



## Marico Limited Q1 FY16 Earnings Conference Call

**August 05, 2015**



**MANAGEMENT: MR. SAUGATA GUPTA – MANAGING DIRECTOR**  
**MR. VIVEK KARVE – CHIEF FINANCIAL OFFICER**

**ANALYST: MR. RITESH VAIDYA – AMBIT CAPITAL**



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**Moderator:** Ladies and gentlemen, good day and welcome to Marico's Q1 FY16 Earnings 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 call please signal an operator by pressing \*0 then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Vaidya from Ambit Capital. Thank you and over to you.

**Ritesh Vaidya:** Thank you. Good evening everybody, and welcome to Marico's conference call. We have with us the senior management of Marico led by Mr. Saugata Gupta ó Managing Director and CEO, and Mr. Vivek Karve ó Chief Financial Officer. I would now like to hand the floor 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 welcome to Marico's conference call. I will just give a brief summary before we take the questions. I think overall a decent quarter especially in the India business, although while the international business was disappointing in the India business we were striving to do an 8% volume growth but we ended up at 6%. We have continued to do better in rural, while we are closely tracking the monsoon to gauge any possible impact in consumption; however, in my opinion so far the feeling is that in items of lower outlays and items of daily consumption and high penetration products we are not seeing any change or trend in terms of consumption going down. On the urban front we are more optimistic of consumption picking up in the second half of the year which should help us to strive for that 8% plus in the second half. I think in the international business our effort to build a robust organic growth business model and capability is taking time and we are much more confident of an improved performance in the second half of the fiscal.

I do not think there are any macro headwinds in the markets we operate so therefore all the current issues are internal to us and therefore these are issues we have to solve. And we are solving these issues for the long-term rather than doing quick fixes, it is easy to do quick fixes and show some immediate results but as just that we have done in the Gulf for example, we have taken some time, but we are now on a journey which is far more robust. It is taking some time so therefore I would say that we are couple of quarters behind in the systemic revolution of all the gap areas in our operating model in the key markets which I will be most happy to elaborate during the call.

Let me talk briefly about the hits and misses this quarter. Our growth in the Indian business continued to be satisfactory with 98% of the portfolio gaining market share. We continue to deliver robust growth in volumes and market share in both Parachute Rigids and value added hair oils. And one of the other things which is satisfactory is that in hair oils our value share gain is high than the volume share gain which means the premiumisation journey is working. And the gap in the volume growth versus the desired 8% which we realized was largely on



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account of the poor performance of non-focus CNO where we did not take any pricing action and if you see in the second half of the quarter, copra prices started falling rapidly and we could not take any pricing action. In Saffola, we are in the process of conducting various prototypes to get it back to 10% levels and I think we will be in a better position to provide the visibility and impact of the various initiatives by the next quarter. I think in the Youth business we have got gels back on track both in terms of driving category growth and market share.

Over the next 2-3 months we are going to launch initiatives to drive the serum category growth and also we are taking significant steps to prevent counterfeiting in Livon Hair Gain which has impacted us very badly. And post the base correction in deos, if we hold on to deo I think we will get back Youths into growth and what will also happen in the process is if you look at when we acquired Paras deo was 33, Livon was 33, gel was 33, we are moving to a situation of 40:40:20 where 20% is deo and 40, 40 in serums and gel which will mean that the weighted average gross margin will move by around 8% to 10% which will give us more play in A&P to get that growth.

I think overall the international business was a miss except for a couple of areas; our business in the Middle East now has significantly recovered, and we are on the road for **sustainable profitable growth**. Our new markets continue to do well and we have started our organic growth entry in Africa by entering six countries this year with a **special focus on East Africa**. Out of the six countries, three countries we will do sustainable market development and market in terms of ATL support; three countries will go initially through BTL but we now have a dedicated team working and expanding into sub-Sahara and West Africa and we believe this will emerge as a big engine of growth next year. In Bangladesh although Parachute has not done well the other portfolio continues to grow decently.

I also wanted to give you a flavour of two of our transformation areas, our journey in innovation is making good progress, and we now have an extremely robust NPD pipeline. The performance of some of the prototypes in India encouraging should be able to scale a couple of them in the second half and we at least will have one or two big bet innovation or renovation in our co-brands in each of our core markets in the international business over the next two quarters. We are also making extremely good progress on our GTM initiatives in India, three key projects in the area of urban distribution, expansion, regeneration, automation, and auto-replenishment which I spoke to you about are expected to start delivering gains over the next few quarters. So for the balance year effort will be to drive volume growth by ploughing back some of the gains from input cost.

Just to give a perspective I think some of the softening happened sometimes during the mid-quarters and yes, our A&P spends are a little low this quarter but that is because a significant portion of our renovation, innovation in both international markets and India will happen in the second half and we could also take some pricing action. So we will be comfortable at an



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operating margin in the region 17%, 17% plus as long as we can drive higher growths in India and a sustained recovery in international business and in international business unless we get the backbone of some of the stuff right there is no point spending that money. And I think the other thing will be continuing to gain market share in 80% plus of the portfolio.

So that is to give you a flavour of the developments and I am happy to take questions. Thank you

**Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Sujit Jain from Yes Securities. Please go ahead.

**Sujit Jain:** One of our competitors has made a large acquisition in functional hair oils where we are market leaders, if you look at them they have the highest EBITDA margin probably across the entire FMCG spectrum and probably highest advertisement spend as a percentage of sales. So how would our response be to this entry?

**Saugata Gupta:** See, I think hair fall is clearly a big segment, we have had a very successful run with the hair fall initiative in the south where we are growing handsomely, and we plan to sell at least 60 crores to 70 crores initiative in the south this year. Obviously, I think hair fall is based on efficacy, the consumer trials happen because of maybe advertising but retention and I think subsequent trails happen because of good word of mouth and efficacy and also I believe that over the long-term I think there would be much more in terms of focused regulation of the kind of advertising or the claims you can make because ultimately what you claim you should be able to deliver it. So we now have a great product and I think this is some area which we can obviously explore. The product currently we have is actually I think completely designed for the consumer in the south but there is no reason why we should not explore this by designing a product as long as we have a chassis and the axle to drive growth for the product in the north.

**Sujit Jain:** Sure. I have another question on the recent experience of companies like Nestle with FSSAI and now FSSAI certainly has become much more active not just with one company but in the entire food industry. What lessons we can draw from what has happened recently and how prepared we are to face increased regulation, scrutiny etc in the food business?

**Saugata Gupta:** While I do not want to comment on the lessons learnt and what happened with the recent episode, I am sure there are lessons for us but having said that I can assure you in terms of our product approvals and other compliance. We are in line with the required compliance and we are ensuring a proper risk management in that area.

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



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**Percy Panthaki:** Sir, just a little on your international business first, two sub-questions in that. One is, earlier you had said that you have a target of 100 crores of sales from markets like Nepal, Pakistan, Sri Lanka etc, so if you can just give an update on how that is progressing? And secondly, you just mentioned briefly about entering into six new countries in Africa, so can you just elaborate that a little bit which countries are these and what type of products you are going to sell in them?

**Saugata Gupta:** So as far as the new markets which we had talked about hitting 100 crs, will fall a little short I think but we are reasonably in track in terms of those international markets. I think our problem is with the core markets which have to solve for in the coming quarters. As far as Africa is concerned I think our initial focus is more into East Africa so we have launched in Kenya and we are about to launch in, two other countries in the next 3-4 months. We are also looking at some other countries in Sub-Saharan Africa. In terms of the visibility of the numbers, I think it will be better we wait for a couple of quarters to give you a fair visibility, but all I can tell you is we have now a dedicated team and we are with no escape buttons to drive the Africa expansion. We would like to do it organic at the same time we would be looking at inorganic opportunities out there and the portfolio will be more ethnic healthcare but there is enough opportunities for some of the Middle East portfolio or some of the Southeast Asian portfolio in these markets.

**Percy Panthaki:** So when you say ethnic hair care, you are talking about hair colours?

**Saugata Gupta:** No, no we are talking of the South African portfolio.

**Percy Panthaki:** Right, okay. So that basically the same brands are going to be sort offi ?

**Saugata Gupta:** It is Black Chic and Caivil and which has got relaxer, which has got some hair food and which has also got colours.

**Percy Panthaki:** Right. And you are saying other products which are there in Middle East they can also beí ?

**Saugata Gupta:** Some could be, as an opportunity I think we will look at, I mean as I said we are starting off with this thing but there could be cross pollination opportunities whether in male grooming and some markets where there are Arab consumers we can look at even opportunities of in terms of some of the portfolio out there. But I think the change is that it is no longer, Africa is no longer an adjacency of one of the market units but we now have a dedicated team who will go to drive the African business and in one or two of the markets we are actually going to drive ATL also. So it is not just a distribution or an export business.

**Percy Panthaki:** Right. And as far as the other markets are concerned, you basically said there is now macro issue and there are internal issues. So I understand in Egypt there is a distributor change and



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that is taking time to stabilise, but what is the reason that the other markets like Vietnam, Bangladesh are also sluggish?

**Saugata Gupta:**

If you really look at Vietnam, I think the Vietnam is flat because we sold the BCS business which was non-focused. Vietnam is taking time because as you know there was a management transition from the entrepreneur to the new one last year in the Vietnam business, the consumer sentiment was low and we had not got any category growth. So the thing is we are setting up I think there is a new team, we have started I think investing behind innovation to give you an example, for example we have started deo segment in Vietnam where we are number two, started the no gas, now there is no gas deo for example there. We are trying out complete renovation and reengineering of the entire portfolio. Now there are two ways of doing it, one is quick fix; one is trying to do systematically which takes time.

Now the choice we have done, just as we have done Gulf, for example Gulf took time, now we have taken that call of doing it systematically so that the performance is later sustained and you do not have surprises again. See what happens is, if you do quick fixes with a weak foundation it lands up again surprises later. So we do not want to do that and we are confident that we should be able to get that sorted out, including we have started investing behind in foods.

In Bangladesh I think the issue is, we were not doing enough investment in terms of not only grow, we are now much more aggressive in some of the new categories, to give you an example, we will enter mail grooming, skin care in a big way but the biggest exercise is how as market leaders we drive both the coconut oil and the hair oil category and to me why it is taking time, any organic growth capability needs I think talent and the right talent and right processes in marketing and sales, I think the entire international mindset in terms of international business mindset would be more acquisitive and in terms of integration the management I would say competence was toward that.

Number two, we are trying to also ensure that there is enough leveraging of India marketing into the Bangladesh marketing and those things will have, because I believe if you do not have the right backbone which is processes, talent there is no point spending that money because that execution will not be right. So I think we have done that revamp and Bangladesh in addition to that we have taken a pricing action, I think as you know that copra has gone down, we have taken a pricing action in this month and I believe that will also get Parachute growth back on track. So I think yes, it has taken a few quarters more, I would say two quarters more than what is anticipated, but I think we are trying to do things from first principle as opposed to trying to do things tactically and I believe that will stay for us in the long-term. And as I said that I think the fundamental thing in the international business which was lacking is organic goods capability in terms of the right amount of synergies from India and the right amount of the quality of talent especially in the leadership talent in marketing which we are now fixing.



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- Percy Panthaki:** Right sir. My next question is on the India business, especially the coconut oil business. So my calculation shows that if basically copra remains at this level for the rest of the year till March, then basically for the 12 months April to March this year versus the same period last year you will have approximately see a 20% fall in the copra price. Now in this kind of a scenario what have you decided in terms of your pricing strategy?
- Saugata Gupta:** See copra prices went down and again went up in the last one or two weeks, now as the season ends you have a clear visibility of the kind of prices at which level copra will stay in the second half of the year, on the basis of that we will take some pricing action. As of now, we have taken some more tactical pricing action. In order to take a long-term pricing action, we will t in the second half of the year but our bias towards keeping the Parachute with its volume growth 7% to 8% over the second half and we will do everything to maintain that. And as I said that for us getting back volume growth in to the 8% or 10% level is of far more critical importance as long as we can keep the operating margin around 17% for the overall business.
- Percy Panthaki:** Have you taken any price correction in the last 3-4 months?
- Saugata Gupta:** We have done tactical price correction, no permanent price correction so far.
- Percy Panthaki:** So promotions basically?
- Saugata Gupta:** Yes, but more not short-term but more long-term price ups.
- Percy Panthaki:** In the rigids portfolio as well?
- Saugata Gupta:** Yes.
- Moderator:** Thank you very much. Our next question is from the line of Prakash Kapadia from I-Alpha Enterprises. Please go ahead.
- Prakash Kapadia:** Sir two things, with lower commodity cost now since the last few quarters, if you could give us some sense how is the earlier position of right to win in Saffola edible oil because volume growth now continues to be affected, we were always of the view consumers, specially a urban consumer does not mind for paying a healthy oil, so how and what will lead to higher growth and how has CSD off taken Saffola edible oil if you could comment on that? And secondly on value added hair oils, we have done really very well, congrats for building a 1,000 crores business, so how long can this premiumization work for us and what is our sense over the next few years on value-added?
- Saugata Gupta:** Okay. On Saffola I think there are two issues, one is the upgradation happens form base oil, now if you look at the prices of Saffola with respect to base oil which is sunflower or any other species, the premium level actually has come down because there has been some inflation in



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the base oil as we speak this quarter. However said that, what we have done is in certain SKUs in certain markets, so instead of taking a one size fits all approach to pricing what we are prototyping is differential pricing in certain markets with different SKUs or variants. So for example in variant x, we might try one variant running price off only in markets where we believe the source or business is a bottom oil which is in the medium category which is a Rs100 level; in another market maybe a pressure is coming if you are looking to sell olive say in modern trade. So we are now taking precise action as opposed to one size fits all action, so we have started four, five initiatives on that and we will get results of that sometime in August, September in terms of these initiatives and then finalise and fix say two or three initiatives which we will run permanently. So that is what we are trying to do, because as I said there are two approaches which are there in Saffola, one is that what is your price premium versus whatever is the oil of the land, it could be sunflower, it could be upgradation from groundnut or rice bran whatever. The second is, I think how you drive product superiority at the top end of the chain where perhaps some people could be moving out to olive or some other species. So the problem is different in different channels and different regions. So I think what we have done is through some analytics we have identified some of these issues, we are running three, four prototypes. To give you an example, in one metro we are running a price off on, one state I think we are running a price off on two packs of Gold, on a certain region we have taken some price drops in Tasty. So we are doing three, four things and then we will finalise which are things which are giving the volume multiplier and then driving it for the rest of the year.

**Prakash Kapadia:**

Sir some of these initiatives in terms of new launches specially in the new variant total that 1 liter pouch on 5 litre pack have been running specially in modern trade over the last few quarters. So despite that we have not seen growth. . Has the perception changed about paying for healthy oil in urban or is the cost determining the buying decision?

**Saugata Gupta:**

I would say that I think two things are up, the one is obviously if you notice in the last two years urban consumption given the fact that the urban consumption of all categories and especially premium categories have been under strain, we believe that is slowly easing out and we expect that to be better. In the case of Saffola as I said that obviously Saffola's upgradation is dependent on the price premium, which had increased and also in the top end we were getting some exits into olives. So I think we have to tackle both the things together. As regard the extra volume I think one of the other reasons of the volume growth that is 4% and not higher is we believe given the way the upgradation in Saffola happened, instead of giving extra volume, extra volume is actually just reverting existing consumers who is buying perhaps pre-purchasing extra 1 litre, price off was better. If you look, significant portion of our promotion was extra volume and when you move that promotion bulk from extra volume to price off, the extra volume is already in the base. So this will take some time to adjust and I think our hypothesis is that extra volume in this kind of circumstance will be less impactful then price offs.





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- Prakash Kapadia:** Okay. And sir how is CSD doing in this?
- Saugata Gupta:** CSD is okay, CSD as I said in overall CSD business two years ago obviously there were some issues in the CSD business for all CPG companies, I think it has settled now.
- Prakash Kapadia:** Okay, got it. And your thoughts on value added?
- Saugata Gupta:** I think the value added, our entire endeavour is to have a broader participation strategy and if you really look at it we want to increase both value share and volume share, although our focus in the last two years is to look at both increasing value share, slightly higher than volume share. I think people, consumers look at hair nourishment as a category, they are today looking at a fine balance between sensorial and nourishment and therefore I believe the category will move towards delivering a fine balance between sensorial and nourishment. The inherent belief of a leave-in product being high on nourishment is strong within the Indian consumer. Our endeavour is to provide better sensorials on the product for especially youngsters who lapse out of the category. Having said that there is enough opportunity also at the bottom end, the bottom-end consumers who were upgrading from the huge loose oil pool for example
- Prakash Kapadia:** Right, the Rajasthan one.
- Saugata Gupta:** Yes, and therefore we are prototyping that. Price point in hair oil actually also works, like if you have seen Shanti Amla for example. I think there are enough opportunities from bottom end and therefore, I would be happy someday if the value share moves to 40 and the volume share moves to 50 in hair oils and it is possible over the next 5-7 years.
- Moderator:** Thank you. Our next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Just on the value added hair oil growth, it has come in very strong, probably the strongest in the last six, seven quarters. So anything to read into it in terms of the category growth again picking up which had slowed down or it is largely to do with your own market share gains, initiatives, prototypes and how would you look at the growth numbers here?
- Saugata Gupta:** See, I think the value added hair oil growth happens both from rural and urban. Fortunately for us we are not seeing any impact in rural so far, so I think there is no reason why the value added hair oil should not grow by 10-12% volume growth over the next few quarters. Now obviously our endeavour will be to drive category growth because we have a broader participation strategy unlike others who play in one ingredient because we believe consumers looking at nourishment and sensorials and not looking ingredient forward. And also we will try to gain market share and I think as I said that going forward in the second half of the year I think part of the input cost savings will be either channelized towards pricing in the case of



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Saffola or Parachute, in the case of innovation and value added hair oils it will be channelised towards higher A&P.

**Arnab Mitra:** And is the growth still very strongly driven by Shanti or are the other brands like Hair and Care and other Nihar scented portfolio also seeing good growth?

**Saugata Gupta:** I think it is a broad spectrum growth, if you look at Jasmine, if you look at Nihar perfumed coconut oil and if you look at Hair and Care, obviously Shanti growth has been higher but it is not that disproportionately high as it was obviously we are catching up in the base. Having said that, I think we believe there is enough legs for Shanti to grow in market share in the coming quarters.

**Arnab Mitra:** Okay. Secondly on the pricing front, so most of your price growth in coconut would have anniversarized I guess, are there any segments where you have price increases or should we for the rest of the year almost look at volume equal to value in terms of the India top-line?

**Saugata Gupta:** Yes, that would be a better way of looking at it over the next couple of quarters because in case even if there is higher input cost gains there could be a little deflation also. So therefore our endeavour as I said is to move to, I think we should have done 8; I am disappointed that the 8 did not happen this quarter but I think our endeavour is to move that volume growth towards the 8 and 10.

**Arnab Mitra:** Just one more question on Bangladesh, I mean you did mention what you are doing there but given that coconut is still 80% of the business, in years when you do not have pricing, like you will not have this year is it not a given that the growth will be low single-digits only because you are a large part of the market there and even the unorganized share is not that high. So in these kinds of years it will be really difficult to go beyond low single-digit revenue growth.

**Saugata Gupta:** You are right, I think that is why I am saying that if you look at the non-PCNO portfolio I think we have to grow that by 30%, 40% and I think secondly I think as we move up for the value added I think we have to start gaining not only the volume component but a more mix gains in the Bangladesh market.

**Arnab Mitra:** And so for this year we should be looking at, I mean growth possibility will be pretty low in FY16 because the pricing component is missing in Bangladesh?

**Saugata Gupta:** Yes. As I said that it could be in single-digits, yes.

**Arnab Mitra:** And just one last question on Project One which was a top-six city initiative, now some of the categories which I would have expected would gain from this would be the youth portfolio, the skin cream and specially your smaller things which do not have that strong a distribution and



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you have given that number of incremental so how does one reconcile with the fact that urban has not grown that well and even within urban it is probably more of the youth portfolio and those kind of segments have not actually grown. So what is the gain that you are seeing on project one, the amount that you have kind of quantified?

**Saugata Gupta:** So if you look at project one, yes, while it is doing well it is slightly below what we had in the targets and we are looking at only in the top-6 metros. If you look at the mix of products which were there, so far I think it is slightly more skewed towards value added products and the value added hair oils.

**Arnab Mitra:** Okay. And just lastly on Saffola, you mentioned on the strategy but last quarter you had said that you have gone on this experimental route to see whether the price premium can be higher than and whether you need to keep changing it every time. So three, four months into that experiment are you more confident now that you can actually hold pricing while the commodity goes down for the loose oils?

**Saugata Gupta:** No, I think what we believe now is that we have to take some selective, it is not a one size fits all kind of across the board pricing call but depending on different regions have different sources of upgradation so maybe in certain SKUs or certain variants we have to take some pricing call. So not taking any pricing call is not going to work, I think that has been the finding.

**Moderator:** Thank you very much. Our next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

**Puneet Jain:** Sir, I have got couple of questions. Sir my first question actually is that in this quarter you gave a lot of volume increases to various packs, could that lead to higher customer inventory and could that have contributed to the volume growth and can it lead to lower volume growth in subsequent quarters?

**Saugata Gupta:** I did not get your question, volume increases in what?

**Puneet Jain:** Sir like you ran lot of customer offers in this quarter where you offered a lot of free volume.

**Saugata Gupta:** No, but as a consumer that is in lieu of some of the pricing calls but I think if you have to compare versus last year the numbers are commensurate.

**Puneet Jain:** Yes. So like volume increases were much higher in this quarter compared to previous quarters?

**Saugata Gupta:** No, no the quantity of volume led promos was commensurate if not lower compared to Q1 FY16 versus Q1 FY15, so there was no increase there.



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- Puneet Jain:** Okay. Second question was actually with respect to GST, so how do you think GST will affect you and what will be the total tax rate which you pay at this point of time?
- Saugata Gupta:** I think obviously GST over the long term will help in terms of the improvement in supply chain and all that, as far as the tax paid is concerned I am sure the government were having two band rates where the essential goods have a lower rate. And any case as I said that it is a level playing field, it will be good because the other thing which is there is also the fact that we also have unorganized competition so GST will give perhaps a far more level playing field because there will be visibility of taxation there.
- Puneet Jain:** Okay. So sir like currently on your coconut oil portfolio excise is not applicable so will it remain similar once GST comes into play?
- Saugata Gupta:** I guess we have to wait for the GST committee to decide on the range.
- Moderator:** Thank you very much. Our next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** My first question is this Livon counterfeit that you have called out, what exactly is this and how come suddenly it has come in this quarter?
- Saugata Gupta:** No, no this is Livon Hair Gain and not the serum. There were some instances of it and then suddenly, the instances of the Livon counterfeits suddenly increased. We have taken some significant steps in terms of preventing counterfeiting and some of the counterfeiting was actually happening not only in India but it was getting imported so we have taken significant steps in partnership with the authorities to do that, plus we have done something on our packs and we are doing something else because you have to always think six months ahead because sometimes it is always very-very profitable to counterfeit a brand which is at Rs.650, Rs.700 and whenever counterfeiting happens people who try our counterfeit brand will not get the efficacy or the promise and this will also lead to a bad word of mouth. So there is a double warning, you have a first sale loss and then you have a second which is through bad word of mouth. So this instances suddenly increased, I would not say this quarter, it had started sometime in February-March and we have started now taking steps from now which should hopefully reduce it, but again we have to constantly take steps till we actually change the packaging completely which will take certain time.
- Vivek Maheshwari:** Okay. Second on the mustard oil, any update since the launch how has been the response, anything if you can highlight?
- Saugata Gupta:** I think we are happy I would say, we are satisfied with it and when the occasion comes we will scale it up.



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**Vivek Maheshwari:** Okay. Third on the A&P spend, so typically in an inflationary environment you say do not look at the percentage because percentages will get distorted based on how much price hikes you should take. But if I look at in absolute increase in A&P this is just about 3% YoY in this quarter, how should we think about A&P, is there a case of an under investment over here or is it something strategic and that is why A&P has not moved up because there is no issue with the base also over here.

**Saugata Gupta:** No, no. So I think the way to look at it you have to look at A&P over the whole year, as you know we are prototyping some of the things so we believe that in the second half our innovation spend in new initiative will be far higher, so that is why said that to look at the overall annual operating margin I think you should look at operating margin in the region of 17., 17% plus and any input gains for the balance year we will drive towards pricing and increased A&P. So if you have to look at A&P say from especially in the second half I would rather say not just Q2 but more in the second half there will be more significant increase in A&P in the second half because I think we will perhaps get a sweet spot between a good battery and a robust pipeline of NPD ready for scale up and hopefully robust consumption increase in urban in the second half. So if that sweet spot we get I think we should then channelise that into A&P and ride the growth.

**Vivek Maheshwari:** Okay. Two things on Saffola, I know there have been quite a lot of questions but two things on Saffola. First, you mentioned about innovation pipeline medium term , could you elaborate what exactly is it going to be, a new product or new sub-brand or what exactly would that entail?

**Saugata Gupta:** I think as I said that it has been the endeavour for Saffola to provide the best oil for the consumer and I would say that our innovation has not been great so far in this, so I think it is important especially at the top end when there are enough alternatives available whether it is canola or olive. I think it is our endeavour to produce something which is the best for the consumers based on science .Therefore we would look towards doing some innovation, innovation can be in the product, innovation could be in packaging so there has not been any significant innovation on Saffola other than Total. I think on Total also we believe now we are far better in terms of the kind of consumer tests we have done for us. So we would like to drive the top end through innovations and the bottom end upgradation through selective pricing.

**Vivek Maheshwari:** Okay. And second thing on Saffola, you spoke about micro-market strategy in certain markets, focusing on something, I mean why complicate all this, is it all to ensure that given the deflationary pressure that you are facing, you are reluctant to take down prices and therefore this market by market strategy or you genuinely believe in this because I am sure this will also have a repercussion on the entire supply chain, on the costing, on dealer inventory and all that, if you have such a micro approach to a product?

**Saugata Gupta:** I think there are many ideas here and it is not a micro market, I will run two sets of pricing, it is not I will run five sets of pricing and in a lot of categories I think if we look at tea, if you look at



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detergent, if you look at a lot of category people run two sets of pricing, even in edible oil it is run. It will be two sets, and it would not be like 3-4 sets of pricing. So one will run with a standard price, one will run with a reduced price, it could be a region or a market and I think the only change and that is the reason I am saying that you will see this volume thing is that we are moving from extra volumes. Our focus will be more to pricing rather than extra product promotions.

**Vivek Maheshwari:** Okay, got it. And one last thing if I may, the tax rate in this quarter has been 27.2%, if I recall correctly the guidance was more closer to 30%, so is there a change over here or it will get normalised as we go ahead into the second quarter?

**Vivek Karve:** It will get normalised.

**Vivek Maheshwari:** So 30% is what we should be looking at?

**Vivek Karve:** Between 29% and 30% is what you should look at.

**Moderator:** Thank you very much. Our next question is from the line of Rahul Thakkur from ICICI Bank. Please go ahead.

**Rahul Thakkur:** Sir just we are hearing a lot of things on the street that rural growth is slowing down while the urban is picking up, are you witnessing such phenomena in the portfolio and what are the volume growth rates for both this categories?

**Saugata Gupta:** So our urban growth has been around 8% and the rural growth is 15%, so in our case rural continues to outstrip urban. Having said that, yes we are waiting and watching in terms of whether the monsoon will have any impact. As of now we have not seen anything but we are keeping a close tab on that. Having said that, I think there is a talk on the street I agree about rural consumption in certain categories which are going down. The feeling we have is that it has affected more discretionary rural consumption, categories in top end FMCG, and categories like auto durables because I think the free cash or the amount of cash available at the top end that has little dried up with MSPs not being that high. But if you look at the general rural and even the urban-poor or the bottom end of urban, as long as food inflation is not high the share of wallet of FMCG is constant. The FMCG shrinkage happens for items of daily consumption whether titration is because of food inflation being high, so that is the reason that drives FMCG consumption there.

What has impacted us so far has been the urban consumption at top end, so if you look at all the discretionary FMCG or a value added FMCG category which pre-2012 was growing at a high rate and the penetrations were growing that penetration has become stagnant in the last two years. Now in urban top end if GDP growth. you have seen four or five consecutive quarters of



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better GDP growth and inflation is constant or it is moderate, I think there will be more disposable income for people to not only spend on FMCG discretionary, it could be in QSR and other needs. So my and our strong belief is that that will happen in the second half of the year. Rural, I think we would be able to give a better picture after we get a view how the monsoon pans out in the balance months of in August and September. As of now it is a wait and watch and therefore we have to monitor it closely.

**Rahul Thakkur:** Sir let's say over the past few quarters how has this growth rates moved, like what is the trend that you have observed in this?

**Saugata Gupta:** I think that 1:2 ratio has been maintained so far.

**Rahul Thakkur:** Sir we are looking at in terms of has the growth rate for both the rural and the urban come off, because if I look at the numbers for the fourth quarter it was significantly higher than this quarter number, so we are looking from the growth rate perspective.

**Saugata Gupta:** See, that is because of the inflation component, you have to look at also the volumes component. Now last year because of the price increase in parachute the inflation component was significantly high. So if you look at even overall FMCG also I think I would say the rural impact is more on the top end of the FMCG rather than at the bottom end of the FMCG so far.

**Rahul Thakkur:** Okay. So in terms of volume probably is it fair to assume that your growth rate has not been impacted significantly in both the segments, both rural and urban?

**Saugata Gupta:** As of now neither we have got an uptake in urban neither we have got a downgrade in rural so far.

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

**Harit Kapoor:** Just had one question on the strategy to expand into eastern sub-Saharan Africa, just wanted to know what is the portfolio that we are taking there and what attracts us so much to these geographies, especially because South Africa has not been a very large piece or a very high growth piece for us?

**Saugata Gupta:** Okay. If you look at South African market I think South Africa is a very interesting market place, the last three years the GDP growth has been around 1-3%. It is a market with developed market cost structure with a developing market affordability and the issue is the place where the penetration is low I think there are issues on distribution. So in South Africa we had I think a good portfolio but the market did not have a standalone critical mass. I think what was happening is we did not focus in terms of organic growth. The earlier international business



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mindset was primarily inorganic, as I said organic growth needs a certain level of capability and it is far harder initially for a P&L person to do it because a P&L person does not have ROCE in the KPI, so inorganic for a P&L person is very easy to start off with.

So I think we are doing the hard way, we believe we are using the ethnic hair care portfolio, the consumers are similar, and the needs are similar and if you look at some of the other players whether it is Inecto or if you look at EMKA, EMKA is a South African player, their brands play in those markets. So if there is no reason that if you have good product, if you can get distribution in these markets and if you use invest behind these markets, I think there is no reason why we should not do it. Having said that, as I said we are having two kinds of strategies, in one or two markets like I gave you Kenya where we have already launched we will have a ATL-driven strategy and in certain markets we will wait and watch with a BTL-driven strategy till such time we believe that there is enough market to drive ATL-driven growth.

Having said that, we are also looking at inorganic as an opportunity but I think you cannot endlessly wait for inorganic to enter a region and obviously there are issues when you do inorganic, you never know the levels of governance; you never know what you are getting into. We are saying that let's start organic in a small way but we are confident. I think the entire trick is to have a dedicated team with no escape buttons to drive that and I think we now have a kind of a team who has previous experience in driving Africa growth business and we think there is an opportunity, we will go slow and steady and that is the reason I am not giving you some outlook or a fancy target to give with, but I think over the next two quarters we will have a better visibility of it.

**Harit Kapoor:** Okay. So just to understand clearly, if the ethnic hair care space

**Saugata Gupta:** Yes, which are relaxers, colours, hair food.

**Harit Kapoor:** So is this already there in our portfolio or something we will have to innovate to ?

**Saugata Gupta:** No, it is already there in our South African portfolio. The South African portfolio is 100% ethnic hair care, so significant portion of the South African portfolio is that. Having said that, there is no reason why things like some of the male grooming products from other markets cannot work.

**Harit Kapoor:** Right. And from a GDP growth and macro perspective you think these markets are more attractive then say your experience which has been in South Africa right now?

**Saugata Gupta:** If you look at some of the goods market, of course they are unpredictable they could have got political strife and other things but having said that lot of the markets, you will be surprised to see that the GDP growth rates are in 5% to 7%, in some of the markets if they grow at a certain rate they can actually get into the N-11 and the middle income countries in the next 15- 20 years.





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And number two is, South Africa actually has one of the lowest growth rates, having said that if a country is only dependent on oil or a particular commodity and that particular commodity goes down for example some countries are dependent on coco, some countries could be dependent on crude like Angola, Nigeria, and there could be certain issues. But I think most of these countries if I look at last year's and the last two years growth rate there are countries which are growing at a 5% to 7% and all these countries are low penetration, very highly disorganized trade, there is no modern trade and huge young population wanting to improve their quality of life. So subject to political strife not being there I think their growth rates are higher than South Africa.

**Harit Kapoor:** Understood. Just my last question was on Saffola, so you said that obviously you will look to innovate the portfolio, so the innovation which you are talking about in the next 12, 18 months is more on the edible oil front rather than the foods front?

**Saugata Gupta:** No, no food is separate, food obviously we have a strong innovation journey.

**Harit Kapoor:** But this what you are talking about is largely on edible oils?

**Saugata Gupta:** Edible yes, food is a separate journey and I think we believe that having tasted success, there is a no reason we should not touch 120125 crores mark, I think our endeavour is to move to the next level of 200 crores over the next 18 months.

**Harit Kapoor:** You think you can do that with the same portfolio currently or you will have to add new products?

**Saugata Gupta:** No, no we have our innovation pipeline in foods which is there.

**Moderator:** Thank you very much. Our next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

**Nitin Gosar:** Just wanted to understand the gross margin that we reported for this particular quarter, if I were to look on two different P&L that is one standalone and other is subsidiary, in standalone there has been big improvement and in subsidiary there is a kind of deterioration. Now in standalone the belief is that copra prices or the raw material deflation is helping us and in subsidiary would it be more to do with the Bangladesh where we have taken price corrections?

**Vivek Karve:** Yes, in a way you are right. In Marico Limited that is the standalone performance, there is also an element of inter-company transaction which has come down significantly as compared to Q1 of last year and these inter-company transactions are done at an arm's length but not at a significant margin. As a result of which you will find the expansion in Marico Limited to be much higher as compared to the consolidated performance and your observation that the gross



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margins have actually come down in Bangladesh and to some extent even in Egypt is the right observation.

**Nitin Gosar:** Okay. And directionally if just we were to take a roadmap from here on, from one year to five year perspective gross margins would be more led with value added hair oil and Saffola brand equity?

**Saugata Gupta:** In fact we may not be able to comment a lot on the trajectory of the gross margin.

**Nitin Gosar:** No, the trajectory possibly the way the business model is right now, the understanding is that value added hair oil and Saffola will have a better EBITDA, gross margin over the standalone number.

**Saugata Gupta:** I think let me just give you a broad perspective, I think other than gross margin their EBITDA percentage, we have indicated that if you look post the Kaya demerger and international business integration we had given a guidance of 14-15, we are far more confident of 15 to 16. This year we are telling, given the input cost we should be in the region of 17, I think we should be in the region of between 15 to 17. As long as we are doing that, our endeavor is to maximise volume growth and ensure that at least in 80% of the portfolio we gain market share. I think that is our first principle subject to a threshold level of a gross margin of EBITDA of around 16%, which is where we are coming from. See when you make unsustainable margins you let competitive entry and you make it attractive for other to get in.

**Nitin Gosar:** Correct. Let me put it in this way sir, my idea to understand this particular situation was because in past we have been dependent on coconut oil related business product, incrementally the way we are trying to grow the other business, definitely that business has a very strong brand equity and there the price fluctuation or gross margin fluctuation will be in the limited bandwidth.

**Saugata Gupta:** Yes, clearly because in hair oils also liquid paraffin is dependent on crude, now it is very difficult to predict, crude can go into \$120, crude can go into \$60. If you look at FMCG categories today even wheat, sugar, coco anything can drive gross margin and the volatility of wheat, sugar, coco is not any different from copra actually.

**Nitin Gosar:** So you mean to say the positioning of the product is so weak that if the commodity prices come down then we will have to bring down prices?

**Saugata Gupta:** No, not really, I am just saying that that same issue of volatility and margins can happen in all categories, so for example if for a certain category wheat and sugar goes down you can get huge margin increase also. So it is not just limited to copra that is what I am trying to tell you.



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- Nitin Gosar:** Right sir. And just one last clarity, you mentioned somewhere in your commentary that value added hair oil and somewhere to link with 40%, was it more to do with the market share now we are looking at for value added hair oil or was it something that I totally missed reading?
- Vivek Karve:** Yes, you are right, what we talked about is a likely increase of the volume market share to 40% in the next five years or so.
- Saugata Gupta:** Just clarifying, it is a value share of 40 and volume of 50 that is a long-term aspiration.
- Nitin Gosar:** Yes, just wanted clarity whether it was more to do with value added hair oil.
- Saugata Gupta:** Yes.
- Moderator:** Thank you. Our next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.
- Kunal Vora:** Two questions, amongst the new innovations in how are you working on like Aroma therapy, Aloe vera, which are you most excited about and when are you looking to scale these up? That's one. And second is with the issue which Maggie saw this quarter, did you see any impact on your oats business specially Masala Oats? Thank you.
- Saugata Gupta:** So as far as the prototypes are concerned, some are volume drivers and some are imagery drivers in premiumisation of the category. So I think you have to look at different things from different angle, I think the Aloe Vera is very new, we are 1.5 months in the market. Mustard has been satisfactory so far and Aromatherapy is more of an image driver for getting back lapsed into the category or getting infrequent users who lapse out to remain in the category. So I think all three are satisfactory, I think we will take a call on the scale up as we go towards the second half but as things stand out definitely one or two will be likely to get scaled up. I think your second question was with respect to Masala Oats, yes Masala Oats is doing well, now it is too early to say I think how the source of growth is coming but I think we are on a trajectory and we continue to be on that trajectory.
- Moderator:** Thank you very much. Our next question is from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.
- Ritesh Vaidya:** What are the signs that you are seeing in urban market that makes you feel that a recovery is possible by 2H FY16?
- Saugata Gupta:** Again as I said some is empirical and some is I think if you look at some of the other sectors whether it is the same store growth or you are seeing some of the QSR, it is better than what it was. I think secondly what we are saying is that I think it is more empirical saying if you have sustained quarters of better GDP growth and combined with the fact if inflation is under



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reasonable control there would be more disposable income in the hands of consumer and therefore thus consumer will more spend towards discretionary FMCG or top end FMCG. If you look at 2012 to 2014-15 the slowdown has happened actually in the top end whether it is top end hair care, top end skin care, packaged food. Urban growth in the basic category has not really got significant impact. So those are value added and the premiumised part of the FMCG basket, those are the ones which should recover. Just because I have a more disposable income does not mean I am going to shampoo my hair everyday more, but certainly I will try some other categories like an anti-ageing cream or something new in packaged food, premiumised or a styling gel. So those premiumised parts of the FMCG category are likely to increase. Having said that, I must admit that for a lot of us we have been moving goal post, maybe one year ago we had said that recovery is going to happen from first quarter, this goal post has got moved and I think it should happen and as I said this is something which is a best possible estimate which we are seeing.

**Ritesh Vaidya:** Okay. And are you seeing any kind of change in the way the consumer is shopping, I mean is there SKU mix change so consumers are going more for smaller packs or larger packs in urban areas, on rural areas, any particular trend on the SKU mix?

**Saugata Gupta:** I think in the last two years in urban there has been a little bit of titration and also I think promotions and if you really look at some of I am sure the modern trade retailers are also noticing that.

**Ritesh Vaidya:** Okay. And one was on the automatic ordering platform that you had done for the distributors. Wanted to know that how has this panned out in terms of higher ROIs per distributor or lower inventory levels, any kind of finding that you can share with us?

**Saugata Gupta:** So by August, September end 96% of our distributors will be covered by auto replenishment. It is too early to talk about ROI, but obviously as you know we took that stock correction in March and the stock levels will be far lower than what it was definitely six months ago to 12 months ago. Now as far as ROI is concerned, I think our first endeavor will be to transfer that into investing behind market behind growth. So it is too early to look at just ROI and secondly what it will also entail is over the long-term when inflation happens we will be cushioned against any potential increasing margins and the distributor margins perhaps.

**Ritesh Vaidya:** Okay. And quickly on the team, you said that you have assembled a separate team for the African business, I mean to expand to other category, so is it the Indian talent that is being sent to Africa or is it more about recruiting the local talent out there?

**Saugata Gupta:** I think it is a mix, as I said our entire thing was people who know Africa, and when I talked about a separate team I think one of our learnings is, suppose if you had given somebody a core country and a new country what happens there is always an escape button in terms of the core



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country always being more important. I think based on that learning we have people who are singlehandedly responsible, it is a very small team because we are working with distributors who will be single handedly responsible for driving the expansion into Africa. And we have seen this happen, because if we look at for example in Myanmar we should be having a good business today and we invested there early with a dedicated team. If you look at Bangladesh historically we had a dedicated team. Wherever we have dedicated teams it works, I think that has been the learning. And we want people who know the market, so if the answer is somebody who is successful in managing Calcutta or Bombay we transfer them to Africa, no.

**Ritesh Vaidya:** Okay. Sir and on the raw material side, just a last question from my end. On the raw materials, copra prices should have inched up and any clarity on how sunflower and safflower prices have been in the last few weeks or months?

**Saugata Gupta:** In case of sunflower in the last few weeks, so that's why I said perhaps a relative price premium were slightly better than what it was.

**Ritesh Vaidya:** Okay, so that should in fact help the Saffola portfolio?

**Saugata Gupta:** Yes, hopefully.

**Moderator:** Thank you very much. Our next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

**Nillai Shah:** Sir just a quick clarification on the margin trends that you called out, you are seeing 17% consol margins for fiscal 2016 is what you are expecting after corporate expenses?

**Saugata Gupta:** Yes. I am saying that I will be happy to maximise growth and if I deliver 17% that is threshold, I would rather look at more growth rather than margins. I know in quarter one we had 18.2% but I think I would be more happy with our higher volume growth by transferring some money into pricing and A&P for new initiatives with a 17% EBITDA margin. So I think that's our current model or endeavour.

**Nillai Shah:** That's right, so basically just last quarter you spoke about 15%, 16% as the threshold and now your threshold has gone up, that is the more interesting part versus the number that you are basically pointing out.

**Saugata Gupta:** I do not think our threshold has gone up, I think I am talking about this year, our medium term threshold continues to be 15% and 16%. So yes I think sometimes we do over perform but I think our endeavor is delivering more volume growth and market share gains rather than just by delivering margins because in emerging markets that is more important.



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- Nillai Shah:** Okay. And finally in terms of the margins for the international business, what is the aspiration over there? Just if we talk about the international business about 18% odd is what you have done this quarter, so what is the long-term aspiration over there?
- Saugata Gupta:** I think we should be happy to deliver 16-17%, our first endeavour is to get 15% constant currency growth, there is some light at the end of the tunnel but your efforts endeavour is to get that because I think we have had a structural shift in the margin and the margin is here to stay for the future. We now have an annual cost improvement and a value improvement program which has got embedded in the organisation culture and the organisation processes, so all will be ploughed behind capability building and A&P to drive growth.
- Nillai Shah:** And last question, in terms of the recruiter packs, have you already put in the tactical price cuts or the promotions or basically tactical price movements into the market?
- Saugata Gupta:** Yes, we have done, our current new strategy is I think we are doing temporary long-term pricing. What it does is that instead of taking a permanent price cuts, since we do not have visibility we are taking price drops but we are not running as a one month promo, so these are temporary price cuts but we are running maybe six weeks, eight weeks and they might merge into a permanent price depending on the situation, that is why I am calling it a temporary long-term pricing promo.
- Nillai Shah:** Correct. So in terms of that temporary promo at the recruiter pack level can you quantify how much it has been roughly?
- Saugata Gupta:** In percentage terms?
- Nillai Shah:** Sir broadly to the recruiter pack.
- Saugata Gupta:** It is very difficult quantify because we are not running all packs, so maybe in one pack we are giving extra volume, in another pack we have taken a two bucks price off, so broadly that way.
- Nillai Shah:** So even for the recruiter packs you are being selective?
- Saugata Gupta:** Yes, being selective and I think we are being unpredictable in the market; I do not want to give a visibility to competition about what is our pricing action right now.
- Moderator:** Thank you very much. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Vaidya for closing comments. Over to you, sir.
- Ritesh Vaidya:** Thank you. On behalf of Ambit Capital I thank the senior management team of Marico as well as all the participants on the call. I would now like to hand the call to Mr. Saugata for any closing comments. Please sir.



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**Saugata Gupta:**

Thank you very much for your patient listening, I just wanted to say that while we had a satisfactory quarter I think we will be far more satisfied if we can get the India volume growth into 8-10% and also get a constant-currency double-digit growth in international business. Our international business is taking a little more time than we had anticipated, but as I said that we will continue to work from first principle. We want to be patient and resilient in getting the international business back on track and not try any quick fixes which can lead to future surprises. And secondly, in the second half considering the robust innovation pipeline we should be able to scale up both in India and international we should be able to given if the input cost continue to be benign we should be able to transfer some of them into higher A&P. And also in the future with the areas of transformation panning out we are closely tracking that which will lead to more higher levels of sustainable growth over the next few years. So that is all I had to say and thank you very much once again and good night.

**Moderator:**

Thank you very much. Ladies and Gentlemen, on behalf of Ambit Capital that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.