"Marico Limited Q2 FY2017 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Marico Limited Q2 FY2017 Results Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you, and over to you, Sir!

Rakshit Ranjan: Thank you. Good afternoon everybody. Welcome to Marico's conference call. We have with us the senior managements of Marico led by Mr. Saugata Gupta, Managing Director and CEO; and Mr. Vivek Karve, Chief Financial Officer. I would now like to hand the call over to Mr. Gupta, who will take you through the highlights of the quarter, and then we will open the call for Q&A. Over to you, Sir!

Saugata Gupta: Good evening everybody. Just wanted to give you a flavour of the last quarter performance. I think it was muted; the issues were only concentrated on Parachute volume growth in India and the overall growth in Bangladesh. The rest of the portfolio continues to do well while the value growth continues to be tepid due to the above factors and deflation; we continue to maintain good earnings growth without taking any short-term decisions on reducing A&P or increasing promotion spends.

We therefore believe that this performance is a slight aberration and we should gradually be on track in H2. Let me address upfront what went wrong with Parachute this quarter. As you know any pricing decision is taken 45 days in advance in view of the total pipeline of specially a mass-distributed product like Parachute. In mid-May, we had a view that input cost will harden from June, July. Since Parachute volumes were steady, we decided to take the pricing call of a 5% hike in line with our pricing model. However, post-Brexit which happened on June 22nd or whatever, the input cost actually went down by 5% and the unorganized competition followed suit and we had the new price stocks in the market.

Further, we are extremely uncompetitive that time and addition to that demand in most of our large markets which is basically Karnataka, Rural Maharashtra and Rural AP were still low, because of the demand condition being sluggish in the rural markets. There was huge resistance from trade to pick-up our stocks and we also suffered reduced offtake and market-share losses to locals and unorganized market. In fact, our market-share losses were around 70 basis points this quarter. Fortunately for us, the copra prices have started increasing since mid-August and consequently, our volume growth is recovering.

We resisted the temptation to tactically increase promotional spends like taking up price reductions in the form of COs and wanted the pipeline to ease normally since we had higher price stocks in the market. It was a bad judgment call in hindsight and a good learning for us in terms of taking a price increase only when the actual event occurred as against anticipating it. To put it simply we will avoid premature price increase calls in the future but will continue to take price reduction call proactively.

As compared to July, copra prices have increased 20% and we expect the trend to be slightly bullish going forward. Let me talk about our take on demand outlook, I strongly believe that the work is behind us in fact July, August were perhaps the worst month and there is a slight turnaround in September, October. If you take into account factors like good monsoon, DBT, implementation of Seventh Pay Commission, OROP, I continue to be cautiously optimistic of a gradual recovery. We believe that we should be in a position to gradually get back to the 6% to 8% volume growth in the second half with significantly lower deflation. By exit Q4 we should be able to start seeing some value growth since the deflation factor will get neutralized. We have a very power-packed innovation pipeline from November till next June and they should also hit volume growth. However, we expect the overall margins to settle down in the band of 17 to 18.

Let me provide a broad flavour of the other categories in India. The new Saffola strategy continues to play out well and we should be able to deliver 10% consistent growth in the coming quarters. The food business is expected to hit the 200 Crores mark over the next two to three years and there will be aggressive innovation in the Saffola franchise over the next three to four quarters. In the value-added hair oil space we continue to grow volumes and gain market share and we are confident of double-digit volume growth in H2. The value-added hair oil category continued to grow in the region of 7% to 8% in both volume and value in H1 contrary to the certain feelings in certain quarters that the value-added hair oil market has declined. While some of the new initiatives are sacking below our aspirations we are committed to continue our investments and grow them. However, our bottom of the pyramid initiative, especially in the price-point packs like sachets are showing good results.

The Youth business continues to recover well and is poised to grow 15% to 20% in the second half, while we continue to do well in SetWet styling and gain share in Deo. We have a better job to do in the Livon portfolio. Any recovery in urban consumption in H2 will definitely aid this portfolio.

Our International business performance is a mixed bag this quarter. Bangladesh continues to perform poorly because of few factors like sluggish growth in Parachute largely due to deflation, around 15 extra working days loss during the quarter due to both Eid festivals falling in the same quarter and some issues which were in the early July. However, the macro-economic outlook, the political stability and the demand fluctuation are improving in the country.

We have also got our internal act right with some leadership transition which has happened last quarter and we are confident about a turnaround in H2 with a recovery in Parachute growth in conjunction with an aggressive diversification of the portfolio. In fact we now have sizable market share in value-added hair oil and hair color and we expect to gain significant market shares in body care and male grooming over the next two years.

The South East Asia business is expected to chug along nicely with the momentum in place and will certainly deliver a double-digit constant-currency growth. There has been further consolidation of market shares in Vietnam and we are confident of being the number one Deo player in the coming year in addition to male shampoo.

In Middle East and North Africa, the performance will be muted due to significant devaluation in currency and the huge contraction in demand in Middle East specifically Saudi. Fortunately for us the total MENA contribution to our business is very low. The expansion in South Asia and Myanmar is progressing smoothly the South African business is steady in spite of which macro situation while we need to improve our efforts in the sub-Sahara and Africa. Overall, you can expect a better H2 than H1 because of Bangladesh where we feel the worst is behind us.

To summarize we can expect a better H2 in both volume and value growth for both the businesses, but we will be more comfortable to maintain a 17% to 18% operating margin band to facilitate the growth pick-up and continue to stay invested in our A&P and our long-term transformation initiatives. We have prepared to absorb the input cost increases; this will translate into a modest earnings growth in the second half.

Before I conclude I would like to mention that we continue to progress in our areas of transformation and sustainability. I am very happy as we assured that our long-term journey of being a more future-ready organization is progressing well and has not got impacted by any short-term headwind and we are not cutting any investments in this space. Thank you for your patient listening and I would welcome any questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Good evening, Sir. Wish you a very happy Diwali in advance. Sir, my first question is on, copra prices which are seeing an increase as you mentioned. Sir, how confident are we of growing our EBITDA in double-digit with the scenario continuing in the next two quarters and further maybe in FY18? Do we have some leeway in cutting our ad spends to protect our margins?

Saugata Gupta: I think our first task is to get Parachute volume growth back on track which we believe will happen in the second-half as I said that as long as EBITDA was 17% to 18% overall and I think there could be scale advantages happening in international business. I think the India business we believe that we are now in a zone of sustainable EBITDA to maximize volume growth. Going forward obviously the A&P this year is at 13%. It is also because of the fact of the denominator effect being lower due to deflation so if the inflation factors will go up which we believe is going to happen in the next year even with a 12% A&P we will be able to manage on A&P growth.

Sameer Gupta: Okay, Sir. So Sir, the growth in EBITDA, like you said, there would be a threshold of around 17% to 18% in EBITDA?

Saugata Gupta: Not the growth the EBITDA margin.

Sameer Gupta: Yes. EBITDA margin, so that maybe like will come out as flattish EBITDA margin for the next year, would be okay, right?

Saugata Gupta: What I said is yes, we are okay to have an operating margin of 17% to 18% to maximize growth.

Sameer Gupta: Okay. Got it, Sir. Sir, my next question is on the value added hair oils. You also mentioned that the category itself has seen slowdown and that has been the commentary that it has been shared by some of your competitors in this space. Now while we have gained share, and part of the double-digit growth is because of that, but I would believe that the low-priced Amla would be a significant factor in guiding this high growth. Please guide me if that understanding is correct and if it is not, then could you just point out how the growth is excluding this segment of the low-priced Amla?

Saugata Gupta: I think our growth has been broad-based including if you look at the last three four years and even in this first-half and this year, growth has also happened in other brands like Parachute Jasmine, Nihar, perfumed coconut oil, so the growth is broad based. And if you really look at it also while we have gained we are gaining both value share and volume share and not just gaining in Amla because in that case value share would not have increased. Our value share also has increased by 70 basis points. Now the value-added hair oil category growth of 7% to 8% is yes there is a slight slowdown but as long as we believe that and going forward it will inch up and as long as we continue to gain this market share of 1.5% every year we should be able to deliver double-digit volume growth in the value-added hair oils.

Sameer Gupta: Sir, then just a follow-up if I may. Sir, so what differently are you doing, I mean, to gain market share, because the category is declining or is it like some of the unlisted players are also doing well and the category itself may not be declining, but you and some of the other people are seeing higher growth?

Saugata Gupta: No category is not declining I'll just give you an example; if I am growing in value terms by 11% and I have gained only 60 basis points you can extrapolate to find out the category is not declining otherwise. With a growth of 11%, I should have gained 3% to 4% market share in that case.

Sameer Gupta: What I meant was that category is slowing down, not declining?

Saugata Gupta: Yes, but slowing down see I think as I said 7% to 8% is the slowdown from may be 11%, 12% to 7% to 8% but we believe that I think if the consumption picks up it should go back to tell and as I said if you look at if we keep on gaining 1%, 1.5% points and the category is growing at 8% to 10% there is no reason we should not be able to grow at 10%.

Sameer Gupta: Got it, Sir. Thanks very much. That would be all from me. If there is anything else, I will come back in the queue.

Moderator: Thank you very much. We will take the next question from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: Thanks for taking my question. A couple of questions. On Bangladesh, just wanted to get some sense of 75%-plus sales, is it still Parachute driven? So is the consumer ready for other products, what products are we focusing on to reduce dependency on Parachute, because I guess it would be even more tougher, it will be more price-conscious market there, so if you could give us some colour on that?

Saugata Gupta: Just to give you a perspective that say four years ago 90% of our portfolio came from Parachute and 10% from other categories. Today it is 80% and we expect that to move to significantly less. Now the issue is as follows, we have grown fast and strong in the coconut oil category over the years but now the convertible loose pool is only 18% so the headroom for growth in coconut oil is actually low. Having said that the value-added hair oil category is actually growing at a faster phase in fact it is growing at a rate of around 20%. So we have been growing at 15-20%. We have not gained market share and so we have to accelerate that growth to 30%. Now Parachute being 80% of the category unless the balance of the category grows by 30% to 40%, the overall growth will not happen. So what we have done is as follows. We have gone into first value-added hair oils we are now a broad-based play we have gone into body care, we have gone into male grooming, we are in colour where we are also reasonably high market share. We want to now grow that part of the portfolio at a rate of 25% to 30%.

Prakash Kapadia: So that non-Parachute portfolio will grow at a faster pace which itself will get this overall share of Parachute down?

Saugata Gupta: Yes having said that I think the next task which we are doing is to get the parachute also to get into growth. We believe we have not been investing behind the brand which we have started that investment and our expectation is that the Parachute volume growth will also actually move into positive zone coming forward in the second half. The second thing that will happen is the anniversarization of the price reductions. It will get completed this quarter and therefore the deflation factor, which was affecting value decline in Parachute, will also start getting neutralized from quarter three. We have also invested big time in go-to market transformation initiatives in Bangladesh and all. I can say basis some trend what we have picked up in this month and going forward is that we are extremely confident of delivering growth in Bangladesh this quarter and the next quarter and going forward.

Prakash Kapadia: Sir, internally, do you have any targets of increasing distribution? What is the room of distribution growth left in Bangladesh or what is our reach today?

Saugata Gupta: Parachute reach is very good so if you index two brands like Lifebuoy and this one the challenge is actually the second and the third brand, for example we have brand called Parachute Belly now if you look at big players multinational players or market leaders the normal ratio of the second brand to the first brand in terms of reach is usually 50%. Currently ours is a leader brand it has a 1 million outlets the second brand is usually 0.5, 0.6 in our case it is only 20% so I think what is happened and leadership in Parachute and the business chugging along perhaps that gave us a sense of complacency and to be honest when the international was part of standalone may be we were treating Bangladesh like a cash cow, which we have since corrected in fact if you really look at it our incremental profits are coming now going to come from other businesses scaling up in the international business rather than Bangladesh.

Prakash Kapadia: Correct. Understood, and Sir, secondly on Saffola, regional pricing seems to be working. Which geographies are we focusing on? What is the demand from CSD? And currently, would it be fair to say West is a stronger market for us in Saffola in the edible oils?

Saugata Gupta: West and North are strong markets. CSD is an aberration this quarter because they have done some stock correction but the growth is coming from both Saffola Gold and Total which is the premium part of the portfolio and Saffola Active which is the entry point. So what we are ensuring is that not all the growth comes from only our entry point, Saffola Active. What was happening earlier was that the entry point for Saffola was not growing. Now both the ends are growing and as I said that I think the strategy seems to be working. What you can see in the next six to nine months is perhaps we are having a more aggressive innovation which has not happened in Saffola in the last three to four years.

Prakash Kapadia: Okay. So, something new would come up there also, as you said, in the coming months for Saffola?

Saugata Gupta: Yes.

Prakash Kapadia: Sir, lastly on the rural side, if you could give us some sense, our consumer is down trading, is frequency getting lower, what is happening on the ground, what are you sensing on the rural side?

Saugata Gupta: I think there will be a combination of down trading and lower consumption. The last two years if you notice at our profile of contribution of businesses and the places where there were two years' of drought there was a significant overlap. Especially in our country rural Maharashtra, Telangana and some parts of Karnataka and where we had a huge contribution of specially Parachute sales coming from. Now obviously there has been good range in most of the regions. What happens and this is our feedback from the ground is that this year the harvesting season got delayed a bit, because of the late rains, there were some rains in September especially in Andhra and all that. So it got delayed by two to three weeks. Normally what happens after two years, consecutive years of drought, normally the first thing the farmers will do when they get the cash is to pay off the debt and the consumption. Thus there will be a lag effect but I strongly believe that in most of the regions where we are facing huge volume pressures where Parachute was strong and as I said there was a strong overlap between drought-affected regions and Parachute growth, things will ease off as we go into the second-half and I think the price competitiveness has also improved for Parachute.

Prakash Kapadia: Okay. Got it. Thank you. All the best.

Moderator: Thank you. We will take the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Happy Diwali to all of you. Just a couple of questions; one, on the Parachute bit, just taking a step back, I am just trying to understand the philosophy on margins which Marico is having at this point in time. Just trying to understand, is there a change, because especially when I look at the action of the price hike which you did based on a certain anticipation, and when I see this in conjunction with the margins, which is currently close to the higher end of your band, I am just trying to understand, is there a change in the cost of this in terms of the margins for the medium term?

Saugata Gupta: You are absolutely right. I do not think there is a change. There is a realisation we took and anticipated price increase which was as I said wrong judgment. Yet we perhaps made a margin which is not a sustainable margin for volume growth and we became price uncompetitive. That is the reason we keep on saying that I strongly believe that a 17% to 18% overall operating margin and may be a 20% for the India business and something which is a sustainable margin. Perhaps we made a little additional margin which was not favouring volume growth and so there is no change in realisation. It was just expand but perhaps in high sight and a wrong call.

Manoj Menon: No, I was actually trying to get at the larger picture here that given the general demand conditions are fairly benign and yes, the recovery is also expected to be more gradual and not necessarily reshaped, what I am actually finding across the industry is that there is a little bit of reluctance to give away the peak margins, which the industry enjoys, it is not just a Marico sort of an issue. In your case, it was a bit surprising because you actually look into that column, so I am just trying to understand that part only.

Saugata Gupta: No, fair, I will completely agree and that is the reason I said that there could be a modest earnings growth in the second half of the year. We will continue to stay invested however in the A&P. As I said unlike some parts of the industry we do not want to do short-term tactical stuffs in terms of doing steroid boosters with promotional spends. We will continue to stay invested behind long-term A&P and long-term brand building and on pricing. I guess I do not know what will happen obviously. Even Copra is already 20% up from July. Our prices are constant and we will not make a margin which is unsustainable and not favouring some improvement.

Manoj Menon: Yes, completely understood both the points. Quickly on if I heard you correctly, about the Parachute rigids recovery, which you actually spoke a few minutes earlier, you were alluding to the recovery in 2H in the positive, or is it like 3Q?

Saugata Gupta: No, I did not get you. Can you just repeat?

Manoj Menon: Okay, can we expect Parachute rigids to be positive volumes in the next quarter, I mean rather 3Q or it's more like a 2H sort of an expectation?

Saugata Gupta: No, for positive volume growth, yes you can expect definitely.

Manoj Menon: In 3Q?

Saugata Gupta: Yes the 3Q, yes absolutely.

Manoj Menon: Okay. Thank you for that. And secondly, just on the top-down question on Shanti, the contribution of Shanti Amla to revenues is obviously much higher. I am assuming that it is much higher than profits. So what should be the thought process here, which we have over the medium term? Again, can Shanti be a support to margins overall?

Saugata Gupta: You may be right for gross margin. Might not necessarily be for net contribution because there is obviously an amortisation of A&P expenses as you get scale, the SOB by SOM falls. I think how much that has to I think play a much more aggressive participation in the premiumisation like hair fall and other things. So you will see something is panning out in the next couple of months. This is also because we also intend to play significantly even in the LUP so what we need to do is that we are happy with what margins we are getting in value-added hair oil. What we intend to do is to balance our growth aspirations and growth in the LUPs along with getting a commensurate growth in the premiumised space. For that I think we have to get our act right. We are just getting our act right. It is slightly beyond aspiration in the hair fall space and we have to get our act right.

Manoj Menon: Understood, absolutely clear. Thank you and all the very best.

Moderator: Thank you. We will take the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Good evening management. Sir, my first question is pertaining to the volume growth that we witnessed, degrowth that we witnessed during the quarter. You highlighted that it was partly to do with the price hikes, which were pre-empted, and second was with regard to the lower advertisement spent, was it the two element or was it only limited to pricing element?

Saugata Gupta: The volume decline was only in Parachute rigids, which was due to just the pricing of that A&P spend, continued at 13% this quarter so there is no A&P reduction.

Nitin Gosar: Okay. In between, during the discussion, you mentioned that there was lower A&P spends or the lower brand investment that happened, and this was pertaining to something else then?

Saugata Gupta: No, that is only onto Bangladesh overall.

Nitin Gosar: Point taken. And, Sir, second question is with regards to the pricing model. When the pricing model was drafted initially, the premise was more to do with the pre-empting of price hikes or to take commensurate price hikes?

Saugata Gupta: We were not pre-empting I think. We went ahead with the pricing action as the volume growths were good, we took that call and as I said I think in this business we have to take certain risk you sometime sail and sometimes you learn from the mistakes.

Nitin Gosar: Point taken. Okay, sir. Great. Thank you.

Moderator: Thank you. The next question is from Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: A couple of questions. Firstly on oil's value, I hope performance is quite good. You specifically called out for the fact that mustard oil and the Gold variant hair fall oils are not meeting your expectations. So, is it something which because you had probably done pilots in both? So what's the kind of feedback and what's the way forward on these two?

Saugata Gupta: Sir, first I will talk about hair fall. I think just to clarify, hair fall in south continues to do well the new was expected in the rest of India especially in the North and the West it is not gone as per expectations. I think in pilot it did well and the reason is twofold. I think we have to do some changes in the communication mix number two is that the weighted distribution a lot of production that is sold in the North on hair fall is in a chemist outlet. We have not been able to get that weighted distribution other than in certain markets we have spent like Maharashtra so that is we have to correct. So it is a question of correcting of some elements of the mix and we are confident about it, it is the biggest problem consumer face which is hair fall. Our thought is right I think we have to be patient and we are I think I am pretty confident will be at it till we get it right. As regards the value-added mustard oil is concerned, yes, our prototype was successful. The deepest territory and a mark just to give you a perspective, the loose mustard is a huge market. The issue is what we are facing again here is the biggest loose mustard pool is in Uttar Pradesh and Bihar which is significantly media dark so we have to get both the distribution and the marketing activation models right. There it's taking time then what we are expected but again as I said that we are there in it for the long term. We have to refine that marketing mix and gradually get it right. Now just to clarify both of them none of them are absolute disasters. We are doing modestly. It is falling short of expectation we thought there will be big incremental growth drivers this year which has not happened but we have to get I think we have to correct some of the mix and get that right.

Arnab Mitra: Sure. And just on the hair fall part, just in pure terms of efficacy, because you have oils in the market, which are 2 times or 4 times your price also in this hair fall category. How does the product match up in terms of efficacy, and is there a scope for you to also enter that super premium pricing, where I mean, the packaging or delivery mechanisms could be much more premium?

Saugata Gupta: As far as efficacy is concerned I think it is best in class in efficacy. I do think it is comparable to the best in class in the market.

Arnab Mitra: Okay, sure. And the second question was, if I just look at your second half last year, you had seen a very big swing in growth in value-added hair oils. I think the third quarter was some 21% growth and Saffola also had a very strong 17% or something like that growth. So is there a base issue, which kind of, could be a short-term struggle for these two categories, which have been otherwise growing so well for you?

Saugata Gupta: Not really because I think we have to look at sequential and as I said that in both these categories you can, I think there would be a significant amount of innovations and so I do not see any problems of Saffola getting 8% to 10% or a 10% growth and again, hair oil doing double-digit growth.

Arnab Mitra: Sure. And lastly, on the International business, the MENA has for some of your competitors have been reporting a double-digit decline. So firstly, what percentage is now MENA, and your decline is not that bad, but can it basically get to that double-digit kind of situation given the macro there?

Saugata Gupta: MENA is 4% so there could be see there are two things one is obviously I think we have two sets of businesses one is in Egypt. Egypt the problem moving it is not in demand it is of the devaluation of Egyptian pounds to the extent of 60%, 70%.So, if you look at our MENA again, 40% is Egypt 60% in MENA even within MENA our Saudi skew is lower compared to some of the other players where the issue in terms of the demand contraction is high. I think there will be a threat in the business but one is that the fact that it contributes 4% business to the overall thing and I do not think the decline will be very, very high or something like that. But, yes, the business is stressed, there.

Arnab Mitra: Sure. Thanks. That's it from my side, and all the best.

Moderator: Thank you. The next question is from Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Hi, I just wanted to check with you. You mentioned that the Parachute volume growth will improve to 5% to 6% in the near term. You mentioned the Q3 growth rates are going to be positive, but how confident are you that this pace of growth can be maintained and revert back to 5% to 6%?

Saugata Gupta: I think as I said that we perhaps went out of the way in terms out of line with the pricing models. Also, I think there continues to be headroom for growth the loose two branded in terms of our rural market share. So the headroom for growth continues but I think what has happened is that we have realised that growth will happen only if the price premier is met at a certain level. We went I think totally out of the price premium level because what happened we took a 5% increase when others took a 5% decline in put cost so the gap widened and any case the price premium in quarter one is significantly around our threshold so the learning for us is how do you price it. What is the kind of margins we need to make so that it will maximize growth? Having said that if you look at the headroom in terms of loose two brands and our market share whether it is an urban market share or rural market share I do not see a problem. We continue to invest behind the franchise to get that 5% to 6% growth.

Latika Chopra: And have you seen your local competitors raising prices, post the copra price hike?

Saugata Gupta: See it takes as I said six to eight weeks for some increase of prices. Local competitors selling loose products started hiking prices in mid-August so we are experiencing some of it so to give you a perspective we are today more competitive in Parachute than we were three month ago and we will be growing the I think we started growing also in some September onwards. The issue was mostly July, August.

Latika Chopra: All right. And on your A&P spends, is it fair to say that in the quarter you had almost flat A&P spends. So, should these move up going forward, was it more a function of how your new product launches are planned?

Saugata Gupta: That we will expect a 12% to 13% but I think 12% is a fair number you also must realise that innovation is something there was very few innovation in this quarter so this is the number I think long term can take a number of around 12%.

Latika Chopra: Okay. So you will work more from a percentage of sales. I was talking more from an absolute inflation in those spends.

Saugata Gupta: Yes, so once in Q4 your inflation will start picking up so even if you're A&P percentage is constant you will start getting actual growth.

Latika Chopra: And lastly, just an observation. In your outlook for medium-term for VAHO, it seems you've moderated a bit to 11% to 13% volume versus 12% to 15% that you mentioned in your Q1 update anything much to read here?

Saugata Gupta: Nothing much except that the demand outlook I think we are being realistic given the demand outlook in the overall industry and you are absolutely I think what we do is we also do a three-year projection and all that so based on that we have taken that call of saying that and the fact that we are being growing around if you look at the last year it has been 8% to 10% and that is the fair kind of a number to take.

Latika Chopra: Sure. Thank you.

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

Amit Sachdeva: Hi, good evening. Just a very quick one on the Youth brands. So Youth brands have obviously done very well this quarter at 29% growth. But I would also reckon that the base was extremely benign and I would perhaps guess that the run rate is very close to now FY15 level. So I think it is benign for the next quarter as well, but what is that trajectory that you see these brands will do, and when do you expect that this brand starts making margins at the company average levels?

Saugata Gupta: Two things, you would have to reiterate may be the base would have been low but I think we have done to correct. We have corrected two things one is the gel category, has started growing. In the deodorants category, I believe the retention continues to be lower and globally I think we will continue to drive the category growth. Since here we had declined to 1.9% in share but now we have increased our market share by 100 bps. We still have not got our act right on demand again in terms of the serum category. The penetration is low and we need to drive relevant of the category having experience in the styling side of the business you can expect some more innovation so I think while there had been a 21% growth for the first half and we are confident of delivering a 15% to 20% as per as bottom-line is concerned there has been a significant shift also this year, because and I think we have been perhaps 1.5 to 2 years behind our earlier assumptions on this category so we would use the next two to three years to do a little bit of a catch up.

Amit Sachdeva: Sure. Saugata, just one small thing, how much A&P spends are you actually doing in this category? If you were to take the revenue pool of this, how much is actually the A&P of this particular pool?

Saugata Gupta: So it is, I think you will not get into category wise A&P but it does make decent money at a net contribution level.

Amit Sachdeva: Okay, sure. And second, are you sort of sitting on some low-cost inventory, which you may have sort of strategically kept, if the prices were lower, if they're going up. So what I'm asking is that, do you have some cushion for EBITDA margins as the prices have been cut now and that you don't want to increase it in the near future in the hope of more volumes in the Parachute? Do you have some inventory cushion lying with you?

Saugata Gupta: I do not think it will be possible to discuss that.

Amit Sachdeva: Okay, sure. And just very small two housekeeping ones. Employee costs rose 24% because of the incentive programme, I guess, the shares, but how we should think about the coming quarters?

Vivek Karve: See on an average if you take a very long-term trend for Marico, we always have hovered around 6% employee cost to sales so you can expect that to be in that region.

Amit Sachdeva: Okay. You said 6%, is it?

Vivek Karve: Yes.

Amit Sachdeva: Okay, and other income have been very strong also in the last two quarters, three quarters, and this quarter. Is there any one-off sitting there?

Vivek Karve: No that is primarily because of the rising surplus on the business.

Amit Sachdeva: Okay. Great. Thank you so much, have a great evening, sir.

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

Vivek Maheshwari: Hi, good evening, everyone. Firstly, on the result table, you say you have mentioned advertising and sales promotion. I just wanted to clarify; this is only media advertising, right? There is no sales promotion, which should be knocked off from revenues, right?

Vivek Karve: Yes you are right but it is not only media. There could be non-media advertising spends also so something like a market research will fall in this bucket but promotion as you rightly pointed out whether it is a price-off or an extra quantity promotion they get knocked off from the net revenue.

Vivek Maheshwari: I see. Okay, thank you. And second bit is, on advertising again, if I look at just the two or three results which have been reported by your competitors, be it Unilever or Dabur, there is a noticeable Y-o-Y decline over there in A&P, whereas you have maintained at a standalone, as well as consol level. Why? I mean, why different strategy, what is it that you and in fact, the media company feedback also has been on FMCG sector of a decline. So, why did you choose a different strategy compared to the overall industry? Is there anything specific over here?

Saugata Gupta: I cannot comment on others but let me tell you about our strategy I believe that three things investment behind brand innovation and talent irrespective of short-term, medium-term headwinds we stay committed to the spend.

Vivek Maheshwari: Okay, understood. And on the Saffola part, you mentioned innovation. Is that limited to Saffola as in the foods portfolio or even in the oils that you're planning to come out with new products?

Saugata Gupta: Likely to be both.

Vivek Maheshwari: Okay, understood. All right, thanks, and all the best.

Moderator: Thank you. We have the next question from Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Sir sorry, one more question on Parachute and the pricing. I am not quite certain; I understand what's changed on the relative competitive pricing front between what's transpired last quarter and what you're expecting for the quarter currently underway, because the pricing has remained the same across players?

Saugata Gupta: No, if you look at the Copra prices, it started increasing sometime in August but it is between June and July it had declined. It started increasing in end of the quarter. In terms of competitive pricing we believe the loose unorganized prices would have picked up by end September to October and the other branded players would be now perhaps forced to take some pricing action or taking marginal pricing action now, while our pricing will be stable as of now.

Nillai Shah: Saugata, it will be contingent on others taking up the pricing, not really anything else, right? I mean, I understand the loose part of it, but I am not sure that is really captured in market share numbers anyway. So this is all about competition hopefully taking up prices, because the copra prices are more?

Saugata Gupta: You are absolutely right, see what happens is there are two sources of growth one is from branded the other is loose two branded 75% of the growth actually comes from loose two branded so what happens is if your price premium goes now completely out of the way the upgradation stock impact while we do not measure it on a quarter-to-quarter basis especially in rural yes I suspect people would have gone back to unorganized or loose. Number two Neilson actually captured slightly sizable branded players I do not think Neilson captures a very small very, very local player in their panel so my suspicion would be that whenever our price competitiveness goes down the upgradation stocks and in fact relaxation happens back to unorganized very or loose so in the field. Just to set matters at rest in the field at least as far as the loose and extreme unorganized is concerned we are seeing the first signsof prices moving up.

Nillai Shah: Perfect, so it is the price differential coming down which is driving the growth in September and hopefully into the next quarter. Understood. Very clear, Sir. The second bit is on just this price increase, I got your analysis and thank you for very detailed explanation. But were you surprised, because in the past whenever we've discussed this, the view is that just at Rs.1, Rs.2, Rs.3 price increase per bottle, sometimes the consumer is okay, and hence in the past, we haven't seen this sort of elasticity? So are you really surprised, is the team surprised by the extent of consumer push back to this price increase that has happened?

Saugata Gupta: Yes may be a little surprised but when we got back into the data I think we at least know why it happened. If you look at May, June we were operating at the max of the each point in terms of price premium and I think it happens sometimes when you get the confidence that we were getting the growth if you look at the quarter one we did deliver a 7% growth we had a certain forecast which shows that we were not confident enough to take that price increase. Now what happened, we took a 5% up the loose and the unorganized they fell 5% down so the gap became same so I think we were surprised to an extent and I think the learning is if there is good consumption and in terms of disposable income and that if the market growth is good you can get away with it in times but when the demand is anyway stressed especially rural where there is a two consecutive years of drought consumption is suffering you cannot get away with it so yes we were surprised and it has given us a lot of learning.

Nillai Shah: Perfect. Thank you very much for the very detailed explanation on this. Thanks.

Moderator: Thank you. The next question is from Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Hi, Sir. Thanks for the opportunity. My first question is, again, on the Parachute franchise. You took a price increase in India. However, in Bangladesh you did not. Is the cost dynamics different in the two countries?

Saugata Gupta: Yes because the sourcing is different.

Amit Sinha: Okay. Can you give some more color, I mean how should we understand the copra pricing in these two countries?

Saugata Gupta: See I cannot get into micro details. Broadly I think Bangladesh also sources mostly from partially some Indonesia and India while Indian entire sourcing is local so we decide Bangladesh is based on the pricing stable in each of the market and also sometimes a strategic position also could be different because some is import some is local.

Amit Sinha: Sure. Okay. Secondly, sir on Saffola Refined Oil franchise, you have mentioned that you expect double-digit growth in the near term. So this is based on overall market doing well or are you gaining market share in the near-term, because you have done well?

Saugata Gupta: Amongst all the categories in food actually ROCP or refined oil in consumer pack is one of the fastest growing categories and there is a huge tailwind behind consumers adapting healthy way of life and healthy oil. What was missing in Saffola was two things one is Saffola did not have an entry point pricing number two through the new communication we are accelerating our journey from being a therapeutic brand to a brand which adopt some people wants to adopt a healthy lifestyle state active, fit manage weight as oppose to people who are having a problem so I think both the sourcing mix and the pricing attractiveness has changed and we believe that we can grow in line with the category The category actually has been growing 13%, 14%.

Amit Sinha: Yes, but this quarter you have grown around 8% in volume terms?

Saugata Gupta: I am talking of the three-four years kind of a numbers this quarter the category would have also grown by around this kind of 8% to 9%.

Amit Sinha: Sure. Okay. And see my question was more on the near-term outlook. You have mentioned specifically this point that you expect double-digit volume growth in the near term for Saffola Refined Oil, so?

Saugata Gupta: Yes, we should be able grow at a rate of 10%. Yes you are right.

Amit Sinha: Okay, thanks a lot, Sir. Thank you.

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

Vivek Maheshwari: One more thing. You mentioned that, there was a very specific issue with Parachute in this quarter, and you've seen an improvement in September in Parachute. But for a moment, if you exclude Parachute and look at the other parts of the portfolio, is there an undercurrent of an improvement or September or exit recovery, whatever you're seeing is just because of a specific issue of Parachute?

Saugata Gupta: No do not think we have seen any as I said that overall in terms of consumption made in September October is slightly better have we seen a significant recovery in the overall consumption term yes the answer is no but for us if you look at our quarter one growth profile and quarter two growth profile the only different have been Parachute the rest has been more or less consistent for us to get back into the 6% to 8% volume growth we have to get the Parachute volume growth back in the range.

Vivek Maheshwari: Sure, I understand that part, but I'm saying otherwise, as far as the rest of the portfolio, the underlying current is not significantly different from second quarter right?

Saugata Gupta: As it is too early in October to say but yes so far no.

Vivek Maheshwari: Okay. And then why are you confident, is it just a hope-based view that second half will be better or there is something concrete that is prompting you to take that call?

Saugata Gupta: There are two things if you break it up into India it is a right thing, if you look at the blended Parachute growth in first half it is around 2% which is a 7% plus and a 6% negative it is around 1.5% to 2% so I think we are taking into account that so if Parachute gets into growth in the second half reasonable level of consistent growth the second thing is as I said that value growth will come to quarter four as far as international business is concerned I think we should get Bangladesh right and I think yes there is always an element of hope and aspiration that is what gives us motivation every day.

Vivek Maheshwari: Okay, understood. Thanks, and all the best

Moderator: Thank you very much. As there are no further questions from the participants, I now hand the conference over to the management for the closing comments.

Vivek Karve: Hi, good evening to all of you to sum up I would say Q2 saw like a muted performance as the macro environment continued to be sluggish however as we look at the second half the macro environment is expected to turn the corner and we are a little more confident of a decent volume recovery in Parachute in India and Bangladesh while continuing to show good result in Saffola oils and value-added hair oils in India, Egypt and Vietnam, Middle East however will take longer to come back on growth part. Overall as Saugata mentioned earlier during the call we will continue to invest in brand building and capability enhancement. I take this opportunity to wish all of you a very happy Diwali and a prosperous New Year ahead. See you all at the Q3 results call. Good night and good bye!

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.