"Marico Limited Q1 Financial Year 2015 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Marico Q1 FY 15 post-results conference call hosted by Ambit Capital. As a reminder, 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 *" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan of Ambit Capital. Thank you and over to you, Mr. Ranjan!

Rakshit Ranjan: Thank you. Good evening everybody. Welcome to Marico's conference call hosted by Ambit Capital. We have with us the senior management team of Marico comprising Mr. Saugata Gupta, Managing Director and CEO; Mr. Vivek Karve, Chief Financial Officer; and Mr. Chaitanya Deshpande, Executive Vice President and Head of M&A and Strategic Initiatives. I would like to hand the call over to Mr. Saugata Gupta, who will take you through the highlights of Marico's performance during the quarter. Over to you, Sir!

Saugata Gupta: Good evening everybody and thank you for attending our call. Before I give a perceptive on the quarter's performance, I want to highlight the presentation we have shared with you on our medium-term game plan. Since it was the first quarter of the year, the purpose of sharing a presentation was to give you a flavour of what are the initiatives and what is our broad strategy in driving the next phase of growth for Marico. It will give you a broad strategic perspective in terms of what are the key initiatives we are taking as we move this organisation into the next phase of growth over the next 4-5 years.

I will now come to the highlights of the Q1. I think it has been a satisfying quarter with India volume growth of 6.5%. The international business, you would have expected a slightly higher growth, but we believe that volume growth in this business will be back on track. What is most encouraging in the international business is a permanent shift, and it is a significant shift, in our operating margins structure of at least 400-500 basis points.

Coming to the growth in India, all the three core categories, which are Parachute Rigids, the Saffola business, value-added hair oil, have posted good growth. Obviously because of significant inflation in the coconut oil business, from which we have to derive a certain threshold level of margin, the defocused packs have not grown and that is the reason why you see the overall volume growth at 6.5% although most of the core categories had grown more than that.

The youth business has remained flat, but that is because of a high base and we expect the business to get back into 15-20% growth over the next couple of quarters. Regarding the value added hair oils category, if you look at our growth data quarter after quarter, rather than the last quarter, over the last 3-4 years, we have been growing in double digits in both volume and value.

We have been gaining 1-2% market share every year, so therefore some of the numbers reported with respect to value-added hair oil category growth is on a decline is something which we believe is not right and I think there has been a significant pickup issue in Nielsen. In fact, I would like to bring to your notice that even the overall Home and Personal care numbers as reported by Nielsen is much lower than the results of most of the companies. So obviously there seems to be a little bit of an issue with Nielsen's pick up in the numbers, which are reported in the retail audit.

Having said that, I believe the pickup in growth will be gradual in the FMCG sector and we expect the growth to pick up by Q3 and Q4 this year. We are carefully monitoring the progress of the monsoon. The deficit has been reduced to a certain extent in July, but August in a critical month and if August goes on well, the risks in terms of inflation or reduction in rural consumption will go down.

Having said that, in the second half of the year, we expect the urban consumption to pick up and the gap that we were noticing between urban and rural consumption is going to get bridged. Just to give you also a subtle flavor of the outlook, we believe that over the next two quarters, because of the fact that we have continued to have input cost pressures, there would be some margin pressures. But as an organization, since we participate in the emerging markets, we would like to maximize volume growth and market share gain.

As you know that we are number one in 90% of the categories we participate in and 80% of our portfolio has gained market share. This is something which we will continue to do subject to a threshold level of margin of 14-15% on an annualized basis. With this, I hand it over for questions.

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

Abneesh Roy: Sir, congrats on a good volume growth. My first question is: although we have done quite well in our core categories, if I see the youth brand, it is a high base. I agree 40% QoQ growth in the base quarter. But in spite of actions that you have taken, you have also now launched the 1,000 sprays deodorant. Why our growth is not there and market share is stable; it is not declining, but why it is not increasing? If you could comment why Wild Stone, which is relatively a much smaller company, they have become number three in some months?

Saugata Gupta: If you look at the youth business, there are three categories. One is deodorants, one is gels and creams, and the third is serum category. We have gained market share in two of the three. As far as deodorant is concerned, the competitive intensity is very high and perhaps some of our competition both in terms of spends and innovations have done better than us. Having said that, we must realise that last year we had a significantly high base in Q and we had re-launched Zatak. If the portfolio continues to track at the current rate, we believe that we will get back into 15-20% growth in the coming two quarters.

Abneesh Roy: But Sir, that is the concern. You're saying in two quarters, 15% growth. My follow-up on this is, it was a collectively quite hot summer. So in that kind of scenario, does not the youth brand off take increase? If you could tell us Q1 normally is what part of the full-year in a normalised year?

Saugata Gupta: I think that is only in deodorants. It does not neutralise because serums grow much more in the second half, so I do not think as far as our overall portfolio is concerned there is any skew. As I said, last year we had the entire Zatak deodorants re-launch with the new packaging so there was a lot of selling in the base involved. So that was the reason perhaps the growth has been flat, but we are extremely confident of the growth coming back in the next one or two quarters.

Abneesh Roy: Sir, one more follow-up on this. If you see you have said in our medium-term game plan that male grooming is extremely important as a target for us. Similarly, you have also discussed Project One, the six metros. So these two will it be most beneficial for the youth brands in India? Will that be the most benefited segment?

Saugata Gupta: What we are doing is, while we create a portfolio of the future, in terms of driving consumption, it is important that our GTM gets oriented towards the portfolio of the future. As the quality of direct coverage increases, whether it is urban or rural, it drives range selling. This will definitely benefit all the value-added brands in our portfolio.

Abneesh Roy: My last question is, Vietnam, you have said the flat growth was because of a slow economy and weak sentiments. Now, if you see in most parts of the world, we are seeing a slow economy and weak sentiments, including India where you have done quite well. So if you could dwell into more details what has happened in Vietnam and in India also now, if you see in the gel, we expect one more big company to enter. So are you worried from that?

Saugata Gupta: As far as Vietnam is concerned, the FMCG sector has been a little soft in the last couple of quarters. We have been able to maintain share in shampoo where we have a leadership position. We expect the growths to come back in the second half, although the growths will not be at the level which we had witnessed in the last couple of years. As far as gel is concerned, we are market leaders. As a market leader, we have to innovate and invest behind the category to grow the category. Sometimes, as you have seen in some of the other categories like breakfast cereals, multiple players accelerate the category growth. So as far as we are concerned in styling in India, we have to continuously innovate and grow the category.

Abneesh Roy: Thanks a lot sir, I will come back when available.

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

Percy Panthaki: My question is on the medium-term plan that you have put forth, where basically you have said that you would like to double your turnover in four years, which is approximately a 19% kind of a CAGR. So I just wanted to know in this 19% what would be the breakup as in have you included any inorganic growth in this number and within the organic portion, what would be the volume versus value? See, because the copra price inflation actually determines your topline growth to a large extent.

Saugata Gupta: We shared this presentation to give you a flavour of what our aspiration is. We will not be in a position to share with you the building blocks to this growth. I think just to address this 19%, our track record in the last five years has been a 16% topline and 20% bottom-line CAGR. As far as the copra inflation is concerned, you have to see this from a 3-4 year perspective. So it is cyclical. So one year you might get high inflation and the second year you can take a price decrease. So the long-term inflation is not very different from the FMCG sector. There will be a component of entering into some new markets and adjacencies. We expect the international business to deliver a 15% minimum growth through organic means and any inorganic growth should be seen as a top-up and as a result, we have been investing behind organic growth capability in the international business.

Percy Panthaki: Sir, can you at least give a yes or no reply, whether the 19% includes any inorganic or not?

Saugata Gupta: It includes entry into new categories and new markets. Now the choice between build or buy will depend on what is available at that time.

Percy Panthaki: Sir, second question is on the edible oils market. You are maintaining market share at 55%. The second player in this industry also says that he is maintained market share at 45%. But since three or four quarters, the volume growth for Saffola versus the competition has been diametrically very different. So what is really going on there?

Saugata Gupta: As I had indicated in my opening remarks, there are certain concerns about the pickup factor of some of the retail audits we have done. We are also extremely concerned about the value-added hair oils category, where we are extremely clear that the category has been growing in the last 3-4 years because if my STR is not going up, my distributor stock is going up and if I am growing at double digit and gaining only 1% market share, there is no reason the category might be declining. I understand that this might be a nice way of explaining decline for some brands, but as far as we are concerned, there is a pickup issue. We are working with Nielsen to sort this out.

Percy Panthaki: So couple of housekeeping questions. Firstly, can you just give us an idea on what would be your run-rate per quarter of depreciation for the next three quarters, what would be your per-quarter run-rate if you remove all one-offs and exceptional, that is point one? The second point is, if you can give us an idea what is the growth in Shanti Amla volume growth for this quarter YoY?

Saugata Gupta: Before Vivek talks about the depreciation, we would not like to get into giving brand-wise growth.

Vivek Karve: Percy, if you look at the current quarter, which is Q1 FY 2015, the depreciation number is about Rs.20 Crores, So if you take out a few crores of impairment provision, the steady state number could be in the region of Rs.17-18 crores per quarter.

Percy Panthaki: And on Shanti Amla, I understand you do not want to give a number. That is fair. I just wanted to know in some of the quarters in the past, the entire growth has been on account of Shanti Amla. So just wanted to know whether it is just one brand, which is pulling the category along this quarter or it is broad-based?

Saugata Gupta: That is not a right assumption. The reason for our success in hair oils is our broad participation strategy where we do not focus on one category, but we believe that consumer needs are best fulfilled by a right combination of nourishment and sensorials. Therefore, all our brands have been growing significantly and today, we have a lot of Rs.250 crore brands. So, therefore, all the brands I can assure you have grown and much as you might assume that it is only a Shanti Amla driven, it is not.

Percy Panthaki: Thanks and all the best.

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

Aditya Soman: Good evening. I think the first question is on your international margins. Firstly, could you explain what led to the significant increase of about 500 basis points in your margin? Secondly, you have mentioned that you will plough back a lot of these margins into sort of driving sales going forward. Could you specify where you will reinvest and which geographies you see the need to reinvest significantly?

Saugata Gupta: Let me give you a broad colour to this. The way we look at international business is that we operate in the emerging markets where we are in a invest-to-grow mode and therefore we should have a sustainable margin that drives volume growth and market share gain in our portfolio. I think 14-15% operating margin is the right margin on an annualised basis; 18% is a one-time aberration. There could be certain consumption gains in a certain quarter, but I think 14-15% is a right margin.

Now, where we will plough back to drive growth? One is, if you look at all our international markets, we have one pillar of growth and we have to create multiple pillars of growth. This is what we are doing in Bangladesh where we believe that there is a significant saturation as far as Parachute growth is concerned. Therefore we have to accelerate the growth journey in the value-added space whether it is in value-added hair oils or other new products such as male grooming. We are number one in hair colours and are also entering one or two more categories because now with the integration of India and international business, the cross pollination opportunities and play and plug opportunities are very high.

The second level of investments will go in some of the adjacent markets. We want to enter certain markets where we believe we have early mover advantage and headroom for growth, and so we have indicated some of the markets in our note where we will strive to deliver Rs.100 crores turnover over the next 4-5 years and even in other core markets of the Middle East, North Africa, and Vietnam, we would like to explore the second pillar of growth.

Aditya Soman: And, actually, my second question is on your standalone employee cost. So we saw that increased over Rs53 crores for this quarter as compared to a sort of average of about Rs42 crores odd as for those of last year. Could you explain where this increase has come? I would have seen that in your press release, but will this sort of be the run rate going forward for the rest of the year?

Vivek Karve: See what has happened, Aditya, is in the current quarter, there has been an increment provision towards the incentives, which is the performance-led incentives and the other one is towards the higher provision for the stock appreciation rights. So the provision towards the stock appreciation is completely a function of how the stock prices move. It will be very difficult to mention the going rate going forward and the incentive provisions will also keep moving based on the performance of the company. So very difficult to put a number, like I gave guidance on depreciation, it will be very difficult to do the same for employee cost.

Aditya Soman: But just a follow-up, I mean most of these incentives are linked to sort of the topline or would they be sort of linked to margin, I mean sort of bottom-line?

Saugata Gupta: We ensure that the incentives are linked to both current year performance and long-term capability building. So some will be linked to topline and bottom-line and some will be linked to a long-term capability building goal like innovation and talent. So we ensure that we make a provision based on our first quarter performance, but obviously you get a far better visibility as you go towards quarter three and quarter four.

Aditya Soman: Thanks a lot.

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

Prakash Kapadia: Thanks for taking my question. Congratulations on a good topline. Sir, on Bangladesh, is this growth of 14% sustainable? And if you could give us some sense, is the consumer sentiment, especially given the higher food inflation environment, there is also enough or increased off take of newer products, which you mentioned like the serum, deodorants, or Saffola edible oils, if you could give us some sense?

Saugata Gupta: Are you referring to Bangladesh?

Prakash Kapadia: Yes Bangladesh.

Saugata Gupta: I do not think Bangladesh growth will be through serums and edible oils alone. Value added hair oils, male grooming and colours at the mass end will also significantly contribute to the incremental growth. If you look at any emerging markets, any good company at least should grow minimum 2x GDP. If you look at the Bangladesh GDP, it is expected to grow at around 5-6% and therefore 12% is stable steady stake growth and if you are not growing at 12%, actually you are not doing a good job in that market.

Prakash Kapadia: In India, in terms of hair oils, is there some low base effect of LBT in hair oils, which has also helped or is it just higher copra prices, which has led to this high-value growth?

Saugata Gupta: I think we have been growing in hair oil in double digits other than one quarter, so I do not think LBT factor will be there. I do not think it impacts hair oils as anyway most of our hair oils are sold in the north. So as I said that we would like to grow every quarter double-digit volume in hair oils. It was one quarter last year where we did not grow in double digits. Otherwise, if you look at our track record over the last three years, we have been growing at double digits volume growth and gaining market share every quarter.

Prakash Kapadia: Given the price hike and the likely scenario of volume growth being better in the second half and even the urban consumption looking up, is it fair to say we will maintain this current EBITDA margin or contain the EBITDA fall at 60-70bps at a consolidated level for the year as a whole? Is that a fair assumption?

Saugata Gupta: I talked about consumption overall of the sector. We will be happy to deliver 7-8% volume growth for the year. Definitely, there would be some short-term margin pressure in the immediate term because of the fact that our input cost, especially copra, does not seem to be softening. You need to look at 14-15% operating margin over the year because we would also continue to invest behind growth because for us it makes much more sense to drive growth and market share as long as you can deliver a certain margin. I think a 14-15% is a reasonably sustainable margin for us to maximise our growth in both the Indian and international markets.

Prakash Kapadia: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Morgan Stanley. Please go ahead.

Nilesh Shah: Thank you so much. Sir, my first question is on the gross margins in the CNO portfolio, or just the margins in the domestic business. On my calculation, it appears that the copra price increase for Marico for this quarter is only about 60-70% versus what's actually happened of 130%. So is there some impact of the inventory that you are carrying forward, which could be lower-cost inventory?

Saugata Gupta: There would be some strategic gains in consumption terms this quarter and that is the reason I have been talking about the fact that there would be certain margin pressures in the next two quarters.

Nilesh Shah: And will you take price increases given where we are with copra prices today to mitigate those pressures?

Saugata Gupta: See again as I said, we want to first focus on ensuring a certain volume growth, you must also realise that a high topline growth also gives you some cover in terms of the fixed overhead and other fixed costs. So unless there is some significant inflation, the price increase which we have taken at this point in time is sufficient for at least a quarter or so.

Nilesh Shah: So you have taken a 35% roughly price increase based on what the numbers you have declared today and the inflation is upwards of 100%, so it is not squaring it at all. I mean there is such a big gap between the two. So are you okay living with very low margins for the next one, two, three quarters, whatever it takes?

Saugata Gupta: The input cost inflation does not translate into 100% prices.

Nilesh Shah: 50%?

Saugata Gupta: I think the view for the next two quarters is that if the input prices continue to move sideways and not have any significant improvement, we are comfortable with the price increases we've taken so far. I am not particularly perturbed if there is a one or two quarters margin pressure because at the end of the day as long as there is good volume growth and good market share gain and we get enough to invest behind NPDs and the new portfolio of the future, we are okay. See the way we operate is with margins within a band. We have developed, over the last 10 years, a pricing model based on which we can determined the minimum threshold level of operating margin in which we can operate. You must also realise that, for consumers, there is an absolute price level rather than just a price premium in terms of affordability and therefore it is important that we continue to get that volume growth.

Nilesh Shah: Sir is your band a margin band or is it an absolute gross profit band?

Saugata Gupta: It is a margin band where there is a threshold level. As I said, even in our overall business the minimum margin band annualised is 14-15%.

Nilesh Shah: Coming to Saffola, again out there, there is some input cost deflation, but you have taken prices up marginally. So would have taken prices up. Again, the calculations out there suggest that the gross profit margins for Saffola will jump quite dramatically based on this price increase versus input cost differential. So are you cross-subsidising a little bit of the margins in CNO versus Saffola?

Saugata Gupta: You must look at not the quarterly numbers but the annualised numbers. So, whenever we take a price increase, we take it on a basis of the annualised or at least 6-9 month forecast rather than the quarterly forecast. So, I do not see any significant increase in margins of Saffola compared to last year.

Nilesh Shah: This 14-15% EBITDA margin guidance, which is there or the band we are seeing over the medium term that basically would imply that over the next three quarters, we will see some bigger EBITDA margin compression?

Saugata Gupta: Yes, as I said, one or two quarters there would be some compression.

Nilesh Shah: Final question, sir, in the VAHO portfolio, on the gross profit level, without getting into the specific numbers, could you just indicate roughly over the last two or three years what has been the increase in the gross margin profile?

Saugata Gupta: The way we look at the VAHO category is in terms of net contribution of the portfolio and whether that has been increasing over the years. You have to look at the net contribution margin and not gross contribution margin because any portfolio that witnesses explosive growth will have a drastically declining ASP to Sales ratio. Gross contribution does not matter because in India where the media is fragmented and the threshold level of participation cost in media is very high, when you get a critical market share or you get an RMS of 0.5 in each subcategory or you start getting leadership with 1.2 RMS, you get significant advantages of A&P; therefore, you have to look at net contribution percentages, not gross contribution percentages.

Nilesh Shah: Sir, the reason why I am actually asking this question was because of Shanti Amla; and given that you started taking price increases out there, that was one big dampener in the profitability of that segment. So I just want to understand where you have come to and where you could potentially go to over the next two, three, four years as the pricing of Shanti Amla normalises?

Saugata Gupta: Our endeavour will be to significantly increase both our value share and volume share. So just to give you a perspective, we do not only look at volume share in value-added hair oil space, but we also look at value share. Our endeavour is to accelerate both.

Nilesh Shah: Thank you very much for your time.

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

Aashish Upganlawar: Just want to know, in July, have we taken any further price hikes, especially in the Parachute portfolio? And secondly, on Bangladesh, would the price hikes be similar to what happened in India in the CNO basket?

Saugata Gupta: Yes. Bangladesh, the price hikes has been on 16%.

Aashish Upganlawar: Is it that the same quantum as we have done in the India market on a YoY basis?

Saugata Gupta: No, it is low.

Aashish Upganlawar: It is lower. And in July, in India, have we taken any further price hikes in the Parachute portfolio?

Saugata Gupta: No, not in Parachute, we have not taken any price hike.

Aashish Upganlawar: Sir also wanted to understand from you on I mean how this Livon Hair Colour has done, because a few inputs from the market that we get are that there was a trouble spot for the new launch, especially as Garnier has also launched similar time. So how would you rate the initial response? I read your investor update that you think it's positive, but your comments on that?

Saugata Gupta: Yes the competitive landscape has changed and we would like to wait it out before giving a verdict. So far, I would say it is satisfactory. I think we are doing well in certain markets. It is yet to pick up significantly in other markets. So, I think it will take some time but having said that we are participating in the most exciting part of the category.

Aashish Upganlawar: Sir, and in Bangladesh, how confident are you that this volume growth that we have seen probably would sustain and probably be bettered maybe over the next couple of years? I mean do you think that this kind of growth is sustainable or more than this probably?

Saugata Gupta: As I said that the way to look at it is that FMCG sector in any emerging market grows as 2x the GDP. Given our distribution strength, equity of the brands such as Parachute and the fact that we have significantly upped our capability or innovation model in Bangladesh, we believe that we should be able to accelerate the growth journey and significantly reduce our dependence on Parachute Coconut Oil. We expect Bangladesh to continuously grow at double digits over the next 3-5 years.

Aashish Upganlawar: In terms of volume?

Saugata Gupta: Definitely in constant currently terms.

Aashish Upganlawar: Any numbers to share on volume? Would it be 5%?

Saugata Gupta: In India, a good volume growth is defined as 8-10%. I would expect the growth to move up to 8-10% as we expand our portfolio to other categories.

Aashish Upganlawar: Thank you so much.

Moderator: Thank you. The next question is from the line of Sudhir Kedia from ASK Investments. Please go ahead.

Sudhir Kedia: Good evening, Sir. Sir, taking the Bangladesh thing forward, just wanted to understand, you said that Bangladesh should grow 2x of GDP wherein the GDP is growing to 5-6%. You meant a real GDP and volume growth, or something else?

Saugata Gupta: I meant value growth.

Sudhir Kedia: So you will be growing more or less 1x of a nominal GDP growth. Am I correct to understand, because 5%, 6% would be inflation over there?

Saugata Gupta: Yes, that is, that is fair assessment.

Sudhir Kedia: So, which is more like a growth with a GDP and nothing more?

Saugata Gupta: I am saying that is a bare minimum growth. Anything less than that is not a satisfactory performance, as far as we are concerned.

Sudhir Kedia: Sir, going forward, will margins improve in Bangladesh?

Saugata Gupta: Our philosophy is to ensure sustainable margins to drive business growth, volume growth, and market share gain and rather than getting into country-wise margins, what I can give you is a perspective that we believe that the stable international business margin should be in the region of 14-15%.

Sudhir Kedia: Sir, coming to your medium-term goal, can you give us some flavour in terms of as you said that you want to enter into adjacent categories and markets, so any flavour in terms of what kind of categories?

Saugata Gupta: We choose categories based on market attractiveness and right to win and that is one of the reasons we have gone into certain categories in India and other markets. I think the first endeavour is to cross pollinate and have more than one category play in some key market. So that is the first step before getting into any other category. As far as India is concerned, we are participating in a significant number of categories. I do not see us entering into any more categories. But, if you look at the core markets internationally, we participate in not more than one or two categories in each geography. I think there is enough opportunity to participate in different categories in leave-in nourishment and male grooming across these markets.

Sudhir Kedia: Thank you.

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 the price increases in coconut oil have been quite significant over the last 12-15 months, 12 months specifically. So I just want to know how the category works. Is there any chances of the coconut oil, because the price differential between the light hair oils typically and the coconut oil has come up a bit, so is there any chances of consumers moving out?

Saugata Gupta: The way it works is that a lot of people move from loose to branded coconut oil and therefore we try to maintain a certain price premium during inflationary times. We are more competitive in pricing compared to loose and unorganised sector during deflationary times.

Sanjay Singh: Secondly, on your margin front and overall 14-15%, is there anything that you would like to cap yourself at 15% or if circumstances allow you to go above 15%, you go above 15%?

Saugata Gupta: We will never sacrifice the long term for the short term.

Sanjay Singh: That is very reassuring. Thank you. Thank you very much. Bye.

Moderator: Thank you. The next question is from Rakshit Ranjan. Please go ahead Sir.

Rakshit Ranjan: Just one question on your distribution expansion you have given a para in your commentary on the Project One. Can you just quantify how much was the direct reach a year ago versus what it is now in rural and urban please?

Saugata Gupta: I would not like to get into specifics of the exact numbers as these are competitively sensitive numbers, but all I can tell you is this has been necessitated by the fact that our earlier direct urban distribution was based on our old portfolio. We realised that there are significant gaps in our distribution and I believe that with the increase in direct coverage in both urban and rural we can add an additional 2-3% of our turnover just by increase in direct distribution alone.

Rakshit Ranjan: How much further have we yet to go to complete the Project One in terms of its full potential?

Saugata Gupta: It will take time as we have started in the top-six towns. Let us settle down and then we will see the opportunities. I am sure there is enough opportunity in middle India today because that is where a lot of our consumption growth story is happening. So, we will look at that while simultaneously continuing to expand rural distribution. We expect the rural contribution also to move to 35% within the next 2-3 years.

Rakshit Ranjan: That is from me. Thank you Sir.

Saugata Gupta: Thank you. The next question is a follow-up question from the line of Aashish Upganlawar from Elara Capital. Please go ahead.

Aashish Upganlawar: Are there any insights to share as in how you view the copra prices moving ahead because the price seems to be on a multi-year high. So anything that suggests that these would cool off maybe in some timeframe that you would see?

Saugata Gupta: I think predicting a commodity is very difficult but all I can say is that we are on the peak of the cycle and if you see historically the prices go on 18-month cycle. So I think we are at the peak of the cycle and what happens there are demand consumption pressures, which actually adjust and bring the prices down.

Aashish Upganlawar: Basically the spike in copra prices was caused because of a shortfall in Tamil Nadu so probably that they want to watch out for how it has turned out?

Saugata Gupta: So you have to see how the next season pans out. But, as I said, what happens when the price goes so high, is that there is a switch in consumption. If you look at two cycles over three years, you get one cycle of inflation followed by one cycle of deflation.

Aashish Upganlawar: Sir, just last question from my end. How are you viewing the Parachute volume growth going ahead? I mean, in the remaining 3-4 quarters, I mean are we going to see more than the number that we have reported now? Are the trends likely to be more in the 7-8% range or do you think it is still a bit away?

Saugata Gupta: This is a number which we have given as a medium term guidance. So, we have gone back into the range and last year was an aberration as we did not manage the price deflation well. Having now experienced multiple cycles of inflation and deflation and developed better modeling, we would be more proactive when the next deflation comes and manage that well. So, I think 6-8% is a medium-term guidance as far as Parachute growth is concerned.

Aashish Upganlawar: Thank you.

Moderator: Thank you. Participants to ask a question please press * and 1 now. As there are no further questions, I would now like to hand the floor over to Mr. Ranjan for closing comments. Over to Sir!

Rakshit Ranjan: Thanks a lot. On behalf of Ambit Capital I thank the senior management of Marico as well as all the participants on the call. I would like to now hand the call back to Mr. Saugata for any closing comments. Over the Sir!

Saugata Gupta: Just to conclude, we will continue to drive the journey of our sustainable profitable growth. What is important to us is that, over the short and medium term, we choose volume growth and market share gains subject to a threshold level of margins. We have identified five transformation areas in our organisation namely innovation, cost management, GTM, IT & Analytics, and talent value proposition, which also involves creating a culture of risk taking and entrepreneurship as we move towards the next phase of growth and we will continue to focus on first driving organic growth especially in international business. Any inorganic growth is a top-up and we are conscious about ensuring while we drive growth, we keep a watch out for our RoCE as well as the dividend payout. Both directionally, we believe are going to increase over the medium term. Thank you very much for listening. Thank you for all the insightful questions. Good night.

Moderator: Thank you very much ladies and gentlemen on behalf of Ambit Capital Private Limited. That concludes this conference call. Thank you for joining us. You may now disconnect your lines.