"Marico Limited Q3 FY15 Results Analyst Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Marico Limited Q3 FY15 Results Analyst Conference Call hosted by Ambit Capital. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan. Thank you and over to you, sir.

Rakshit Ranjan: Good evening everybody and welcome to Marico's conference call. We have with us the senior management 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 floor to Mr. Saugata, who will take you through the highlights of Marico's performance during the quarter. Over to you, sir.

Saugata Gupta: Good evening everybody and thank you for joining the call. I would like to give you a broad flavour of this quarter and how we see consumption in the sector panning out. As of now, we have not seen any significant improvement in consumption on the ground. Although there seems to be some green shoots in urban and we strongly believe that demand will pick up over the next few quarters and FY16 should be a good year for the FMCG sector. The reason we are saying this is a combination of perhaps a higher GDP growth, lower inflation and reforms is expected to contribute to the tailwinds.

We expect some pricing correction in mass categories and the companies will perhaps focus on getting back volume growths. So you could see some deflation in the sector but I think what is most important is getting back volume growths for the sector. As far as our performance in the last quarter is concerned, I must say that while it looks relatively okay, we are personally disappointed because we could have done better. The relative performance is satisfactory in terms of top-line and PAT growth of 21% and 18% respectively and an operating margin of 16%. We have had our market share gains in 80% of the portfolio. But there were some misses which I want to highlight.

Some of the misses were for the quarter but some misses were pre-empted as we took a long-term corrective action which contributed to this lower growth. In India there was a delay in execution of our events strategy on Youth in terms of shifting our moneys and investment from driving the deo portfolio to the gels and Livon portfolio. The re-launch of the new improved gel, which is with pro-vitamin B, and the new packaging and the communication got delayed and therefore there were no investments in the Set Wet franchise in the quarter three. The launch of Moroccan silk serum also got delayed to the end of the quarter. I think the other drag was in Saffola volumes. Our pricing premium during the quarter became a little untenable because of the price correction in premium edible oil brands and also there was a reduced advertising support because we put all our investment behind Saffola foods which performed very well. So we are now taking some corrective action in this quarter.

However, the volume growths on Parachute Rigids and hair oils continue to be robust. In international business, where the constant-currency growth has been 6%, all our markets showed growth except Egypt where we undertook a major restructuring of our GTM. Unlike the previous single dominant distributor who controlled 80% of our business with a bias for wholesale, we now have four professional distributors who also manage other MNC partners. So they will focus on direct reach, demand generation and visibility with the IT backbone which we have in India. So, besides better quality of sale, the working capital and the credit risk in the business will be substantially reduced. This will set up Egypt for the future and in line with our line of philosophy of not sacrificing the long term for the short term results, we have taken a hit in Egypt of47% because we did not sell for one month and in another month we had the new set-up coming. So actually we had business for only one month in Egypt.

Coming to our long-term strategy, we continue to make steady process in all the five transformation areas we have identified namely innovation, go-to-market, talent value proposition, IT and value transformation. A series of projects have been undertaken in these areas and we are confident of being a top quartile in capability, in all the five areas within the next two years. I think our approach of getting the organisation future ready by adapting a future backward strategy as opposed to an incremental current forward strategy will certainly make this organisation more resilient and battle ready to get a higher trajectory of sustainable profitable growth. And one Marico is progressing well and we are already reaping some of the benefits, I think details have been shared with you in the note.

We are also in line to meet our broad near-term aspirations although there could be some deflationary pressure in next year but as I said that we would like to get the volume growth back into 8-10% in the next one year. Before I end I wanted to give a heads-up on one of our critical initiatives which we are implementing as we speak. We strongly believe that as an organisation we should focus on only key areas of transformation we have underlined. Besides risk management and governance, all other areas especially transaction processes are better served by potential specialist in the ecosystem. In this context, we have appointed a top-notch global firm as a long-term partner and we have started the process of handing over certain key transaction operations to them which includes finance and accounts to pay the supply chain.

So this will result in better productivity, harmonisation of processes and better control besides providing long-term benefits because we will focus only on the five areas of transformation and all other functions and processes will get outsourced. So a critical part of this exercise is the revamping of our order management and demand planning process which will now be handled by the outsourced partner. This will improve sales force productivity, supply chain productivity, reduced disputes about inventory to the minimum and we hope that by the end of the next six months our distributor inventory amongst all the FMCGs will be one of the lowest. I think it will also improve the overall health of the distributor ROI because we will get into an automated demand planning and an order replenishment system. So while this will have no impact on secondary volumes, there could be an impact in primary sales in the coming quarter because we will be doing adjustment of distributors stock on 31st March which is the cutoff date to move into a new system.

So I believe it is a right step towards building a larger business in the medium term and to bring better efficiency and controls. What it will also give is significant bandwidth in the sales and supply chain system because we can now focus on demand generation and off-take and not on things like taking orders from the distributor, doing invoicing, collections and all that. So this is the major change in the organisation wherein all these processes are going to get outsourced to a new partner. So as an organisation we will just focus on those five areas and risk management and governance and leave the rest to specialists who can manage it better for us. So with that I would like to hand over the floor for any questions.

Moderator: Thank you very much sir. We will now begin with the question and answer session. Our first question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Sir first question is on the appointment of this global firm. What is the confidence that third party effectively can manage a fairly complex business at this point in time? So do they have experience of working in India for instance?

Saugata Gupta: Yes. They are currently doing most of this work for one of the largest multinational FMCGs in India and globally they work for at least a couple of FMCG companies besides other companies. We are prototyping it and to give you an example we have already done some of the prototyping in F&A. We have done a prototyping with Bombay distributors in terms of the auto replenishment and the order taking system. So we will go in a gradual phased manner.

Nillai Shah: Sure sir. So what will be the role of the sales force now apart from just taking orders? So how can the order generation versus order fulfillment and billing cycle be different to some sense on that?

Saugata Gupta: So based on secondary sales and the minimum stock target, we will move to a demand planning or automated forecasting system. Obviously there will be human interventions, where there is a new product or a promotion. So the entire primary sales will be based on your weekly secondary sales or the service cycle; for example in a metro like Mumbai it could even function on a daily replenishment model. And there will be minimum intervention. So what will happen is perhaps in today’s sales system in India, some time is spent by the sales force in taking orders in our internal system in collections, discussing orders; this will all become automated so that the entire sales bandwidth is focused towards demand generation, merchandising and driving off-takes. And also this will throw far more discipline, controls and harmonisation in the system, so there cannot be distributors stocking up and those things will significantly become marginal. Obviously as I said the system for new products as well as for consumer promotions will work out a different methodology.

Nillai Shah: So sir last question on this, how will they be incentivised? Will it be a flat fee that they will take or will there be any incentive-based pay for them?

Vivek Karve: Yes. Hi Nillai. It would be a flat fee however it will be linked to various tightly defined SLA. So depending on the SLA there could be deductions if the performance is below the agreed SLA norms.

Moderator: Our next question is from the line of Prakash Kapadia from iAlpha Enterprises. Please go ahead.

Prakash Kapadia: Sir on the urban side just wanted to get your thoughts despite fall in fuel prices and inflation over the last few weeks or now may be a month or two, what is hitting demand in our Youth portfolio? When do we see pickup in our Youth portfolio brands and what are we doing as leaders to grow this nascent category of serums and gels because most of the growth depends on the category leaders? If you could share some thoughts on this.

Saugata Gupta: Okay. If you really look at our Youth performance in quarter three, I would not attribute it to the urban consumption issue. Partly it is to do with the urban consumption but mostly to the internal issue. We participate in essentially four broad categories in the Paras portfolio which we tookover from Reckitt Benckiser - they are deo, Livon, Livon has two components - hair gain and the serum, and there is Set Wet gel. When we acquired the brand each one was one third of the portfolio. In the two third of the segment we were market leaders with 43% and 82% respectively and hair gain is in the hair fall category which is high potential for growth. Perhaps in hindsight we invested behind deos in the first one and a half years to drive market share which we realised is not perhaps the right strategy and we decided sometime around July-September quarter to actually divert all the investment towards driving penetration of gels and serums where we are the market leaders and focus on category growth.

We expect the urban consumption to recover and that will be a tailwind for driving the strategy. However, in the last quarter, the switch over got delayed. One of the aspects of switchover was having a new improved gel with a new packaging, new communication and launch of Moroccan silk serum which is going to premiumise the serum category and it is a far superior product than the current Livon in terms of Indian hair. So all these initiatives got delayed - were supposed to kick off in the beginning of the quarter, it has happened in the end of the quarter - and as a result we also did not want to waste our advertising moneys behind it. And also we are doing to support the Livon hair gain. All these three make higher margin than deos and have better realisations because of the pricing.

So we believe that the Youth business will be back on track. Now obviously there is a deo base which we have to hold on to and at least maintain the market if not gain the market share. This process will take one or two quarters and I think we have to be patient. I think we are on the right track strategically and yes you will get some growth in Youth this quarter but I think for the entire strategy to take shape it will take one or two quarters but directionally we believe in the long term this is a better strategy.

Prakash Kapadia: Okay. And sir on Saffola edible oil you mentioned in your opening remarks that was one area or disappointment so again despite inflation commodity cost coming down so what is when can we see sustained volume growth in Saffola and any updates on the rural expansion and test marketing of smaller packs in newer areas if you can share some thoughts?

Saugata Gupta: As we said, Saffola has had recovery in volumes except this quarter. This quarter what happened is that in the beginning of the season which is October, all other species the edible oil table went down. We did not get a visibility of our input cost because, as you know, our safflower is significantly imported or the domestic safflower is locked in with a certain price. The rice bran season starts coming only in December - so we have got a visibility of the lower input cost only in December. And as you know that beyond a certain threshold level of premium the up-gradation suffers. We have taken some corrective actions like price offs in January in the larger pack. Advertising in the category is back and will go on till the next two or three months. So therefore we are expecting Saffola volumes to get back on track.

Prakash Kapadia: And sir we would expect given that inflation seems to be under control and sentiments improving and fuel cost coming down, next year we should see a very high double-digit volume growth in Saffola, is that a fair expectation?

Saugata Gupta: I think it is too premature but the first step will be to get it back into the 8-10% levels and then we can take it from there.

Prakash Kapadia: Okay. Sir one question for Vivek. Nine months if we look at our other expenditure it is up 9% at 5.67 billion so if you could share which areas are we seeing reduction, is it lower freight cost, is it conversion charges, is it power and fuel and what kind of sustenance do we expect in these other expenditure cost?

Vivek Karve: Actually Prakash in the other expenditure on a YTD basis if you look at the base, last year we had invested in building capability in some of the cost management areas where we had hired an outside consultant. So these costs are in the base, so a muted growth on a Y-o-Y basis is primarily on account of a higher cost which is lying in the base.

Moderator: Our next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Sir if I can get back to the third-party arrangement that you are doing. So one of the things that you mentioned that you want to sort of minimise the inventory level that you keep with the distributors, one of the ROI so that they can improve. Can you give us a little bit more colour on what are the incentives and the returns that you target and how much inventory they maintain and how much we want to reduce it to? So if you can give some mathematical colour to it, it will be very useful.

Saugata Gupta: So I think I will give you a generic colour. So if you really look at it, distributor holds stock on your behalf it is actually an inefficient way because his working capital gets blocked. Our approach is to reduce distributor inventory to the minimum level, which maximises his return on investment without impacting service levels to the retail outlet. The working capital cost that gets blocked because of the stocks can move towards investing behind demand generation and driving growth. The other thing that happens when you go into auto replenishment is that the 'C' level of SKUs - which is the small SKUs - get better service level and grow because you then have an automated service levels for all the SKUs. We noticed this in our Mumbai prototype. So range selling also improves and the sales force doesn't spend time with the distributors negotiating order. You spend your time in the market actually driving off-take and demand generation.

Amit Sachdeva: Fair point. Sir why I am asking is that if you could give us some idea on what is the typical number of days inventory used to be there whether it is 15 days or 1 month and what is that. So we can have a feel that how much sort of efficiency setting in this system. So what is that level?

Saugata Gupta: I can tell you that, I think broadly I would be happy if my distributor stock is 10 days, weighted average all India.

Amit Sachdeva: Okay. And currently right now it will be like 20 days?

Saugata Gupta: No. Not really, it is far lower.

Amit Sachdeva: Okay, sure. Thank you so much this is still very useful and to where it is all going. Sir it is like why I asked this question is there a pressure from distributors to increase their ROI because there are several issues in the market-place like cash and carry has become very significant part of it and some distributors don't get enough throughputs. So the investors are going up is there a pressure from the distributors chain to achieve this levels?

Saugata Gupta: No, again I am coming from a broad philosophy of saying that our entire management bandwidth and focus should be in the areas of transformation. Our job is to drive efficiencies and therefore all our investments and our effort should be focused towards driving demand generation and let me tell you something, Marico has always been practicing a philosophy of secondary lead and replenishment lead model, and this is the third level of automation that is happening in terms of both demand forecasting and automation. Obviously what you said is right that we would like our partners to be much happier and in the process ensure that they focus all their investments towards driving volume growth instead of stocking up on stocks because of our own internal inefficiency.

Amit Sachdeva: Fair enough sir. And do you see the number of distributors getting larger or smaller? Why I am asking is that is there pressure for the distributors also to become more consolidated in the may be next five years. Or is this something that you will be happy with as widespread as they are?

Saugata Gupta: Seeing the current trend of consolidation and professionalisation and IT-isation, I think Marico, in line with our purpose of being more every day, will partner with them in their journey.

Amit Sachdeva: Okay sir I understood. Second question if I may on Vietnam, what is really happening there. Obviously there are some demand-related challenges. Actually it has been quite a bit of struggling market for a while now, it was growing quite fast in the past. Is there something structural happening there and is it something to do with that as the competition has become more intense, some colour would be very helpful.

Saugata Gupta: If you really look at it Vietnam, this year, all the Nielsen reports and HPC growth rates have been sluggish. ,That started off in the January-March quarter so the base correction has happened and we strongly feel, given whatever line of sight we have, it will get back into better growth because the Vietnam GDP growth has also recovered in the quarter three. GDP growth is back into 6%.

Amit Sachdeva: Okay, sure. That is nice thing, I was hearing some positive news on Vietnam and I am surprised to see this number.

Saugata Gupta: May be this quarter you will have perhaps a better performance.

Amit Sachdeva: Okay, sir as is there some change in distribution there also you are mentioning that you have appointed four instead of one?

Saugata Gupta: That is in Egypt.

Moderator: Our next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Just wanted to understand on the ground now that the copra season has almost there likely to be there, any sense you are getting on how the monsoon has panned out and is there going to be supply shortage or reasonably okay supply this year?

Saugata Gupta: Well we expect perhaps this year will be better than last year although we have not got the visibility of what is the kind of a price fall if any. So we will get a better visibility sometime in March-April. Having said that, the fact that we are now better prepared to handle any deflation, we would like to pass on some of the benefits in the form of price drops in the recruiter packs. But I think we will be able to give a better flavour only in April as of now we don't have a visibility of how much the fall if at all will be, prices continue to rule steady right now.

Arnab Mitra: Right and in terms of the fall in LLP and HDPE because this kind of happens towards end of the quarter, would a lot of this have reflected in 3Q or most of it is likely to kind of help you in the 4Q numbers? And other than coconut oil in value-added oils what kind of approach would you take there with the fall in commodities?

Saugata Gupta: So the impact has started only in December so you will get the full impact only in quarter four. Our approach will continue to be ensuring that as long as we are within the threshold level of margins to plough it back to a investing behind growth. It can be in the form of marginal price correction in our recruiter packs in some brands.

Arnab Mitra: Right. And in your press release you have written that from here on a lot of focus is on premiumisation in the value-added part so I was just wondering how would you actually drive it because you have very different brands here which are addressing different kinds of ingredients. So what is exactly the meaning of driving premiumisation within value added would it mean kind of pricing increases gradually or just wanted to get your thoughts on that.

Saugata Gupta: Okay. So I think unlike some of the other players who are ingredient forward and entrenched within one ingredient or within one subcategory, our approach in the hair oils portfolio is to drive consumer needs and specificity of consumer needs. To give you an example, we have a franchise in hair fall in the south which is Ayurvedic hair oil which is doing very well and expected to hit around INR 50 crores next year just in three or four southern market. As we speak, today we have launched a special edition aroma therapy hair oil in Bombay. So this is about driving premiumisation, driving specificity of needs which have better margins. And therefore internally we will track both volume market share gain and value market share gain.

Arnab Mitra: Yes. So I was asking as your three big brands in this category are kind of ingredient based be it, Shanti Amla or the Nihar Jasmine. So in those three large brands is there an agenda to upgrade the value per tonne or however you look at it, given that your volume shares have gone up substantially?

Saugata Gupta: I think it all depends on the opportunity. We also have Hair & Care in our stable which is also a slightly premium and for the young population. So I would say that our bias will be towards driving both the growths but we are looking at premiumisation perhaps more through new products, rather than existing products. But having said that, while they are ingredient based you must realize that the consumers want a fine balance between sensorial and nourishment and our effort is to make it seem agnostic and more need based.

Arnab Mitra: Right. And just one question on the international business, so this time we have seen an issue in this change in Egypt. Do you see this your sales getting back on track immediately or does it take another few quarters to full transition given that I don't know if there is old stock in the market with the old distributor or is it kind of a clean change over where straight away from next quarter you get back to your normal sales numbers?

Saugata Gupta: Yes. So you will definitely have growth this quarter but the gains will start coming from the April-June quarter. What exactly we have done in Egypt is as follows; When we did the acquisition of the brand Hair Code, we continued with the distribution system of the erstwhile manufacturer who had 80% of the distribution and it was mostly focused on wholesale. We now have four professional distributors who also handle multinational clients. They have quickly adapted to our IT backbone which is there in India and they do it with other clients. They will concentrate on retailing, reach, and also other spin off is that it will have far lower working capital and credit risk almost in line with what we do in India.

Arnab Mitra: And the earlier distributor is out of the system or he still exists with to service the wholesale rate there?

Saugata Gupta: No he is out of the system. There has been a clean parting.

Arnab Mitra: And just one last question on the distributor inventory again just to get a sense what could be the hit on sales in 4Q, it would depend on the number of days of stock being taken down, but could it be like a 3-4% hit on primary sales over secondary sales?

Saugata Gupta: We will take that call in March because it all depends on whatever is the secondary and we are currently prototyping in Bombay and we are trying to simulate what could be ideal distributor stock so that we maximise the ROI but at the same time there is no sale loss or loss in service level. So we are yet to arrive at that number. The Bombay prototype started in December so we will get the result of that only in March and we will take the call on 15th of March. We will take the cut 30th or 31st March.

Moderator: Our next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: Sir have we highlighted or have we charted out the road-map for enrolling this or enrolling this third party contract with other cities and states? We are starting with Mumbai first right now?

Saugata Gupta: Yes, the ramp-up plan we are doing in Bombay West and gradually rest of the country yes.

Nitin Gosar: So overall this could take what, any time frame that you have kept in mind like three years, five years, or two years?

Saugata Gupta: Not ramping up will happen within the next 3-6 months.

Nitin Gosar: So in this whole system the sales person will no more be going to the distributor for negotiation his role will be only to go to the retail stores?

Saugata Gupta: No, he will definitely be interacting with the distributors on lead indicators like service levels, reach, opening up new outlets. So he will be interacting with distributor on leading indicator performance and secondary sales as opposed to primary sales. And there is no change in sales force, just to clarify, so everything remains constant. It is just that they will release intellectual bandwidth of 20-30% which was getting clogged up into discussing things like primary orders, collection, and everything.

Nitin Gosar: Okay, but this shows the actually means some kind of savings to the company over a period of time?

Saugata Gupta: Of course but we are focusing on both efficiency, controls, and harmonisation of processes and cost saving in the long term. Currently, I am seeing it more as driving growth and range selling, quality of selling.

Moderator: Our next question is from the line of Ajay Vora from Reliance Industries. Please go ahead.

Ajay Vora: Sir just one question on the Youth portfolio what is the overall strategy as in how do we see that difference contributing to the overall business say over next 2-3 years both in terms of top-line and in terms of profitability?

Saugata Gupta: So I think I just covered it sometime ago that we are in the process of working out the revised strategy on Youth which is tha the focus will be towards growing the gel category, serum category and hair gain. These brands are higher margins, we have market leadership, and we have differentiated products as opposed to deo where there is a huge amount of clutter, huge amount of noise in the system. We would try to hold on to our market position till we get a differentiated proposition. Our effort will be to get the Youth business back into the 15-20% growth trajectory. This year has been a disappointment. We started off with a flattish quarter one, we did have good growth in quarter two but again we have moved back to flattish quarter three. I think we should have growth in quarter four but, as I said, to have the revamp strategy playing out I will need one or two quarters to get on track. But I think our endeavour is to get it back into the 15-20% top-line growth.

Ajay Vora: Okay. And sir basically just want to understand the investment which we'll be putting into this business, do you think that can restrict the overall margin improvement at the consolidated level or we are already done with a large part of the investment?

Saugata Gupta: So I think it will not change, I will tell you why. It is because we were investing behind deos, and will now focus on gel, serums, and hair gain so the mix will improve and the gross margin will improve because these are higher margins than deo. So that will create room for investing behind the brands, so I don't see at a net contribution level any change, in fact, if at all it will improve actually versus the earlier strategy.

Ajay Vora: And sir just last question on the consol margin how do you see that moving forward over next two years?

Saugata Gupta: I think we would maintain margins in 14-15% band. Yes, I think we have been delivering a tad higher but our effort will be to ensure that we maximise volume growth and market share gain and I think driving market share gain is very important. We believe that we have not got success in some of the NPDs and we will also try to invest behind NPDs and also invest behind new markets which we have identified and the other one which we are also going to do is we are in a process of opening up some of the markets in East Africa also. So there will be also a balance on the strategic funding for growth rather than just doing margins. I think if we can deliver 15% margin we are happy with that.

Moderator: Our next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

Jubil Jain: Can you give me the secondary sales growth numbers for the overall business and if possible for the categories of Parachute, value-added hair oil and Saffola?

Saugata Gupta: The secondary sales number overall is in line with primary.

Jubil Jain: Okay, fine thanks a lot. And second, can you give some guidance since what would be the proportion of advertisement as compared to the sales so as of now it is the ratio of around 11 to 10% so will it maintained or is there a possibility that it might be increased because of intense competitive activity which is of deflationary environment?

Saugata Gupta: I think it will be in the region of 11-12%; however, there could be quarterly fluctuations depending on an innovation programme and the rhythm of innovation launch.

Jubil Jain: Okay. And third, the price growth in case of coconut oil has been in the range of around 40% for a YTD, so if in case the copra prices which have gone up by 80% in case they come back to the original prices is there a possibility that we might be looking at a very steep decline in price growth may be some (-20%) to (-30%) price growth. Or will the prices be sustained because if they are sustained you might have to sacrifice on volume growth but if we would steeply decrease the prices revenues might be hit. So what would be the strategy of the company going forward in case the copra prices fall down significantly?

Saugata Gupta: As I have said, we would like to ensure that we maintain the volume growths which will entail some passing down of benefits, especially in the recruiter pack. Now what exactly will be the numbers we don't know but it is unlikely that 20% deflation is going to happen in pricing.

Moderator: Our next question is from the line of Naveen Trivedi from Trust Capital. Please go ahead.

Naveen Trivedi: I just want to understand after implementation of this third-party system how the pace of the new launches would be higher in the coming years?

Saugata Gupta: No, I think that will be independent of it but focus on third party system is to ensure focus on driving off-take, demand generation and processes. I don't think innovation is impacted as such and irrespective we have to better our track record and increase the pace of innovation. Obviously it will ensure more management bandwidth and focus to drive innovation.

Naveen Trivedi: Sir that is what I am trying to understand if our focus would be on the innovation then the pace of the new launches would be higher in the coming years. It may change our business mix per se in the next three to five years' time frame.

Saugata Gupta: I just want to clarify that no core operation is being changed. It is just the processes which we are moving to a third party and it will facilitate not innovation but driving more range selling and not concentrating only on one or two power brands.

Naveen Trivedi: Okay. Sir the cost in saving associated with this third party system, would it be materially high in the near term and may impact to some extent our margins in FY16?

Saugata Gupta: Just to again clarify that we are not having any third party salesforce, we are only changing the processes. So there is no reason to have change in terms of cost structure. These are all transaction processes like procure-to-pay, order-to-cash and F&A which is getting outsourced.

Naveen Trivedi: But we also have existing sales team?

Saugata Gupta: Sales team is not getting impacted.

Naveen Trivedi: So this will be additional cost over and above what we have?

Saugata Gupta: No, currently there are other people who are doing it. So, I think there is no additional cost involved in it.

Naveen Trivedi: Okay. Sir my last question is on the international business, in the quarter two you were saying the international growth will be much higher than the historical numbers, that the better margin and RoCE, are we still maintaining the same guidance or we believe that there can be some of the same numbers?

Saugata Gupta: See I think the structural increase in margin of 15-16% is here to stay, I think there is no change in that, if you really look at the international business other than Egypt, Bangladesh has grown by 18%, Middle East has grown by 39%, and Vietnam is a bit muted and again South Africa 9% is good given the condition of economic debt. So Egypt is an aberration, if Egypt had to even stay constant, international business would have grown by constant-currency growth of 15%. So I see no reason why the constant-currency growth rate shouldn't come back into that range in the near term.

Naveen Trivedi: But did the margins profile and the RoCE profile is also expected to improve?

Saugata Gupta: As I said that I think we are happy with maintaining a margin profile of 15-16%. RoCE obviously is improving in the international business and we would not like to get margins beyond this but invest behind opening up new markets as I said that we have already started opening up markets in Indochina, North Africa, and East Africa.

Naveen Trivedi: So how was the Egypt growth and how was our margin profile during the quarter? Ex-Egypt if you can share the number.

Saugata Gupta: I will not give you that breakup but I think you can make out the sales growth ex-Egypt as I have told you the Egypt decline and the other markets growth.

Moderator: Our next question is from the line of Rakshit Ranjan from Ambit Capital. Please go ahead.

Rakshit Ranjan: Sir my first question is on your split of rural versus urban where you said 32% was the rural growth during the quarter and 20% was the urban growth. And in terms of your outlook you are expecting FY16 to be a much better year because of government's initiatives, lower inflation and GDP growth, but is there any specific take on the outlook for rural vis-a-vis urban for FY16?

Saugata Gupta: See I don't expect any significant reduction in urban growth in terms of essential FMCG products. Maybe in the last five years, because of the infusion of money through increased

MSP or some of the initiatives, could have led to perhaps a little spurt in discretionary rural consumption but some of the categories we are in don't see any change. However, where we see a change is basically if rural was far outpacing the urban growth we might see that next year the rural and the urban growth getting equalised.

Rakshit Ranjan: Okay. And that is because you expect urban to pick up or that is because you expect rural to moderate to lower levels?

Saugata Gupta: We expect urban to pick up. As I said, I am not seeing any significant decrease in rural demand on base FMCG products. There could be an impact on higher order sectors but I think base mass FMCG product is unlikely to have any impact.

Rakshit Ranjan: Okay. Your Project-ONE you mentioning it will be rolled to more cities in FY16 any clarity on how many more cities will it be?

Saugata Gupta: So we are stabilising the first six metros and what we are also doing is we want this Project-ONE to be self-funding. So when the six metros get a critical mass and starts funding itself, we will divert those funds into giving it to the next set of cities. Now also we would like management focus to be kept so we want to first realise the full potential in the top six cities and perhaps look at the second half of FY15-16 to move it to the next set of cities.

Rakshit Ranjan: Okay. Last question is on your capital deployment so dividend payout ratio for FY15 what is the number you are looking at and going forward what will be their strategy on the dividend side?

Vivek Karve: Rakshit if I answer this question I will be talking about the full-year number so I will refrain from answering this question but I will only say that so far we have declared 250% dividend, 100% followed by 150% now and this is an increase over last year of almost 50%.

Saugata Gupta: So let me give you a general flavour, I think we have directionally said that we will increase the dividend payout and if next year also there is no big ticket acquisition, I think you can expect that trend to increase simply.

Vivek Karve: Rakshit sorry one correction as compared to last year if you leave the Silver Jubilee dividend. it is a 25% increase.

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

Harit Kapoor: Just two questions firstly on the distribution change or addition I just wanted to understand in the medium term is there also a cost saving in terms of probably lower distribution margin because you will be lowering the working capital cycle of the distribution?

Saugata Gupta: I think our entire effort towards this is not cost saving, our effort is towards driving efficiency, driving more sales, and ensuring that we are far more controlled as we scale up as a organization and focus on the big things. This exercise is not towards cost savings at all.

Harit Kapoor: The second question was that on the inorganic strategy so just wanted to understand obviously we have a much larger cash pile now, just wanted your sense on how you are looking at inorganic India versus international?

Saugata Gupta: I think in India we have enough headroom for growth in our existing categories and I must say that with our focus on innovation, we now see over the next three, four years of better, healthier innovation pipeline. Our bias will be towards organic growth, in the international business, I think what we don't want is for inorganic growth to be an escape button for not doing organic so we would like first to get the 15% constant-currency growth and then drive inorganic growth. I don't see, unless there is some opportunity, putting too much of our management focus in driving inorganic growth.

We have had good experiences in market development, for example in Myanmar we are starting the process of market development and when I mean market development it is not export and container-driven trade but actually investing in people and marketing. We will try to invest behind market development and organic growth in North Africa and East Africa. We are also doing it in Sri Lanka in the next six months so I think that should add INR 100 crores business next year and if that can move to 150-200 crores in the next two to three years we would be more happy because that will be better quality growth, sustainable growth and certainly improve the RoCE of the business.

Moderator: Our next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: My question is on the Parachute portfolio. This quarter if I take Parachute Rigid plus non-Rigid what would be the volume growth?

Saugata Gupta: 3%.

Percy Panthaki: Okay. And secondly just wanted to know, that in Q4 there might be some pipeline correction for the inventory so can you just give some idea as to how many days that correction can be so that we can forecast the Q4 numbers better.

Saugata Gupta: As I told you we will be in a better position to know this only in March because we are currently running that prototype with the new model in certain market. We will be able to get a fair idea later. But in any case as I said that will be a point-to-point correction in the last week or two, three days of March. It does not impact in any way either secondary sales or off take numbers or even going forward so, to me this is just an incidental thing.

Percy Panthaki: Sure. Also in your investor update you have mentioned that for the domestic business in the medium term was comfortable with 17-18% margins, in the international you are comfortable with 15-16% and consolidated at 14-15% so not able to understand how the average can be lower than the two data-points?

Saugata Gupta: Because of the corporate cost. These are the individual business margins which do not include the corporate functions and certain fixed overhead and certain initiatives cost.

Percy Panthaki: Okay. So just trying to understand the margin again in response to a particular question you said that A&P would remain in the 11-12% band, also there is a possibility of some modest correction in copra prices, so wouldn't that correction in copra prices flow through to EBITDA since you are not taking up more than 12%?

Saugata Gupta: I am not giving you a fixed guidance, what I am giving you is something which we would like to operate in. Now in certain quarters or certain years this could be higher but certainly when I am indicating a band we will not certainly go below that band.

Percy Panthaki: Right, understood. And lastly if I may just some longer term strategy on the value-added hair oils portfolio now that Nihar Shanti Amla has gained descent amount of share may be there is some amount of pricing that you have sort of ability to take up or if not take up retain the benefits in terms of the input cost deflation, so that is one part of it. But certainly on a longer term view the 4-5 years' view what will drive further market share for you guys, are you planning to launch some new products which would drive these gains because otherwise I don't see that much of gain coming through given that you have already done very well in terms of distribution reach wherever a price war strategy was to be adopted you have adopted and you have reaped the benefits of that. So what additional you will do over the next four, five years is what I would like to know?

Saugata Gupta: I think it will be a combination of premiumisation and driving even bottom of pyramid growth. I don't think we have done enough to realise full potentials in rural, there are enough opportunities in some of the other markets where I think we have reach. If you look at our reach versus some of the one or two other hair oil brands which are leaders, our reach is much higher. So I think there is enough headroom for growth. In the last four years we were focusing only on volumes share gain, coming from this year we have started focusing on both volume and value share gain. So we do have a three-year aspiration in terms of targeted volume and a value share.

Percy Panthaki: Right. Is there something you would like to share?

Saugata Gupta: Not really but all I can tell you is that our focus in the next two to three years is that value share gain should be slightly higher than volume share gain.

Percy Panthaki: Right and this premiumisation point you talked about is that mainly launching new products or should we look at it in some other way?

Saugata Gupta: Mostly innovation.

Moderator: Our next question is from the line of Naveen Kulkarni from Phillip Capital. Please go ahead.

Naveen Kulkarni: In the information update you have given that you have gained market share in 80% of the portfolio so could you high light the remaining 20% where we have the capacity in the margins?

Saugata Gupta: Yes. So in India business, we have gained market share in 98.5% of the portfolio. The only place we have lost market share is in deos. In the international business, in Bangladesh we have lost 1% market share in Parachute and around 0.2% market share in Vietnam in shampoos.

Naveen Kulkarni: Okay. And also the categories in which we have gained market share do you believe that we could have done better than what we are doing right now. Are there some steps which could have been taken which they would have probably would have missed out?

Saugata Gupta: Well we always want to do better, there is no reason why we would not like to do better. As far as we are concerned perhaps the Saffola volume growth this quarter and our Youth is a little disappointing. On Egypt, what we have done is very-very sound for the long term and we would have been happier if the volume growth in India would have been 7 instead of 5.

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

Rakshit Ranjan: Thank you. On behalf of Ambit Capital I thank the senior management of Marico as well as all the participants on the call. I would like to now hand the call back to Mr. Saugata for any closing comments please.

Saugata Gupta: Thank you for listening in and your questions. As I said, we believe that this quarter we could have done better and we are perhaps little more confident of trying to rectify it amongst the things which we couldn't do this quarter. Having said that, I personally believe that if you keep on doing the right things the outcomes will happen and therefore we are investing a huge amount of time and focus in creating the organisation of the future. That does not happen in immediate quarter, it takes time. But we are extremely confident of some of the steps which we are taking will help us in the long term.

I again just want to clarify, since there were lot of questions on this third party agreement, no core operations are getting outsource. At the end of the day you must realise that as an FMCG company we should be better in doing innovation than passing bills or posting cheque. We believe we are trying to automate a lot of work flows as it is done much better by a professional player. This particular global partner is already partnering with one large multinational player in India and various multinational players in the CPG sector around the world. So it is something which we are doing after a lot of deliberation and prototyping. We don't have any cause of concern actually. In fact we believe, in the long term, it will pay off as we are not looking at just cost but a far more efficiencies and focus on management bandwidth. So thank you very much and look forward to meeting all of you next quarter. Thank you.

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