"Marico Limited 3QFY17 Analyst Conference Call"

February 3, 2017

MANAGEMENT: **MR. SAUGATA GUPTA – MANAGING DIRECTOR AND CEO, MARICO LIMITED**
MR. VIVEK KARVE – CFO, MARICO LIMITED

MODERATOR: **MR. RITESH VAIDYA - RESEARCH ANALYST, AMBIT CAPITAL**

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Marico Limited 3QFY17 Analyst Conference Call hosted by Ambit Capital. As a reminder, all participants' 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 the 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. Ritesh Vaidya from Ambit Capital. Thank you and over to you, sir.

Ritesh Vaidya: Thank you. Good afternoon everybody. 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 – CFO. I would 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 afternoon everybody. Just wanted to give you a flavour of the last quarter's performance and some outlook as we move ahead. So we had a muted quarter largely due to the impact of demonetization, price deflation and the unusual conditions prevailing in the Middle East and North Africa. You must also keep in mind, specifically for India, last year quarter 3 had a very high base of 10% growth with a 21% growth in value-added hair oil segment. So, the base was also high. With the completion of anniverserisation of the price drops which gets completed in 4Q both in India and Bangladesh and as the input cost increases in copra, we shall get back into inflation-led value growth from 1Q next year.

The current trends also indicate that the business is as usual due to volume growth in most markets. Let me address the overall impact of demonetisation. The biggest impact was in November; recovery started in December with further improvement in January. Things should be completely normal over this quarter. The highest impact was felt in the North and East in the wholesale and the rural channels where there were significant liquidity issues amongst trade both wholesale and small retail and also amongst rural consumers.

Moreover, unorganised players have been more impacted since they are into considerable amount of cash business across the entire supply chain. The recovery rate in the South and West was faster due to more urbanisation, better rate of remonetisation and perhaps more developed trade channels. As a result of stronger liquidity, relative competitive pricing and geographical concentration in South and West, Parachute was relatively less impacted. Safola did well largely because of its top 10 city and modern trade skew and the strong marketing and distribution initiatives in the brand which we started this year. Value-added hair oil was the most affected because of its significant North and East skew around 60% plus higher rural and urban wholesale concentration which was far higher than the overall business. Having said that, there were both, the offtake growth and share improvement in value-added hair oils during the quarter. Therefore a part of the decline have been due to the reduction in trade pipeline in both wholesale, small town urban and rural retail. The trades STR's (stock turnover ratio) have reduced which we will try and attempt to bring back over the next two quarters. The impact on consumption since most of the categories are daily use high penetration products has not been severe. However, impulse discretionary categories like youth brands and food have seen more impact. We operate on replenishment model with one of the lowest distributor inventory holdings in the industry. Therefore, the sales drop is largely secondary sales with a larger proportion coming from pipeline reduction and the balance from offtake.

We also marginally cut back on advertising and push some of the new variants and SKU launches to Q4 and Q1. We expect our business as usual in quarter 4 with thinks almost normalising over the next few weeks. We are confident that the medium-term strategic initiatives and growth aspirations are firmly in place. To start with we look forward to a much improved 2017-18 in terms of volume and value growth while maintaining a 20% plus margin in the Indian business.

The rural and infra focus of this budget along with the drive towards digitisation and GST will clearly offer better opportunities for growth for organised players. A sustained focus on whatever pyramid and premiumisation along with improved direct distribution, newer channels like chemists, cosmetic and food and standalone modern trade, and leveraging best-in-class IT and sales will help us tap this opportunity.

We have to continuously improve our efforts in new products and premiumisation in terms of executing and developing organizational capabilities for the same. This will be one of the main focus areas for my team and myself.

I will now cover international business. I am confident of a much better performance in Bangladesh in the near term in the absence of any black swan. The quarter 3 performance was encouraging with good volume growth, market-share gain across all categories and reach expansion after a long time. We have made significant strides in execution capability towards accelerating the diversification of the business portfolio while protecting the core Parachute volumes.

Therefore, we can expect at least high single-digit volume growth next year along with double-digit value growth in the business. The Southeast Asian business is also expected to maintain double-digit constant-currency growth along with a faster innovation rate. As far as the MENA business is concerned, the soft consumption situation in Gulf and the nearly 60% currency depreciation in Egypt has impacted sales this quarter.

The recovery will only happen in the second half after the base is corrected but we are taking steps to maintain the business in constant-currency terms and aggressively drive down costs. To conclude in the absence of significant incremental VUCA (volatility, uncertainty, complexity and ambiguity), one can look forward to a double-digit value growth and a better volume growth next year. Obviously, higher input cost margin is expected to be around the threshold level of 18%. We believe that our new product pipeline is significantly richer and we expect better execution capability and top management focus to ensure a better strike rate in this area.

So thank you very much and I welcome your 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 Mihir Shah from Deutsche Bank. Please go ahead.

Manoj Menon: Hi team, this is Manoj Menon here. Couple of questions over here. The first one is regarding the outlook which you have very clearly spelt out in your information update particularly for the near term, the 6% to 8% volume growth. I just wanted to pick your brain on the confidence for this is coming from maybe what you said because January has been very good. Is it because October has been good and then November has been disrupted? If you could just elaborate this a bit on the outlook which you have given?

Saugata Gupta: Okay, so if you look at the overall trends, after a good monsoon, we expected consumption, especially in the rural areas, to kick start. Obviously, demonetisation happened sometime in November. November was really bad. If you look at our products category obviously VAHO is the one which has got impacted; Parachute had a very bad quarter 2 because of pricing and things have corrected itself. Parachute also in terms of relative competitive position both in terms of pricing and the fact that unorganised competition has got more impacted due to demonetisation because their impact is not only in the sales and distribution but also in supply chain because they use a lot of cash.

So Parachute is on far better wicket. We had a better December, the January obviously recovery has been better than December. So we are seeing that uptrend and given the visibility of January and the fact that the Parachute pricing currently is perfect and the onset of inflation augers well for the brand. Although, obviously we have to take some price hikes sometime in the near future. That gives us the overall feel about this quarter. Also, as I said that we will make an attempt over the next two quarters also to ensure that some of the STR's also are back on track because especially in value-added hair oils which have a north-east concentration and a rural wholesale concentration, I believe the pipeline has thinned down.

Manoj Menon: Secondly, on the premium play in oils segment, which is ayurvedic, the Parachute Gold. I have read the comment in the update. So what are the learnings over here and what is the plan B? Whatever you may be able to discuss in the call.

Saugata Gupta: As I said we had the aspiration of hitting Rs100 crore next year. The south is doing well, the portfolio of north and west which we have launched is taking some time. It is not just because the marketing mix is getting but also gets our distributions right in chemists. Because chemists is one place where it does, that is in skew. Obviously, it is being around six to nine months where we have launched. And one of the things we believe in is if you have the right product you have to keep on experimenting with the marketing mix and get it right and as long as we are resilient. There are examples of it where you keep on getting the mix right and I think it should happen.

Similarly, the case with value-added mustard oil, we have seen some traction. We have got around 7% to 8% of the share within say nine months and it will keep on happening. So it takes time. The first thing is your basic product or the efficacy of the product delivers us. Once the product is good you can always get the marketing mix right and with the good product pricing.

Manoj Menon: Just a small follow-up here. Is it just the case of distribution in the Parachute Gold of the premium part of it or you know do you think in the real medium term is there actually a necessity to actually have a completely fresh new brand to address the premium because essentially what you are trying to do is actually upgrade an existing brand. Do you think that is the medium way to go or is there a necessity for a completely new one?

Saugata Gupta: I think the same Parachute Ayurvedic has grown well in the south. It is a question of just tweaking the mix and getting the distribution right.

Moderator: Thank you. We will take the next question from the line of Arnav Mitra from Credit Suisse. Please go ahead.

Arnav Mitra: Couple of questions. Again just coming back to the confidence on the volume guidance. I mean, why I am again reiterating is that I did not sense that confidence of most other companies which you have reported till now for the fourth quarter. So is there also an element that because you have delayed the price hike in Parachute a little bit and obviously the underlying commodity has significantly gone up. Are you seeing a lot of momentum on the Parachute volume growth part which is also a reason why you are confident on the short term?

Saugata Gupta: If you look at it what we are saying is that with this business as usual, with the demonetisation issue or this quarter gone we have been tracking, you leave out 2Q. 2Q was an aberration because we got the Parachute pricing wrong. We had been clocking, if you dial back to three quarters before, anything between 8%, 10%, 6.5% and 7%. So, what we are saying is that we were going back to the same rate of growth. Yes you are right; I think we now have an attractive competitive pricing in Parachute.

We have taken some call where we continue to invest behind distribution and rural. Also you must realize that versus unorganised and other players given, we have edge in infrastructure, which is also changing because of the demonetization with focus on modern trade and urban expansion. So we are in a relative competitive position to capture that. The outlook has got a moderate 6 to 8 which we have been doing. Just the one quarter of aberration which was 2Q and the 3Q aberration. We are saying that we are going to go back to that. We are not looking at or we are not giving you a guidance of around 10 or something.

Arnav Mitra: And just on the impact on the unorganised sector loose oil or some of the smaller packaged oil companies also, so have you actually seen it on the ground that there has been either a supply disruption or less promotions or whatever from their side due to demonetisation, has that actually happened on the ground?

Saugata Gupta: This was temporary, things are being normalising and as I said in terms of the remonetisation rate and the disruption in the south has been significantly lower than the north and the east. So, it was temporary but think however having said that as far as the pricing is concerned on Parachute, we are in a faster situation than we were in say 2Q because if you look at a sequential input increase in copra, it has been 17% Q3 over Q2. Now prices have stayed constant there.

Arnav Mitra: Right, and just lastly one question on the pricing. I mean Parachute historically has had this ability to pass on pricing in an inflationary environment and logically your gap with the unorganised things. But I am just trying to understand that given that you know the macro itself, rural consumption and all that has weakened over the last couple of years. Is there any doubt in your mind that it could be not as easy to pass on pricing based on whatever you have seen till now?

Saugata Gupta: We will wait and watch. The first thing is to get the situation to stabilize, normalize completely post-demonetisation. Get the volume growth back and we will take a call on pricing soon. Yes, you are right in some ways that suppose the yield point on the pricing model as 1.1x it could be a slightly tad lower now. But I am confident that with all the initiatives in this Budget and the kind of monies in terms of that will get invested behind rural infrastructure that thing will be sorted out over the next two quarters.

Moderator: Thank you. We will take the next question from Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Couple of questions from me. Firstly, just wanted to understand a little bit more on what is your thought process on innovation for the next 12-18 months? I know that this is competitive information so you will not be able to give me an exact idea, but to whatever extent you can give some sort of pointers in which areas or what space you are looking at, that would be helpful, sir?

Saugata Gupta: There is already something on our plate. We have to succeed in two of our big bets in terms of growing little accelerating our growth in hair fall or value added mustard. Also, there is a food journey, we have a youth portfolio, we have just extended our test market prototype of Aloe Vera which is the journey of premiumisation in the value-added coconut oil space in AP and TN. There is enough on the plate and you might see more in the area of food edible oil and some more premiumisation initiatives in the hair oil segment. So that is all I can say.

Percy Panthaki: And if you could just tell me whatever launches you have done let us say in the past one and half to two years which ones of these would you categorize as having delivered better than expectations and which one would you say could have done better?

Saugata Gupta: See, Aloe is too early to call, the others could have been better, it is taking more time. Having said that, is it improving quarter-on-quarter, the answer is yes.

Percy Panthaki: Right sir, and second question is on slightly long-term focus not related to the quarter but just wanted to ask you on Parachute coconut oil. I mean we are all aware that there is an issue for the long term, here we are talking about let us say seven to ten years kind of a horizon after that what we are seeing in Bangladesh could happen in India. So I was just wondering are you actually thinking of taking the Parachute brand equity a little bit more into edible oil? I know people do use it as edible oil but there is a big fad of coconut oil even in the West people use it as a prevention of Alzheimer's, etc. Do you think that you could gradually sort of pay more focus on the edible oil consumption of Parachute as well and if so how?

Saugata Gupta: I think there are two related questions. Let me tackle the first, the dependence. When the Parachute started slowing down in Bangladesh, the contribution to the Bangladesh's overall business was 90%, in India it is 36%. Therefore, a huge diversification has already happened and we expect that reduction to happen by at least 7%, 8% over the next four, five years. Also in the branded to loose, currently the branded is still 65% in India but Bangladesh when the slow down happened it was 80%. So we have time and we have taken proactive measures and in some of the markets in the south where the number is slightly higher obviously we are aggressively diversifying the portfolio. The entire Aloe Vera initiative is a step in that direction.

As regards to the second thing which is virgin coconut oil and the coconut oil as a super food, yes, it is a fad in the West and it is a good trend and we have started doing some small limited level exports into the US markets. We now have a presence in mainline trade in Singapore. Getting virgin coconut oil into India, yes, it is an opportunity and exploring coconut as a super food is something as an opportunity which I am sure we will look at and leverage if we believe that we have a right to win.

Moderator: Thank you. We will take the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Sir, just a few questions from my side. Firstly, on the value-added hair oil, decline of 12%. Can you give us some sense among the brands Shanti Amla, Parachute Jasmine, Hair and Care, and Nihar Naturals where is the decline is the steepest and why do you think that is the case, that is my first question. And my second question is you said in December you are starting to see some recoveries in volumes. But if I just look at your Annexure 1 of the information update and looking at the consumer offers, for example on Parachute, there is 25ml free on a 175ml which is like almost 14% and both Parachute Jasmine and Nihar have 20% volume free. So are you able to pull in some volume growth because of these free offers, because the promotional intensity seems a bit high?

Saugata Gupta: You have to look at it from the quarterly base, so there has been no increase in contribution of promoted volumes of 3Q 2016 and 3Q 2015. Secondly, as far as the brand-wise decline is concerned it has been fairly secular. The only thing it could be that you know maybe Parachute Jasmine which sells a little more in the south and west had a lower decline but the other ones had a more or less a similar kind of a decline. Because it is a question of geography and skew and both in north and east.

Karthik Chellappa: Got it. And sir going forward. if I just look at, you know with GST coming in and lot of emphasis on formalisation given that hair oil is still by and large a general trade distributed product, is there a need for us to share slightly more margins with the trade because some of the wholesalers may have to come into the tax net which they have to pay out of their margin? Do you foresee such an event happening and if so how do you propose to handle it?

Saugata Gupta: Our wholesale contribution is relatively lower than some of the other players in the industry as at 35%. This number got circulated in November, when the demonetisation happened. That is because we also have a significant play in the other categories which are not dependent on wholesale. I am sure two things are going to happen. One is obviously in any sector, Indian entrepreneurs are very adaptable. They will adapt to the new change obviously there has to be compliance.

You have to look at it from two lenses. One is obviously anybody who has far better direct distribution and the adaptability to move. Things like standalone modern trade or slightly larger general trade will be more successful. You must realize, we also compete with a lot of small players; we also compete with a lot of unorganised players. So in relative terms, our dependence on wholesale is lower. Number two our ability to adapt and one of the other things which we have done is we will concentrate on much more expansion as far as urban retail is concerned. And also investment behind rural distribution is concerned. I think the business model itself has not reach equilibrium, I do not think that the fact that our margins will get reduced because of GST. Yes, somebody has to bear it but the business model, I think, will take care of itself.

Karthik Chellappa: So in conclusion, you do not think that you have to find maybe 100 or 150 basis points from somewhere to support the channel and I mean find other venues of reducing your cost so as to keep a margin. You do not foresee that situation at this point of time?

Saugata Gupta: As I said the business model will reinvent itself. Some could be cost, some could be even inventory and some could be the shift of the business. Obviously, in the next four-five years with GST coming in, some of the people in the trade where the arbitrage is dependent on non-compliance will get neutralised. Today, I mean obviously things like your cash and carry component may increase your direct distribution. Your direct distribution today could be limited by the fact that wholesale channel has the ability to deliver at a lower landed price which will go up.

Moderator: Thank you. We will take the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is on the A&P spent. So this quarter we saw a decline what do you expect in the next quarter and for FY18?

Saugata Gupta: One has to look at it from long term. We will be hovering around 12%.

Vivek Maheshwari: Okay understood. Second on Saffola two questions on your release. One on Saffola you have mentioned in the near term, we are also looking at the innovation pipeline especially in the premium segment. I mean you already operate in the premius segment with Saffola, what exactly do you mean over here?

Saugata Gupta: Well, super premium we meant. So, obviously as you know that at the extreme top end, we have been losing a little bit maybe to olive and canola, while we have ensured through the Saffola Active new communication and the differential pricing we started to get an accelerated upgrades. We have to also plug the leak which is happening at the top end and you shall see from action over the next two quarters.

Vivek Maheshwari; Which could also mean a foray into olive oil?

Saugata Gupta: That is commodity. We never believe in commodity. We always believe in having the blends that deliver the best to the Indian consumer. And something we are, all our offerings are based on clinical based on the Indian consumer and not on European consumers.

Vivek Maheshwari: And the second bit is you have explained about VAHO but your release says Parachute coconut oil and Saffola Premium edible oil had restricted impact due to the strong brand equity and secular demand trend despite note ban. Are you trying to say VAHO does not have strong brand equity or it does not have secular brand trend?

Saugata Gupta: It is not the issue. The issue is the first of all, in relative terms, they had a strong brand equity, Parachute and Saffola. Parachute also competes with unorganised players. The second thing, the larger point, I would say will be because of the skew of sales. If you look at the pattern of sale which I said during my opening remarks, there is a significantly higher skew in north and east of the VAHO portfolio around 60%. Parachute will be reverse, if not higher, for west and south. The second thing is a lot of VAHO, especially in the price point, pack is distributed through wholesale. It is also rural skew. Parachute is actually, you will be surprised to know that, a relatively more urban brand because of the local and the unbranded compared to value-added hair oils.

Vivek Maheshwari: Okay and one last bit. How much will be south contribution in VAHO hair oil?

Saugata Gupta: I do not want to get into regional. I will give you the contribution. You must appreciate that we have been reasonably transparent and also consistent in the information which we give every quarter, we should stand by this.

Vivek Maheshwari: I think sir you are the most transparent company absolutely no doubt about it, the only reason was that the double-digit decline was quite intriguing. That is why you know in VAHO which is why I want to know?

Saugata Gupta: Yes, north and east is 60, so south and west is 40 and within that break-up let us forget it.

Moderator: Thank you. We will take the next question from the line of Sumit Hizly from Sahara Mutual Fund. Please go ahead.

Sumit Hizly: I would like to know the pace of reshuffling happening at the channel level. So do you think that in the fourth quarter we can see the same growth? I mean as pre-demonetisation or it will take some more time?

Saugata Gupta: Yeah, so if you really look at it, I am going to give you a January perspective, I think, I would say there is a 90% recovery. There is still some stress in wholesale especially in the east and north and some of the rural markets. I would say to an extent south and west has completely recovered. We are also seeing some interesting changes. Now whether they are temporary or permanent within city, we are seeing some transfer of demand happening from a small kirana to say a standalone model or retail which has facilities for digital payments. So there has been a little bit of skew on that.

Sumit Hizly: Okay and the second question is on the margin front. So we have seen that your input cost basket grew in this quarter almost marginally. So what you think the impact on the gross margin in the fourth quarter?

Saugata Gupta: Yeah, the way to look at it is obviously yes there has been an increase in input cost, there will be going to be an increase in input cost in Q4. We have to wait and watch when to take the price increase. We are looking at a band of operating margin and we have said that we would look at a threshold level operating margin of around 18%.

Sumit Hizly: Okay. So I mean in the third quarter your gross margin have slightly declined sequentially, so it has already impacted. So it will continue to impact in the fourth quarter also?

Saugata Gupta: Yeah, I mean it would be marginally. As I said that for us our philosophy is to maximise volume growth and market share, subject to a threshold level of operating margin of around 18%.

Moderator: Thank you. We will take the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Just one question from my end. You have talked about targeting this bottom of the pyramid in your information update and specifically you talked about Advansed Jasmine hair oil at Rs1 price point and Nihar Shanti Amla at Rs5 price point. Now at these sort of price points would the operating margin level would be similar or what sort of volumes would you need to make sense on an operating margin level?

Saugata Gupta: See the way we look at it is, you are absolutely right in terms of operating margin. So obviously the gross margins will be slightly lower. The way to look at it, it is an incremental opportunity which we have to tap. Number two, the reason that gives us the confidence to launch these kinds of facts is that there are enough opportunities having established success and a critical mass in distribution thanks to the success of Shanti Amla, especially in the north and also in east the success of Setwet, the success of Shanti Rs10 price point to go further down. We also believe that these margins are sensitive to crude volatility.

So yes, I mean if the crude goes up 100, 120 which is unlikely to happen in today's world, then it gets stretched. But we have done a stress test on current crude and current crude levels, we are comfortable in terms of value incremental volume growth today. So, it cannot cannibalise and therefore what we are doing is we are unlikely to drive these packs in urban, which will go to wholesale and rural.

Aditya Soman: Fair enough, so that is very useful. And just another follow-up question on the same issue. The reason to launch this low price point is that there is an affordability issue. Would that be right for the larger packs?

Saugata Gupta: No, if you see all companies our contribution in the small packs has been the lowest. We have not been doing it intentionally simply because of the fact that if your dependence on price point packs are very high and especially where your inputs go volatile then your margins become volatile. Having said that, I said we have that confidence because this strategy is stress tested on crude price up to $80, above which it will become unviable. We also want to restrict the contribution of it by not distributing it in urban.

Moderator: Thank you. We will take the next question from the line of Chandrasekhar Sridhar from Fidelity. Please go ahead.

Chandrasekhar Sridhar: Just wanted to bring your attention to a couple of changes which I noticed between the two information updates which you have provided. One is it seems you all have upgraded your India's medium-term margin outlook. For the last one, it was about 18%, 19% you have updated it to 20%. But you know when actually copra is inflating I am just trying to understand what gives you the confidence of upping that?

Saugata Gupta: Okay so actually when we had guided for 18%, 19% we had been delivering if you look at the last five-six quarters, the average was 22-23%. So this number builds in copra input increase and the potential price increase. The other thing I want to share with you obviously we do this based on our long-term strategic business planning. So, this is the beginning year of the new cycle of strategic business planning for the India business. So now we have an outlook for the next three to five years and that is the kind of a threshold level of operating margins. We have designed the new strategic business planning case with that 20% plus kind of a threshold. So this was the 2012 to 2017 cycle which we had a threshold of 18% to 19%. Yes, we have overperformed in the last 6 quarters of the cycle. So that explains the change and given the plan we have, we are confident about 20%.

Chandrasekhar Sridhar: Sure and then the second one is obviously on the oats. Obviously, the last outlook spoke about Rs200 crore in two to three years. After FY16 you crossed Rs100 crore that is about effectively about 18% growth annually but this outlook talks about single digits in this year. What has changed? I mean is it basically now that reliance is going to be moving on extensions coming out and is there an issue with the core if we need to be aware of?

Saugata Gupta: What happened was around three-four quarters ago, we had a significant aggressive growth in the category that was also may be triggered by some other factors which led to people moving into this category. The category growth has slowed down. We have not necessarily lost share, we still have 70% in this. As market leaders, it is our job to increase the category growth. The reason we have knocked this off and the number will come back again in the next, hopefully the next quarter or the following quarter narrative because we have been revising the process with new strategic business plans. The next three-year numbers on food. Yes, the number which we had said 200 is unlikely to happen with oats given the fact that we had a very soft growth this year. So we will come back with the new aspiration but our aspiration on food remains constant so we will obviously double up on oats. But there would be some new things that will happen on the food front in the next 12 months.

Moderator: Thank you. The next question is from Ajay Thakur from Anand Rathi. Please go ahead.

Ajay Thakur: I just had a question on the medium-term kind of outlook. Earlier you had come out with the presentation stating that you are looking at 17%, 18% kind of revenue CAGR for the next four years. What is the kind of revision can we expect to that kind of a number and how do you look at the medium-term kind of growth outlook?

Saugata Gupta: Obviously we have had one and a half year of reasonable deflation and obviously the volume performance had been below expectation. The earlier outlook was based on if you look at, if you knock off this last one and a half years or one year or three quarters, the average volume growth rate was more to 8% to 10% this has now gone down. We have entered the period of kind of an inflationary cycle. Hopefully by Quarter 1 we should get back into inflationary cycle now. The past six years the average inflation has been 5% to 6%. Maybe our outlook in the next few years is that inflation factor could be slightly lower. So I would say that in the immediate medium term we should take a 12% to 15% kind of a value growth rather than that 17%, 18%.

Ajay Thakur: Okay, secondly, if I were to look at the portfolio construct we have a mature category, such as coconut oil and also edible oil. So given that fact which construe almost 50% of our portfolio, and given that fact where would the growth be coming from largely for this 12% to 15% kind of a growth that you are looking at because in Parachute or in Saffola I believe a double digit or slightly low above double digit is something that we could be expecting in the industry if I am not mistaken?

Saugata Gupta: Okay, so I mentioned 12% to 15% is value obviously that contains the inflation component. But if you really look at it, Saffola is not a mature category because the penetration of Saffola in the super premium is extremely low, in fact it is a tail wind category because of the fact that people are want to adopt health. Other than around six quarter we have been registering double digit growth in volume growth in Saffola. There is enough reason to believe that this double digit growth on Saffola will continue. Parachute you are absolutely right. It will be around more of a 5% to 6% volume growth.

As far as the value added hair oil is concerned, we still are low market share of 33%. There is no reason why should we continue to gain market share, we have been giving market share at around 100-120 basis points every year and volume and is slightly less in value. There is a huge premiumization journey and there will be new engines of growth. So overall that 12 to 15 obviously with inflation factor and the premiumization factor I do not think we are changing anything drastically in terms of the volume medium term growth aspiration which stay constant.

Moderator: Thank you. We will take the next question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Two questions actually more like clarifications. Firstly on VAHO, would you say that for this category also the business is normalizing which would imply by Q4 we could probably arrive back at sort of at least start seeing flattish sort of a volume off take?

Saugata Gupta: If you are asking flattish the answer is definitely, yes. I would say that overall business is 90% normalized. If you ask me to take a skew obviously north and east still not 100% normalized. If you are asking me whether there will be growth in VAHO in Quarter 4, the answer is perhaps yes.

Latika Chopra: Alright. And the second thing just a follow up of a previous question. You know, you have raised the operating margin medium-term guidance of the domestic business but I see you have not changed that for your overall aggregate business. Any reasons you have still kept that at a 17% to 18% band?

Saugata Gupta: Yeah, actually we have. We are saying 18%. If you see the commentaries in the last six quarters, we were talking of 16% to 17% kind of a number. So we are giving a threshold of around say 18% now. So that also is a tad higher. International business again is at around we have had some setbacks this year in terms of the Egypt devaluation and all. Number 2, in international business will continue to be in investment mode the arbitrage that will come is the fixed overheads because which scale I believe that there is opportunity for some improvement there. If you look at 2016-17 for international business our corporate cost if you knock it down that comes to a number of around 18. So I think you can and that is the kind of a threshold level we would like to operate.

Latika Chopra: Right, and just lastly on MENA. You mentioned you expect recovery in the second half this is largely led by a lower base only or would you expect on a like-to-like basis some improvement on a sequential basis in this region?

Saugata Gupta: Okay there are three components let me break it up. As far as the Middle East is concerned, I think the worst is over, crude prices are at least not 40 but 50. So there is a question of base correction and some nominal growth. As far as Egypt is concerned there are two components. Obviously, the anniverserisation of depreciation will happen. I am assuming that there will be no more depreciation the worst is over from 3Q. Secondly, Egypt even now last quarter also we had a constant currency growth so and we are also going to take some price increases because of the inflation in Egypt at 15% to 20%. We can take some price increases. So by Q3, a combination of base correction and some constant currency growth will lead to value growth.

Moderator: Thank you. We will take the next question from the line of Anirudha Joshi from ICICI Securities. Please go ahead.

Anirudha Joshi: So just one question. Can you please elaborate on the new project Marval Edge we are expecting around Rs40 crore of savings in FY18 as per the information update. So we will be having savings in trade and marketing spends. So does this indicate the payments related to distributor and trade or does this indicate anything with media spends?

Saugata Gupta: No, this is three things. One is consumer offer effectiveness, trade spent effectiveness and also some of the other investment behind brands. So what we are saying is that we have been spending a certain amount of money, can we spend it more effectively and obviously the savings might not get ploughed back into the P&L but we will use that savings to actually increase our investment in both sales and marketing without increasing the absolute investment.

These are the three buckets which we are seeing so that we have better effective consumer promotion. The kind of trade offers we run in trade and it will be better. The kind of margins we are giving. Are they geared for driving growth or just because they are in the base we are just continuing to give it every year without being effective?

Moderator: Thank you. The next question is from Chitrangda Kapur from Sameeksha Capital. Please go ahead.

Chitrangda Kapur: It may be a repeat so I just wanted to ask you how much is the CSD proportion to our total sales currently?

Saugata Gupta: 6-7%.

Chitrangda Kapur: So are we seeing a little slowdown there because as per our discussions in the industry you know other companies are suggesting that CSD is actually not giving too much of orders currently to any of the company. So is that a threat for us?

Saugata Gupta: You are right. It has been a soft year relatively for CSD.

Chitrangda Kapur: Okay I mean 7% of our revenue is under softness. I am just trying to paint a bigger picture here when you are saying that your margins are improving but at the same time this is obviously one portion of your sale which is not growing well. So where would the commensurate growth come from?

Saugata Gupta: If you look at CSD last quarter also it grew by 4%. So I mean so and also our aspiration on medium term, I am talking about 6% to 8% volume growth. So I do not think it is completely disproportionately lower, tad lower may be. In fact in this quarter, it was a tad higher but it is not been if I look at even the last four quarters the CSD growth has been a tad lower. It has not been significantly different from our overall volume growth.

Moderator; Thank you. We will take the next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Sir, my question is on Saffola edible oil franchise and we have seen strong growth in the recent past. And part of this growth has been because of the market-share gains also and now we are at almost 65% market share. So I mean going forward what is the main driver of the growth and such a strong outlook according to you? I mean are we still looking to gain market share here or it is the entire segment which is growing very strong?

Saugata Gupta: Our focus will be much more in driving upgrades with the fact that the increase in people focus on health in the country keeps on increasing our ability to innovate and thirdly as I said earlier we have been losing at the super premium and how do you plug that loss? A combination of all the three. The market share if you ask me, yes we define it in a super niche but that is not going to drive that just mere market-share gains will not drive double-digit growth unless we keep on upgrading consumers.

Amit Singha: Okay so basically this outlook also incorporates a significant amount of super premium contribution?

Saugata Gupta: No, not really. So it is very early to talk about the let the super-premium succeed and one other thing when I give an outlook we do not assume that NPD success rate will happen let the thing happen and then we will talk. It is better to first do and then talk about it.

Moderator: Thank you. As there are no further questions from the participants, I would request the management to give the closing comments.

Vivek Karve: Thank you everyone for participating in the call. The quarter was a little muted in terms of performance but I believe we are quite hopeful of a recovery in the near term and we are quite committed in terms of delivering a sustainable long-term performance. So, thank you and wish you all a happy weekend.

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 and you may now disconnect your lines.