"Marico Limited Q1 FY17 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q1FY'17 Earnings Conference Call for Marico Limited hosted by PhillipCapital India. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Naveen Kulkarni of PhillipCapital. Thank you and over to you.

Naveen Kulkarni: Thank you, Zaid, and Good Evening, Everyone. We at PhillipCapital India are pleased to host the Q1FY17 Earnings Conference Call of Marico Limited. We have with us the senior management team of Marico, represented by Mr. Saugata Gupta– the Managing Director and CEO; Mr. Vivek Karve – CFO, along with other senior members of the team. We will begin the call with a short commentary by Mr. Gupta and then we will move on to the Q&A Session. Over to you, sir.

Saugata Gupta: Good Evening. Firstly, let me apologize for postponing the conference call from Friday which might have inconvenienced you. We took this call because of the prevailing weather conditions in Mumbai although the situation did improve later towards evening.

I will now give a flavor of the last quarter: I think we had another satisfactory quarter with a broad-based volume and earnings growth across most of the franchises and business units. While making steady recovery in most of our problem areas, we have been extremely successful in securing volume growth in our core business in spite of the twin impact of deflation and weak consumer sentiment. This is in contrast to the earlier two cycles in the last four years where we had faced problems in driving volume growth especially in the Parachute Rigids portfolio. While the value growth has been flat due to deflation brought about by aggressive pricing action of cumulative 18% reduction in Parachute portfolio in India and around 9% in Bangladesh, it has neither impacted earnings growth nor the investment behind long-term initiatives and A&P. This clearly indicates that our consistent focused approach on volume growth and long-term capability building has the potential to deliver sustain predictable results.

Let me now talk about the consumption situation in India. In this quarter, we had the overhang of the impact of drought in significantly large markets which resulted in very muted demand especially in the rural areas which are big markets for us. While there has been some green shoots in urban specifically with respect to modern trade, the impact was only marginally positive. However, when you take into account factors like good monsoon, success of the Direct Benefit Transfer, which is I think very-very evident, implementation of the Seventh Pay Commission including the arrears which are going to be paid in end August and OROP implementation, we can definitely expect lower inflation and higher demand in the second half of the year. However, situation will remain status quo in the second quarter. We will endeavor to move the volume growth to 10% in the second half with significantly lower deflation. Exit Q4, the deflation factor will get neutralized owing to the base effect and value growth will start picking up and the operating margins will start settling down. We also have a very exciting and power packed innovation pipeline from September which is expected the leverage the consumption tailwind. The passing of the GST Bill will provide a positive sentiment but the impact will be felt in the period post-implementation. We feel that besides making business simpler, it will lead to supply chain and network efficiencies and also ensure a most advantage and level playing field for organized players like us who compete with unbranded grey market and small players. GST along with other initiatives will force better tax compliance as reduced cash base transaction in both primary and secondary sales system and will make us definitely more comparative. Our system readiness to move into the new regime with respect to network, IT and way of business is in top gear.

I will now provide you with a broad-based flavor of the category wise performance: After two successful deflationary cycle in the past 4-years we are for the first time successfully encountered a deflationary cycle which got further compounded by a consumption downturn. Our proactive pricing calls and Parachute clearly validates our analytics based pricing model, developed over 6 to 8-year period. We hope to maintain the 5-7% volume growth in the balance year for Parachute Rigids while maintaining MAT share in spite of down-trading risks and some serious competitive efforts in price disruption which has been successfully neutralized through a flanker strategy. The value growth in this portfolio will turn positive only towards Q4.

The new Saffola strategy continues to play out well and we are confident of delivering consistent double-digit growth in the coming quarters. In the Food business, we are on track to hit the Rs.200 crores mark over the next two to three years. You can look forward to a significant new product activity within the Saffola franchise over the next 3-4 quarters.

In the Value-Added Hair Oil space, we continue to clock decent volume growth and market share gain. Contrary to belief in some quarters the Value Added Hair Oil category is expected to grow at least 8% to 10% this year and is expected to accelerate towards the second half. We will aggressively invest behind both bottom of pyramid and premiumization over the next few years in order to maintain our track record of double-digit volume growth while inching up on both value and volume share. We believe that both the Hair Fall and the value added Mustard Oil become significant contributors to this journey.

The Youth business continues to recover but we still have a job to do in order to accelerate the growth trajectory. Second half recovery in urban consumption will definitely help delivering better growth in the second half while the Set Wet portfolio is on a very good wicket; we need to get the Livon portfolio to work at full potential in the coming quarters.

In the International business, we have been able to achieve better consistency and predictability in most of the markets; however, in a most critical market of Bangladesh, we can see the visibility of an improved performance only from the second half. Since we have put in place various measures in place to accelerate the non-PC in a portfolio while getting the core growth into at least low single digits. This is taking time, but we are of the firm belief that systemic solutions and capability needs to be in place. The Middle East is stable in spite of consumption headwinds. After all we are a challenger brand and not a market leader. The Egypt business is showing good recover. The Southeast Asia business is expected to clock double-digit constant currency growth on back of a strong innovation and sales transformation program. Most of the new geographies other than sub-Saharan Africa are on track and they will contribute to the growth trajectory of the International business in the coming years. Taking all this into account, we expect to deliver double-digit constant currency growth in the second half.

I would like to briefly mention that we continue to make significant progress in the areas of transformation, the GTM journey is interestingly poised to deliver long-term acceleration in growth and we are confident that our sales, process and systems will definitely get back to cutting edge status in the medium-term. Organization Digital journey is making good progress in all the areas of consumer engagement, eCommerce, Analytics and Automation. In spite of a difficulty, we have ensured there is no dilution of investment in talent and innovation.

We are very happy to be recognized as a “#2 Best Place To Work Organization in the FMCG Sector” in addition to retaining our place in the “Forbes Super 50 List.”

Before I conclude, I would like to reinforce our journey of driving purpose of fostering win-win relationships with all our stakeholders. I hope we have been able to provide you with a better flavor of the work we are doing in this area in our annual report.

Thank you and I would like to welcome your Questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Abneesh Roy from Edelweiss. Please proceed.

Abneesh Roy: My first question is in the Parachute Rigids. Very good volume growth of 7% in deflationary conditions. We see other hair oil companies see hardly any volume growth. So want to understand in a deflationary environment in Parachute kind of portfolio, how you are able to grow at 7%?

Saugata Gupta: One of the things we have realized is that now we have extremely sophisticated pricing model which we have developed and I think in the last two deflationary cycles we have learnt our lessons in terms of not to take in terms of taking proactive price increases or pricing drop. The other thing you must realize is in the last three-four years, we have also significantly improved our rural infrastructure and that has also helped. So, I think it is a combination of all of it. I would also reinforce that both in the branded Coconut Oil market, if we have been able to maintain market share and grow 6%, that means the category is also growing 6%. Similarly, if we are growing 10% to 11% in overall last 12 months period and gain share, our value growth even in the branded value added hair oils market has been also 8% to 10%. So, in both the categories, we participate in I believe there is category growth there. So I do not think the category growth is not there.

Abneesh Roy: Sir my second question is in the Youth portfolio again growth has been good. So, here you have lost LUP at Rs.5 Livon Serum. So, what is the expectation from here, because it is an attractive price point in a premium product, so could you elaborate how deep is the penetration of this, how deep is the availability of this?

Saugata Gupta: I think we still have a job to do, we have just started and I think as I said that while we have got the Set Wet portfolio reasonably on track, we still have a job to do on Livon. I think in the Indian market Telecom has showed the way that how affordability and availability can drive growth. In the case of Livon or Serum as a category, I think we have to drive relevance. In the case of any category I think affordability is a big factor in relevance because if the consumer wants to actually experience a product, he needs to have that price point. So therefore, it is just about started. Have we done a good job yet? The answer is no. We have a job to do and we expect the Livon franchise to get into good growth in the second half. If Livon also starts growing, and the fact that Set Wet is growing, we are extremely confident that we will be able to show decent growth in the Youth portfolio in the quarters to come.

Abneesh Roy: In the rural areas in some states, did you see a distributor suffering because of pan card issue or any other liquidity issue?

Saugata Gupta: I believe there are certain issues in that front, but as I said, as an organized player with huge direct distribution, and a very automated sale, better tax compliance puts us under more relative comparative position.

Abneesh Roy: Oats again strong number too. Can you give some sense on what is the volume growth here?

Saugata Gupta: I think volume growth has been decent. It the question for us is to as far as Food is concerned we are participating in the healthy in between meals, we need to ensure that while we drive this one to full potential, we need to also start working on the next set of innovations in the coming quarters or years.

Abneesh Roy: But are you seeing some slowdowns, because HFT for example similar category seeing huge slowdown, hardly any volume growth. So is Oats also as a category the growth rates are now much slower than earlier?

Saugata Gupta: Yes, it has slowed down definitely but it is still in double-digits, the market potential is based on in between meals and not within oats and therefore it is incumbent upon the market leaders to actually continue to invest behind the category to grow. But having said that, I think growth are still in double-digits.

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

Percy Panthaki: Sir, I just want to discuss one thing and that is your margin profile. So, in your 'Investor Update', you have stated that in the medium-term you are comfortable at margins which is lower than what you currently have. So, just wanted to understand your statement. As I look at it, basically your mix effect is going to be positive, Value Added Hair Oils over let us say 3 to 5-year period is going to be a larger part of your portfolio and at some point of time, you will go out of the investment mode in this category and you know the other players in this category make EBITDA margins in the region of 25% to 30%. So that is one big tailwind for you. Secondly, even on Parachute, I really do not know if anyone can compete on price, there have been several players who have tried to compete on price, even as we speak, there are several brands which are available at 30% discount to Parachute and that really is not getting them anywhere in terms of market share. So just wanted to understand what is it that you are uncomfortable with and why the EBITDA margins in the medium term will decline from where they are?

Saugata Gupta: When we give guidance, we believe in promise what you can deliver and deliver what you can promise, I think that is the philosophy, this organization always believes in and also the second thing we believe in is that we want to maximize volume growth and market share gain in a majority of our portfolio, we operate in emerging markets, it is very easy to actually get back margins or with scale and efficiency, it is far more difficult to get back lost volumes or lost market share. So, I think in light of that, also if you make unseemingly high margins in a category you leave space for getting disrupted. So having said that, yes, I think what we have given is a medium-term guidance now, sometimes we perhaps over-perform this year, maybe the margin could be 18-19%, but that is okay, but I think at the medium term that is I believe is a sustainable margin for maximizing growth and market share gains.

Percy Panthaki: Sir, let me put it this way. Supposing in a sort of moderate inflation environment where your cost basket is let us say inflating at 5%, you do 8%, 9% kind of volume growth, therefore your total sort of sales growth comes at about 13%, 14% and if your margin expansion is flat, should we then understand that from here on for the next 3 to 4-years, reasonable expectation would be that your EPS growth compound at about 13% to 14%? The reason I ask this is that FY'12 to FY'17, we now have a good picture on FY'17. So in these five years, your EPS CAGR has been 22%. So, are we looking at a structurally different growth trajectory on the bottom line?

Saugata Gupta: As I said that we believe in doing the right things and let the outcome happen. Now, our first focus is to ensure that we maximize volume growth, we maximize market share gain, continue to invest behind innovation, talent and all those strategic initiatives we do to ensure that we are in best-in-class top quartile in the five areas of transformation. Now, that will not get compromised. As I said that that is a threshold level of margin we have defined for ourselves, sometimes in some years it is higher, and yes, in the last few years, whatever base line we committed I think we have been inching up. But having said that, we are comfortable with this kind of a margin.

Moderator: Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Just one question on the price increase which you have taken in Parachute in July. Just trying to understand the thought process behind it in the context of the feeble recovery if any in terms of consumption what we are actually seeing? Also in terms of what we have been generally hearing from other players in terms of relative competitiveness has been high. Again, if I may add similar to what Percy alluded to earlier, the margin profile which you are operating currently. So putting everything together, just trying to understand the philosophy behind this recent price hike?

Saugata Gupta: I know that a lot of people might find price increase a little surprising. So let me just give you transparently what was the thinking behind it. As you know that, in order to effect the price increase, we have to take a call sometime 4 to 5-weeks before actual price increase happens in the market. So sometimes in May end or something like that, we had a certain forecast we felt, that was a time there was some time crude hardening a bit, I think it was 48, 50, we had a certain forecast on Copra, if you look at the Copra just now in August versus July there has been a 6% to 7% increase in Copra prices. So based on that we said that given that monsoon forecast were good, we have the visibility of the Parachute growth, we said that let us take the price increase that time. Then of course Brexit happened and other things happened, commodity prices softened and in July it was soft. Now, the price increase ideally should have been taken, we had already planned the price increase because as you know the Copra prices are getting a little harder as per the price forecasting table sometime in September-October, we decided to prepone it. We did it on four sites. If we had the hindsight of the actual July thing, we might have taken the price increase more in September. So in hindsight we have taken it perhaps one or two months earlier. But will it have impact? Maybe 1% here and there volume growth reduction in Parachute for this quarter, but we will always make it up in October. So, I think it is just like the conference call we pushed on Friday thinking it will rain out and things became clearer. So in hindsight maybe we should have had the call. So, I think that is the way we look at it. If we had the data, ideally it should have been in September, I completely agree.

Manoj Menon: Actually the context also was that, is it in a way reinforcing in the market of let us say likely higher brand equity what you enjoy in this cycle in Parachute versus the earlier cycle given that the first instance of an inflation you actually executed price hike, in a way tells me in my interpretation that you feel more confident about the brand equity being higher and henceforth you could actually enjoy a slightly higher margin compared to the earlier cycle?

Saugata Gupta: We would like to go by the model and the forecasted numbers… and the forecast is not just the Copra forecast but the overall cost forecast. I think the way we look at it is that two things will never compromise on which is investment behind innovation, investment behind long-term strategic initiatives and investing behind talent. Therefore, having said that, we will ensure that we work on pricing accordingly. You also must need to understand that in a deflationary environment, it is very important that if you have to manage a certain A&P growth it is important that we take a little proactive calls on certain elements of pricing where we feel comfortable.

Manoj Menon: Vivek, just a comment from you on the increase in debtor days. I know it is marginal, but I am reading this in the context of the decline in rural revenues for you. So I am just trying to understand where this is coming from?

Vivek Karve: There has been a slight increase in the CSD receivables, Manoj, but nothing to worry.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Sir, there was one statement or a comment made in the opening remarks where you mentioned that the model allows you to think over or behave in a situation which qualify us no proactive pricing. But in last two questions your commentary was more acting as a proactive price taker rather than wanting to allow that model to proceed.

Saugata Gupta: The model actually calls for proactive price increase and a price drop. So earlier times during deflation what happened is as you know Parachute the total pipeline could be 6 to 8-weeks, we actually waited for the impact to fall in terms of offtake and then take price drops. Actually the model allows for taking proactive and not reactive.

Nitin Gosar: Sir, just a clarity on GST. Where are we sitting right now on indirect taxes? Any thoughts on GST rate that become…?

Saugata Gupta: I think it will be speculative to comment on GST rate. We believe that we will be long-term advantaged of it as I said, because of certain comparative position. So, I think let the rates come in.

Nitin Gosar: Yes, but what is the indirect rate that we are paying right now?

Vivek Karve: It will be difficult for us to straightaway disclose that because in our opinion there is no clarity as of now as to what the new rate structure is going to be. So, I would request you to bear with us for the time being.

Nitin Gosar: Last question was with regard to ESOP schemes. There is a bit of confusion in previous ESOP Scheme the ESOPs were issued at a very low price rate, the new ESOP scheme has got approved. Could you please throw light on what is the rate at which it may unfold?

Vivek Karve: The ESOP plan which the shareholders have approved is an enabling ESOP plan. So as you know the regulations do not approve of issue of any ESOP below the face value of the shares. At the same time, the management may decide depending on the grade at which the ESOPs have to be granted, whether the ESOPs need to be granted at a lower value or they need to be granted closer to the market price before the date of the grant. But in any case what we have also said is that cumulatively all the ESOPs put together under the scheme shall not exceed 0.6% of the existing share capital of 129.02 crores shares.

Nitin Gosar: I am not worried about the equity dilution, I am more worried about the price equity it will get issued?

Vivek Karve: Yes, I understand. So the price will be decided by the management depending upon the pay and depending upon the prevailing market price.

Nitin Gosar: Have you put on any cap on, to what extent we would like to block amount for this ESOP Scheme?

Vivek Karve: That is what I said earlier. So total number of ESOPs that can be granted under the scheme have been capped at 0.6% of the paid up share capital of Rs.129 crores.

Saugata Gupta: This is over a five-year period.

Nitin Gosar: Amount is capped to Rs.129 crores. Is it what I heard…

Saugata Gupta: 0.6% of 129 crore shares.

Nitin Gosar: That is the number of shares. Sir, my question is pertaining to the absolute amount that we are trying to block for this ESOP Scheme in terms of rupees outgo.

Vivek Karve: There is an internal calculation which we may not be able to share, but yes, there is a cap.

Nitin Gosar: The previous tranche which was been done in 2014, could you please highlight what rate it got issued at?

Vivek Karve: The annual report has the details, but for clarity it was issued at Re.1

Moderator: Thank you. The next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.

Karthik Chellapa: Just two questions: Firstly, on the Value Added Hair Oil where you have registered a volume growth of 9%, can you give me some sense of how does that get split between Shanti Amla, Parachute Advansed and Hair & Care, roughly?

Saugata Gupta: I think it has been a broad-based growth, that is all I can tell you, so it is not that one particular brand has contributed to the growth, it is a broad-based growth across multiple brands and they have contributed to the market share gain.

Karthik Chellapa: So is it fair to say that most of them are in that single-digit range?

Saugata Gupta: Again, there would be a range, it could be one band in double-digit, but as I said we do not have to get into… I think let us be honest, I think we give a breakup I think to the extent possible and compared to a lot of other players but because of competitive this one we cannot get it into exactly brand wise growth rates.

Karthik Chellapa: My second question is on the Coconut Oil business where we have registered 7% volume growth, now (-12%) value growth would imply 19% negative mix and price cuts given that we have only taken 6% price cut across SKUs, does it mean that balance 13% is an effect of down trading plus promotions which now get netted off against revenue?

Saugata Gupta: No, it is an 18% price drop we have taken. If you look at anniversarization of the price drop we took between Q2 and Q1 beginning this year 6% + 6% + 6%, so 18% is the price drop.

Karthik Chellapa: So within the portfolio you do not see any down trading or so?

Saugata Gupta: Not really. As I said this deflation will progressively keep on reducing as the base effect kicks in up to Q4. So from Q1 next year you will have neutralization.

Karthik Chellapa: Sir, you mentioned the volume growth of 7% in Rigid Packs. What would it be for the overall category if I were to include even Sachets?

Saugata Gupta: There as I said we continue to defocus. So there is much lower growth; it is flat to slightly negative in that, but we actually as I said that overall growth is around 5% to 6%, so it is around flattish.

Karthik Chellapa: So the Sachets part would be flattish?

Saugata Gupta: It includes Nihar, Rigids and all the others, so non-Parachute Rigids, it is not just Sachets.

Moderator: Thank you. The next question is from the line of Sujit Jain from Yes Securities. Please proceed.

Sujit Jain: I have a question about the Copra cost as a percentage of Coconut Oil Rigid Pack. So what is that percent, if you could throw some light on that?

Saugata Gupta: No, we would not be able to throw light on a cost structure.

Sujit Jain: No problem, but I am coming to why the question is because from 1Q '16 to 1Q '17 there is 41% fall in the Copra prices whereas our pricing decrease that we have taken is about 18%. My question is basically have we passed on almost the entire dip in the Copra prices in terms of pricing to the consumers?

Saugata Gupta: Our philosophy is to operate within a band of margins and that band of margin is subject to our pricing model. As I told you there is a pricing model in which there is a discovery of a sweet spot between volume maximization and revenue maximization subject to a band of margins. We operate in that model.

Sujit Jain: Understood. What I am trying to ask is that is there is pricing power in the Coconut Oil or do we typically have to pass on the entire decrease?

Saugata Gupta: We want to remain competitive. So as I said that we operate within a band, for example, the input cost go up, we absorb something and pass up something to the consumer, when the Coconut Oil input cost go down, we ensure that we pass down significantly we might be retaining something, but as I said that it depends on that discovery spot between a sweet spot between revenue, volume maximization subject to a margin.

Sujit Jain: Is there any category in VAHO in Coconut Oils or in Youth Personal portfolio where the raw material prices have not been passed on, in the sense we had that pricing power and we did not decrease prices?

Saugata Gupta: Pricing is subject to category growth, subject to competitive pricing and ensuring that as I said that sometimes we go for lower unit packs to drive affordability. So I think our pricing strategy again the philosophy I keep on saying is based on a fundamental this one that our pricing should be such that it maximizes volume growth and market share.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investments. Please proceed.

Vipul Shah: My question is can you throw some light on your analytical model for pricing?

Saugata Gupta: No, it is a proprietary model, I cannot really so on a model, I wish some day we can make it into a commercial venture, all I can tell you is that based on the last 8 to 10-years data, it does a predictive pricing which maximizes volume and market share.

Vipul Shah: Both way up and way down for Copra prices?

Saugata Gupta: I think it is based also on our previous action where we did not get it right. So it historically imputes the data and we keep on refining the model every year. 100% right it might not be there, but I think with number of years of data it will reasonably get you into say 80% to 90% accuracy.

Vipul Shah: So in this deflationary cycle you are reasonably satisfied with the performance of the model. Should I take it that way sir?

Saugata Gupta: So far yes.

Moderator: Thank you. The next question is from the line of Ritesh Vaidya from Ambit Capital. Please proceed.

Ritesh Vaidya: Just a few questions: One was on the new distribution management system that you all had rolled out last year, can you just elaborate on the kind of benefits that you are seeing at a distributor end and also for your business as such because of this rollout? Also if you could elaborate a bit more on the different IT initiatives such as once you have elaborated like a predictive analysis, forecasting category growth, how do you see all these tying up with your long-term growth strategy?

Saugata Gupta: I think our entire approach to investment behind analytics is to take much better informed decisions, drive spend effectiveness and ensure that we release intellectual bandwidth for doing new things. I think that is the philosophy of our entire analytics and our modeling. As regards the distributor system is concerned, we did it in three phases -- the First one is the Automatic Distributor Replenishment that drives efficiency in supply chain and perhaps long-term protects their ROI so that we do not have to increase our spend and cost of sale; the Second part of our investment which we have done is our new, what we call Midas Pro which is our sales system which the primary objective is that is a new generation system which ensures that actually for all majority of our direct distributed outlets, 100% in urban and some in rural, we actually have a feel of SKU wise, outlet wise actually sale, that will help us again to ensure that when with an assortment analytics sitting on it, sell the right products to the right outlets, manage the spend effectiveness in that outlet and have better commercial control. So that is the philosophy. I think we are also getting into more sophisticated PDAs while selling, so you can actually show an ad, you can do concept selling. So all this is being actually rolled out as we speak. The assortment analytics, for example, is in prototype. So this is preparing ourselves for the next-generation sales system. What it will do? I think it will help in four things: As I said first it will perhaps give help in the channel segmentation and increase our range availability, increase our fill rates, it will reduce your stock in the system because you will have the right stock in the right outlets and improve your sales effectiveness. I think overall it will also ensure that we spend time doing demand generation. So I see the new future sales system doing demand generation instead of just distribution.

Moderator: Thank you. The next question is from the line of Jubil Jain from PhillipCapital. Please proceed.

Jubil Jain: I have a few questions on Saffola Oil. First of all if we look at the volume growth it is very strong if we compare it versus a listed competitor. So just wanted to know is what we are doing different from that competitor that we are getting such a high volume growth? Similarly, there is some inflation in Rice Bran Oil prices around 14-15% as well as Kardi. So in spite of that our price growth is almost flattish. What is the reason behind that? What is the outlook on the pricing going further?

Saugata Gupta: What we have done perhaps in the last few quarters, we have done two things: One is we have a differential pricing policy in terms of regional pricing which we have executed. Our new communication actually ensures that we broad base our target audience to get new consumer into the fold, I think when we are supporting a portfolio instead of one particular brand. As regard the input cost, yes, the data which you are seeing is a point-to-point quarter wise cost. Obviously, in terms of we have a certain position and our consumption cost will be different. But should there be some more inflation, we might be looking at some minor price tinkering in the Saffola portfolio in the coming quarters.

Moderator: Thank you. The next question is a follow-up question from the line of Nitin Gosar from Invesco. Please proceed.

Nitin Gosar: ESOP 2016 Scheme if I put a number of 0.6% to the existing equity and assume that it is issued at a face value of 1, then the number works out to be really a big number like 30% of my FY-'16 PAT goes out as in part of ESOP expenses?

Vivek Karve: If you have also looked at the way we have done our past ESOP Scheme or for that matter past Star Schemes also, end of the day you must realize that whether it is an ESOP Scheme or a Star Scheme they are intended to provide long-term incentive to eligible employees because ESOPs offer a sales of ownership to the employees, it becomes a good tool to engage with and retain top talent. So while what we have taken from the shareholders is an enabling resolution there will always be a very judicious mix of ESOPs granted probably at a face value, ESOPs which will be granted at a market price closer to the date of the brand as well as the Star Schemes. That is point #1: Point #2 is if you have looked at our employee cost as a percentage of sale over the last 3-4-years, it has always been hovering between 5.5% and 6%, whether it is inflationary cycle or a deflationary cycle and we are quite mindful of the fact that we need to increase our overheads in tandem with both the volume growth as well as the value growth, and as a result of which what we can assure you is while I am unable to disclose the exact numbers to you, there will always be the judicious mix which ensures two things: #1, optimum hit on the profit & loss account, A) and B), dilution for the existing shareholders.

Nitin Gosar: Point is taken sir, there are only two subsections to it or if I were to drive out two points to you is since you are wanting to pay to remunerate the employees, there is no question in that or there is no stopping from our side to you to stop there, but the point is why do you cap it and give us an absolute amount in terms of this is the X outgo that can max happen and nothing further that can actually touch the PAT?

Saugata Gupta: I think you are taking an extreme case where everything in face value. It is not going to be that way. As Vivek also clarified, under no circumstances our total employee cost is going to change. So I think that reassurance and that is an enabling resolution and therefore I think that extreme case of 0.6% it is over a 5-year period and not every year. So this is a cumulative over a 5-year period and not every year. So all I can assure you is that it is unlikely to impact in any case what has been in the previous 5 or 6-years that trends in an employee cost structure.

Moderator: Thank you. The next question is from the line of Sunita Sachdev from UBS. Please proceed.

Sunita Sachdev: Just wanted to ask you your information update provided quite a lot of information on some of the low unit packs that you all are launching. I do not know whether you spoke about this in earlier question. But just wanted to know what is your thinking around this and how much incrementally should we think should come from here in the next 1-year or 2-years?

Saugata Gupta: I think we believe that as we have now started penetrating into rural and our contribution of rural has moved from 25% to 34%, low unit packs will be a key driver for our strategy. I think there are learnings to be had from some of the other players in this sector who have used low unit packs to drive growth. So I think we are prototyping various options. All I can tell you is that we now are next 3-years this will be becoming a big bets in terms of driving growth. Now that we have a critical mass in terms of in our rural portfolio and our rural distribution system, I think this will be one of our big bets there.

Sunita Sachdev: No quantification sir?

Saugata Gupta: I think it will be difficult to quantify, but all I can say is we have to grow I think by double-digits every year in terms of volume and have ambition to have a certain market share aspiration in terms of both volume and value, this will be one of the important drivers of growth.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please proceed.

Kaustubh Pawaskar: Sir, I have a question on the Livon franchisee. This time it has grown in double-digits. So for past 2 to 3-quarters you were being impacted by the counterfeits. Just wanted to understand whether that issue has been sorted out and whether the double-digit growth would sustain in the coming quarters?

Saugata Gupta: I think we still have a job to do on the Livon. Yes, the counterfeit issue we have to be ahead of counterfeits I think every quarter with certain measures which we have taken on the packaging. You will now see an improved product in the market with different packaging. We have to be constantly on our feet and be ahead. You get perhaps a time of 3 or 6-months when your stuff is copied. But having said that specially we are interacting with some of in e-commerce and certain other regulatory authorities to ensure how do we curb to the extent the counterfeiting takes place. Just to clarify it is Livon Hair gain where we have a double-digit growth, Livon Serum we did not have double digit growth, and that is the thing which I said that in the second half some of the stuff which we are doing should get back Livon also in the Serum portfolio also into double-digit growth.

Moderator: Thank you. The next question is a follow up question from the line of Ritesh Vaidya from Ambit Capital. Please proceed.

Ritesh Vaidya: Just wanted to know some of the key drivers of growth you mentioned in 2H FY17, can you just elaborate on monsoon and 7th Pay Commission, what are the on-ground realities that you are seeing?

Saugata Gupta: If you really look at the last 4-to-6 quarters and what was different since say 2012 to ’14 which was driven by mostly rural growth. So you had a situation pre-2012 where you had good urban and rural growth. I think 2012 the slowdown happened where urban growth slowed down and then rural was doing still well. Because of the two consecutive years of drought, I think rural growth has significantly slowed down. There are some minor green shoots in urban. If you really look at data carefully our data and some of the other data I think we are seeing some upside in modern trade. Now this could be also some organic some inorganic in the modern trade and also some B2B, B2C, but there are nevertheless some green shoots. We believe that with very good monsoon, compounded with the fact that what happens is it will give rural consumption power, also the Direct Benefit Transfer according to me ensures minimal leakage and money in the hands of the people who deserve it and the government is doing a very good job on the DBT I believe. Good monsoon leads to lower food inflation and there is more money, now the more money which is the hands of government employees because of not only the increased remuneration but the arrears which are going to be paid in August end obviously will first go into perhaps into housing or durables but some share of wallet will also come to CPG.

Moderator: Thank you. The next question is from the line of Amit Sinha from Macquarie. Please proceed.

Amit Sinha: Sir my question is on your Coconut Oils franchise. Now if I look at your market share on a sequential basis, you have lost 100 basis points market share compared to 4th quarter of FY-’16. Now you also mentioned that there was some disruptive pricing in the market. Now my question to you is, I am assuming this that we are operating at the higher end of our margin bracket, if the disruptive pricing continues for some more time, will you reverse your price rise?

Saugata Gupta: I do not think that disruptive pricing has anyway impacted because then that market share would have increased whoever has done disruptive pricing but the issue is anyway whenever there is disruptive pricing, we are flanker brands like Nihar and Oil of Malabar to handle the disruptive pricing. I think Parachute the way we handle is ensure that we grow Parachute independently and I think people want to aspire to move to a leader brand and we are one to ensure that that price premium is not high enough for people to not move towards that brand because at the end of the day I think all consumers are aspiring to move to quality brands, we have to ensure that we provide that affordability umbrella for them.

Amit Sinha: So you mean to say that your Parachute brand has not lost market share?

Saugata Gupta: That is right.

Moderator: Thank you. The next question is a follow-up question from the line of Abneesh Roy from Edelweiss. Please proceed.

Abneesh Roy: Sir, your comment on Sarso Hair Oil which is still in the initial stages is just satisfactory. I would have expected a stronger word. So can you elaborate on how you are seeing long-term potential, this is more from 1 or 2-years perspective, I understand 3-4-years view anyway will be positive?

Saugata Gupta: As I said any new brand takes time to cultivate and grow. It is also rural brands obviously takes penetration and other things. So reason I am giving satisfactory reason is close to action standards. Now it is still not a blockbuster, it takes time, any brand and especially in Personal Care takes time to grow, and I think that is why we have given this thing satisfactory. As I said that we are committed to investing behind both these brands in terms of becoming blockbusters of the future. As you see we quietly made say the Hair Fall product in the south into Rs.60-70 crores brand in 3-4-years. So I think just wait and watch, I am sure we are confident that this will deliver the goods.

Abneesh Roy: So in terms of Patanjali Kesh Kanti is doing well, good numbers, very heavy advertising, are you seeing any impact on your premium and you also have this Ayurvedic Gold, so could you tell us how it is doing?

Saugata Gupta: I think Ayurvedic Gold is doing again decently well. This is 3rd or 4th month where we are gone into some 4-5 states. So as of now it is tracking decently well.

Abneesh Roy: Patanjali, any worry?

Saugata Gupta: As I said that I think as far as Patanjali is concerned I think there are huge learning for a lot of us in terms of how quickly they are scaled up, at the same time as a market leader I think it is important that we continue to innovate and I think they are operating in a space where I believe this multiple players playing will actually grow the market.

Abneesh Roy: Last question A&P, you are one of the few companies in this quarter which have spent very aggressively. So I wanted to understand full year number also we should bake in quite aggressive numbers or because your gross margin is so strong, that is why you are seeing this as a time to invest behind brand, because lot of other companies are seeing beyond a point advertising does not make sense. So what is your sense on that? You are doing well in terms of volume growth so I understand, your on-ground experience is different. But full year number where do you see?

Saugata Gupta: I think if you really look at the percentages we have to look at from annualized basis, so we will continue to I think invest 11.5-12% behind A&P and so therefore there would be an A&P growth this year and we will continue to invest as I said irrespective of the external conditions we invest behind A&P our long-term strategic initiatives and talent. Secondly, we are running a very-very comprehensive project called Project Edge which seeks to do on sales spends effectiveness, consumer promotion effectiveness and ROMI which is Return on Marketing Investment, this will be put into place and we will get some start getting some results may be in the second half of the year. What it will do is while we keep that 12% A&P that will make the spend dollars or spend rupees work much harder.

Abneesh Roy: But what is the KRA of this, is it some cost saving or is it that digital should get say X percentage, what is the overall target of this?

Saugata Gupta: The KPI is that now that we are having invested behind analytics, market mix, modeling and also I alluded to the fact that today we will get data on an outlet wise SKUs level including visibility spending outlet, we have much better handle of spend effectiveness and also CO effectiveness and return on marketing investment. This will help us into targeting our spend much more better. I think increase the productivity of the spend rather than to cut spends.

Moderator: Thank you. Our next question is from the line of Anand Jai from Kotak Securities. Please proceed.

Anand Jai: Sir just one question what would be your excise and VAT in your core products let us say Parachute, Saffola on a blended basis, like in Edible Oils obviously there is a ….

Vivek Karve: The Edible Oil excise duty is nil and the value added tax rate is about 5%-odd.

Anand Jai: This would be let us say for both Parachute, CNO and Saffola?

Vivek Karve: Yes, because both are Edible Oil.

Anand Jai: On a blended basis there is nothing there in terms of …?

Vivek Karve: So far as the value added hair oils are concerned because they are cosmetics in nature they are excisable and the VAT is typically 12.5%.

Anand Jai: So substantial part of your portfolio would be right now let us say either 0 plus 5 would be at a much lower rate than let us say what GST would come?

Vivek Karve: Yes, you may say so.

Moderator: Thank you. Ladies and Gentlemen that was our last question, I now hand the conference over to Mr. Naveen Kulkarni for closing comments. Over to you.

Naveen Kulkarni: I would like to thank the management of Marico Limited for taking time off for this call. Over to you sir for closing remarks.

Vivek Karve: Yes, we would like to thank all our investors and analysts for joining on this particular call. As Saugata said, at the beginning of the call we have had a satisfactory quarter and we intend to maintain this momentum for the rest of the year. Good monsoon as well as some of the measures that government has taken are likely to provide the overall consumption environment a boost in the latter part of the year, which would enable a company like us to post double-digit volume growth. Thank you and Wish you all the best.

Moderator: Thank you. Ladies and Gentlemen, on behalf of PhillipCapital that concludes today's conference call. Thank you all for joining us and you may not disconnect your lines.