a strategic call where we want to find a sweet spot between margins and volume growth. So I will not try to commit to a number because it will all depend on what I see is the volume growth trend and competitive position.

Vivek Maheshwari: And just one last quick one. Saffola market share your release says it is at 55% and the release also says it was last year 57% so does that mean there is a 2% fund decline?

Saugata Gupta: Yes, it is. But as I said it is a marginal decline and not that we are worried.

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

Richard Liu: You referred to this slightly in an earlier question but can you throw some more light on SG&A, which I guess is the major source of the EBITDA growth this quarter? If I look at the Kaya P&L SG&A that is if I take all staff A&P and other expenses together I think on a combined basis they declined about 3% YoY. How was this achieved and how should we look at SG&A growth for next year? I guess on a percentage of sale basis it will come off due to scale of the topline growth that you would get given how selling prices are moving but I am more interested in the absolute figures and how can we look at how that is likely to move going forward?

Vivek Karve: Thanks Richard for your question. If you look at Q4 there are two, three reasons why the SG&A that is other costs as a percentage of sales has come down from 19.5% to 16%. One is the exchange related hits which sits in this particular line item. We have had less exchange hits as compared to last year. Rent expenses have also come down. Legal and professional charges have also come down. But there is also a denominator impact statistically, so because the sales have grown at 17% some of these fixed costs have not really grown at 17%. So that is also a factor. But if you also look at the full-year number the full-year number has remained in the ballpark of around 15.4% last year versus 14.8% in the current year so I would say a long term average of 15% is something you can look at. But as you also rightly pointed out because of inflation, the topline growth is much higher as a percentage of sales; the other costs will come down.

Saugata Gupta: I think combination of two things. One is, this year the inflation will be high and therefore you can expect a topline growth in excess of 20% in the immediate two quarters. Number two is, there will be some integration benefits which we started last year which will also come into play in fixed overheads.

Richard Liu: My second question is that there has off late been a lot of volatility in the international regions also it appears Bangladesh growth was rapid and suddenly it fell sometime back and then there were those issues MENA etc. Now Vietnam growth suddenly seems to be coming off sharply. How do you as an organisation actually look at these markets therefore I mean is there a way to reduce such type of volatility?

Saugata Gupta: Yes, you are completely right. We are putting processes in place to ensure better predictability and lower volatility. Having said that, you must realise in some of the markets there are geopolitical risks and there could be certain quarters where this can impact growth. As far as we are concerned, we want to ensure we grow better than the CPG growth in all these markets.

So as long as that is achieved we will be happy. But the geopolitical risks in some of the markets are here to stay we have to minimise it but cannot certainly neutralise it.

Richard Liu: How should we therefore look at growth for the international portfolio going forward as it stands today without considering any further acquisition?

Saugata Gupta: So a 15-20% growth at constant forex is imminently achievable in the international business.

Richard Liu: And what will drive that because Bangladesh seems to be weak; Vietnam has an immediate slowdown?

Saugata Gupta: Bangladesh was weak last year. I do not think it is going to be weak this year. Again, as I said, conditional to the way the current geopolitical situation is. Obviously the Middle East recovery will happen gradually and the region will fully recovery by the end of this year. Egypt continues to grow well. We have entered certain markets in North Africa and in Indo-China, for example in Myanmar and Cambodia, which will be new sources of growth. However, there could be certain quarters or some country going down or going up. But if you have to look at it from a full year basis, 15-20% is achievable. Vietnam, definitely the growth will be moderate compared to the last one or two years.

Richard Liu: My last question if I may. Can you elaborate a bit more on this value-added growth rate of 5%? You have stated high base as one of the reasons but if I recall correctly the base for the third quarter was even higher if I got my numbers correct?

Saugata Gupta: I was referring to the growth of last year when we launched tender coconut oil and therefore around 1.5-2% points have got shaved off because of that. Having said that, the volume growth this quarter is much lower than the 15-20% we were experiencing. But I think we will get back to the annualised growth rate last year of 10% plus. But yes, it would not get back in to the 20% plus range which we have been experiencing in the past 3-4 years.

Moderator: Thank you. Next question from the line of Tanmay Sharma from Edelweiss Capital. Please go ahead.

Abneesh: This is Abneesh here. Sir, my question is on the hair colour market. You are number one in Bangladesh and you have entered the Indian market also under the Livon brand. The issue is the MNC has also cut prices and now prices are the same as yours. So is there any learning from Bangladesh and how do you see a success in this, it is too initial period but how you are getting the initial feeling, are you confident of this? Could you give some colour on this?

Saugata Gupta: See the hair colour market is far more matured in India than in Bangladesh. So I do not think we could cross pollinate learnings from there. However, we strongly believe that the current price point of the cream market, is going to witness explosive growth and we would like to participate in the growth of this category. There would be some kind of an up-trading from powder to cream and similarly down-trading from other high priced cream colour to this 30-40 buck packs. We have just registered some market share but we believe that this is the category which will witness explosive growth. And Livon has a very strong beauty and conditioning credentials and therefore we want to participate in this category.

Abneesh: But no initial understanding of whether it is succeeding, it is too early?

Saugata Gupta: We launched it in January and we've got the first set of data. However, we will be able give you a better flavour sometime in the next quarterly call. All I can tell you is that it is doing reasonably okay as of now. But it is too early to call and I think more players are good because they will invest and actually grow this part of the category.

Abneesh: Sir, one of the other FMCG player is investing in the chemist distribution that will suit us also in terms of the youth skin in the hair care portfolio may be. So what are we doing in this space and for the hair care and hair colour and may be some of the other products, the parlor channel is also extended significantly. So if you could give colour on how we are increasing our presence there?

Saugata Gupta: So if you look at the portfolio of the future, certain channels like chemists and cosmetic channels are very critical to succeeding in them. We have mentioned in our note that we are doing a very comprehensive GTM transformation exercise over the next 2-3 years which will involve a complete overhauling of urban GTM. As you know, we had invested behind rural GTM in the last three years which is already giving us rich dividends. Just to give you a flavour, we have increased our chemist and cosmetic channel distribution in the top-six metros by 50%. After the Youth portfolio has come in, we have launched body lotion and Livon colour. So we strongly believe that the GTM transformation exercise in urban, which will involve increased distribution, , the next level of automation, segmentation, assortment selling and moving will make the sales system future ready for a 17%-18% kind of a portfolio growth and scale. We believe we can get additional 2-3% value from this GTM transformation.

Abneesh: Sir, my last question is on the Bangladesh business because of the huge raw inflation in copra and on the growth in terms of sales in Bangladesh also translates on the higher side and in terms of value-added hair oil that is a key focus area in terms of new growth driver. So any insights you can share from India, how quickly your India translated from the coconut to value-added hair oil and can Bangladesh be quicker than that some insights there?

Saugata Gupta: Yes, we are now investing behind the value-added hair oils in Bangladesh. We are number two there on an exit market share basis. On an overall annualised basis we are number three but our effort will be to accelerate the growth in the category and also gain market share.

Abneesh: Sir, how much is the size of value-added in that market and who will be the first two players?

Saugata Gupta: It is very insignificant; there are some local players and some players from India also. The value-added journey is something we want to aggressively follow there.

Abneesh: And same strategies like India in terms of aggressive pricing?

Saugata Gupta: I would not like to get into the details of the strategy. Our endeavour is to de-risk the portfolio and reduce our dependence on Parachute. It is a question of gaining market share and also value share and drive premiumisation in the category.

Abneesh: And sir, on that bit, sales should be high because of the raw material inflation translating into the price hike automatically that will be high, right?

Saugata Gupta: In what?

Abneesh: So just like in India the price hikes in coconut have been high in that market also?

Saugata Gupta: No, competitive dynamics are different because 80% is already branded so unlike India where there is a shift in business and the relative competitive position shifts, that kind of a volume fillip does not happen in Bangladesh during inflation. However, we have taken certain price increases in Bangladesh; it will translate into higher value growth subject to the same volume growth.

Moderator: Thank you. Next question from the line of Raunak Agarwal from Catamaran Capital. Please go ahead.

Raunak Agarwal: Two questions. One, what is the brand-wise value-added hair oil portfolio and the respective growth rates in FY14? And second is sir, how big is the youth portfolio, Medicare and Revive, now in rupees terms?

Saugata Gupta: So the youth portfolio is around Rs. 200 crores. As far as value-added hair oils we will not be in a position to share individual volume growth rates or brand-wise growth rates.

Raunak Agarwal: Sir, Nihar you say it is Rs. 250 crores at the retail level, right?

Saugata Gupta: Yes, Nihar Amla is Rs. 250 crores at company realisation.

Raunak Agarwal: Rs. 250 crores is at the company level?

Saugata Gupta: Yes.

Raunak Agarwal: Sir, how big is Medicare and Revive now?

Saugata Gupta: We will not get into individual brand-wise details.

Moderator: Thank you. Next question from the line of Anirudh Joshi from Anand Rathi. Please go ahead.

Anirudh Joshi: Yes sir, just wanted to check we have already raised prices very aggressively in April so what is the price hike for Re1, Rs5, Rs10 packs and have we reduced the grammage over there or because earlier also we have not raised prices aggressively for these SKUs?

Saugata Gupta: We do not have Rs. 5 packs.

Anirudh Joshi: Sir, Re. 1 packs?

Saugata Gupta: We do not have a Re. 1 pack for Parachute coconut oil.

Anirudh Joshi: No, Blister pack is there?

Saugata Gupta: That is Parachute Advansed hair oil. That is a different thing.

Anirudh Joshi: Okay we have taken across-the-board 12-13% price hikes?

Saugata Gupta: Yes, we have taken an overall price hike of around 25% on YoY basis but it is 12-13% this time.

Moderator: Thank you. Next question from the line of Dhawal Dama from Equirus Securities. Please go ahead.

Dhawal Dama: I just wanted to ask you what is the strategy on some of the brands which are not doing so well in the value-added hair oils category, particularly like if you look at Parachute Jasmine, which I believe has been de-growing in the market in terms of sales and again Hair & Care, which has not growing strongly also? So what are our strategies on that, sir?

Saugata Gupta: I do not know where you have picked up that Parachute Jasmine is de-growing in the market.

Dhawal Dama: And sir, like say what is our strategy for the South African business because as you know that the consumer preference over there is also changing drastically so sir, how do we foresee our strategy on that business now to revive that?

Saugata Gupta: So the GDP growth in South Africa is challenged but we have outperformed the CPG growth there. I think the challenge is not about South Africa but how to leverage that portfolio into other parts of Africa and that will be our endeavour because South Africa as a standalone business does not give scale.

Dhawal Dama: So we plan to get into new territories over there?

Saugata Gupta: Yes, it will be our endeavour. I think we have to get in to the right markets and the right portfolio to win and it will be in a gradual manner. We believe that there is significant potential in Africa. And as far as our focus areas are concerned, Africa and some parts of Southeast Asia has gaps in our presence.

Dhawal Dama: So if there would be an opportunity, you would be looking at some acquisition over there also in Africa for some products if we get something?

Saugata Gupta: Yes, I think as I said the first endeavour is to ensure that we grow in adjacent markets and adjacent categories in existing markets. Inorganic opportunities are a top up; inorganic growth cannot be an escape route for not doing organic growth and that is one of the key shifts in mind sets in the international business which we have been driving in the last couple of months.

Dhawal Dama: And sir, just one last thing. What would be your current levels of inventory for copra right now?

Saugata Gupta: No, I would not be in a position to tell you that.

Moderator: Next question from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Sir, a small question. Tax rates next year 30% is a certainty, there is no change to that guidance, right?

Saugata Gupta: Yes, as we feel today, 30% is likely.

Moderator: Thank you. As there are no further questions I would now like to hand the floor to Mr. Rakshit Ranjan for closing comments. Thank you.

Rakshit Ranjan: Thanks a lot. On behalf of Ambit Capital I thank the senior management team of Marico as well as the participants on the call. I would like to now hand the call back to Mr. Saugata for any closing comments, over to you, sir.

Saugata Gupta: So just to sum up, I believe that there has been a recovery and we hope to get back some momentum in volume growth; although the recovery will be gradual. We will continue to invest behind brands, talent, and capability building in spite of challenging circumstances because we believe that in emerging markets volume and market share is far more critical than short-term margin because you can always recover short-term margins. There are uncertainties in the immediate term, whether it is input prices or monsoon and our challenge will be to manage this volatility. As far as international markets are concerned, we will be in the 'invest to grow' mode and the focus will be on organic growth. So thank you everyone for participating.

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