ñMarico Limited Q3FY16 Post Results Analyst Conference Callò

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MODERATOR: **MR. RAKSHIT RANJAN – AMBIT CAPITAL**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Marico Q3FY16 Post-Results Analyst Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ó*ô then ó0ô on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you, sir.

Rakshit Ranjan: Thank you. Good Afternoon, Everybody. Welcome to Maricoôs Conference Call. We have with us the senior management of Marico led by Mr. Swagata Gupta ï Managing Director and CEO and Mr. Vivek Karve ï Chief Financial Officer. I would now like to hand the call over to Mr. Gupta who will take you through the highlights of the quarter and then we will open the call for Q&A. Over to you, sir.

Saugata Gupta: Thank you. Good Afternoon, Everybody and Thank You once again for joining the call. I will just give you a brief flavor of the quarter: So overall we had a satisfactory quarter with good broad based volume and earnings growth across most of the franchises and business units with 84% of our portfolio gaining market share. What is heartening is the green shoots in some of the problem areas in the business which clearly indicates that the long-term capability building and transformation journey is starting to give some dividends. As regards the consumption situation in India, we believe that the urban consumption will gradually pick up in India. We have already seen some marginal improvement in modern trade this quarter. The situation in rural continues to be a little soft especially in the states which have experienced two consecutive years of drought. Therefore, affordability using the pricing strategy lever will be the key driver to maintain growth in a sluggish environment. Having said that, I strongly believe that if we drive the full potential of our execution as well as plough back a substantial portion of our input cost savings into pricing and innovation, we will be able to maintain 8-10% volume growth in India and ride the wave of the anticipated urban recovery in the coming quarters.

Let me talk about Indian business in detail in the last quarter. As usual, we gained market share in 95% of the portfolio. In addition to the volume growth of 10%, which I think in terms of our ambition, which was there for certain for at least two quarters, we finally achieved that. We may have got some marginal additional benefit because of the base and a festival season shift this quarter in Saffola and Value Added Hair Oils.

Let me give you a flavor on Parachute: While the 4% growth looks a tad lower, it is absolutely normal in the case of falling prices. What happens is that due to the anticipation of falling prices, trade stocks down. From our point of view, we also like to ensure that the trade is not stuck with high priced stocks, since we want the consumer to experience the price reductions as early as possible and prevent any lapsation from the consumer moving from branded to loose. There are two ways normally to achieve this ï blackout period or lower trade pipelines. We are maintaining lower trade pipelines till the price stabilizes. Once that milestone is achieved, we should be able to quickly ramp up volume growth and market share gains. Therefore, while there could be short-term volatility in volumes by doing this, we have protected our volume growth in the full year of 2016-17. After having learnt our lesson in the previous two deflationary periods, we are confident of doing a much better job this time.

Let me talk about Saffola: While the 17% number is on the higher side, our initiatives have ensured that substantial level of recovery and we are confident about a sustainable level of (+10%) growth in the near term. Two things have worked ï we have started our process of mortification of TG by actively driving Active in addition to Gold in total. It has been able to bring a different TG to the franchise. Secondly, our regional pricing strategy coupled with the source pool price table moving up has also accelerated the gains and the price premium has reduced by around 7-8%.

The Food business continues to make impressive gains and we aspire to cross the Rs.200 crores mark over the next two years. In the Value Added Hair Oil space, we will continue to drive hair fall Value Added Mustard while continue to increase our investment in the rest of the portfolio. Price point packs and distribution expansion will be a focus area especially in view of the rural softness. With our focus on both premiumization and bottom of pyramid, we expect to maintain the momentum on both double-digit growth and steady market share gain with our core as well as significant level of innovation.

Let me quickly touch upon the Youth business: Gel continues to do well. We believe that now we have a winning mix on Deo to get it back on track. Livon Serum is taking some time, but we should get it back on growth with the new mix and sachet. We are facing a huge counterfeit challenge again in the e-Commerce channel and we are contemplating legal action in addition to implementing some internal measures to check this. While the recovery in this business has got delayed, we are now hopeful of getting it into positive territory and plan a (+10%) growth next year. Frankly, we are perhaps 2-3-quarters behind in our action standard.

In the international business, our efforts to build a robust organic capability growth model is now beginning to reap dividends and you will see much more predictable and sustainable growth in the coming quarters. The Middle East business is back on track. Egypt and Vietnam are stabilizing. Bangladesh is showing improvement. The only downside has been around Rs.6 crores of sales loss in Nepal this quarter. Our continued efforts in building better capability in terms of talent, process, GTM and innovation as a journey which will pave the way for better growth rates and provide confidence to aggressively explore inorganic opportunities and open up new markets. East Africa, Sri Lanka and emerging markets of South East Asia are our primary focus of interest.

Let me deep dive a bit into Bangladesh: Having done the pricing correction in larger SKUs of Parachute, we have got volume growth back into positive territory although because of deflation, sales was a little muted. In this quarter we have implemented the next set of pricing correction in balance SKUs of Parachute which should accelerate the growth and reduce the losses to unorganized. I mean this quarter as in we are now doing the price changes as of February. We have a journey to do in terms of fast forwarding the portfolio expansion in non-Parachute CNO. We already in the process of replicating the India Hair Oil strategy in Bangladesh. The integration of the Bangladesh operations to India is also helping in capability and share resourcing. I am confident that Bangladesh will deliver steady growth next year.

Lastly, I believe that while conditions continue to be challenging, if we maximize our internal executional excellence and operate at full potential at all business units, we can continue to deliver 8-10% volume growth rate. While the deflation factor will be high over the next two quarters, it will reduce with the base kicking in from Q3 next fiscal. 2016 will be a challenging year globally for CPG companies. We are in a sense in a better relative position than most CPG companies because of our business mix and country portfolio. As per the growth forecast, World Bank, IMF and all put together, the weighted average growth rate in our portfolio markets is around 7% and the currency deflation is around 3-5%. Our low contribution from international markets is perhaps a blessing in disguise since a lot of emerging markets in Southeast Asia, Southern Africa will face headwinds. Middle East consumption could also get impacted because of low crude prices. However, the economies of India, Bangladesh and Vietnam which contribute to nearly 90% of our business is expected to perform well without any substantial currency or consumption shocks. In Middle East and North Africa, we are challengers and not incumbents or market leaders, and we can only improve our market share and grow. Additionally, we believe that if we can maximize execution in the five areas of transformation, we will continue to reap growth dividend irrespective of the environmental challenges.

Before I end, I would like to mention that with the organic growth focus over the past 21-months, we have generated significant cash; our ROCE has improved substantially and so has our dividend payout. We will now up the ante on the inorganic growth opportunity. We will also be more flexible in terms of not looking at 100% acquisition but we will also be open to investments and externally incubating some high growth bets like we have done with Bellezimo in the Salon space. You can expect some action in this area over the next 12-18 months. Thank you.

I am happy to take your Questions.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. We will take our first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on Value Added Hair Oil. Sir, you have a very Super Premium Edible Oil, but in the Super Premium Hair Oil, like Kesh King and Indulekha I see other competitors take lot of steps. What is your thought process on that?

Saugata Gupta: The way to look at it is Hair Fall as a segment because it does not matter how much you price it, it is a question of whether it fulfills and delivers efficacy. So, if you really look at it, we have a strong franchise in the south in the form of Parachute Ayurvedic Hair Fall, we are prototyping a similar product which caters more to the sensorials of the north and west market in Maharashtra, and I think the results are encouraging and very soon you will see some scaling up that is going to happen on that.

Abneesh Roy: 18% growth is very good in Value Added. My question is do you see risk of lower priced variants? We have seen in other segments market share losses started to happen from Patanjali. So, in this context how worried are you, where do you see Patanjali fitting in this, do you see them expanding the segment or there could be a market share loss because of price war here?

Saugata Gupta: So let me talk about our strategy because I might not be able to shed light on strategy of potential competition, but I think in Value Added Hair Oils while we have grown 21% this quarter, we have a broader participation study. Shanti Amla and Value Added Mustard which is in the heart of the Hindi Heartland actually value pack because they are at price points, in fact, in Shanti Amla; we are also prototyping a Rs.5 pouch packet in Madhya Pradesh. So we actually occupy most of the price points. At the premium end, obviously, we have brands, so we straddle across all price points in Hair Oils and we do not operate with one single brand and I think our approach is not only to straddle price points but also to straddle all need benefits across consumer segments. I think that will be the strategy going forward also.

Abneesh Roy: My question was also on the Parachute Coconut Hair Oil, because there I think the discount is definitely there Patanjali, but it is not as high as Patanjali has in its many other segments. So there if you see maybe it is a bit of commodity versus your other parts of the business. So my question is more towards that.

Saugata Gupta: As I said, as far as Parachute is concerned, given the softness of the commodity, our endeavor will be to pass the benefit to the consumers as and when possible, and ensure that we protect volumes and market share.

Abneesh Roy: My second question is on the decline in Livon. You have done well in most other segments, but in Livon Counterfeit e-Commerce, so which are the sitesé I think Counterfeit had been a problem earlier also if I recollect. So why is this recurring, and is this across many other FMCG segments, not for you only or is this a general phenomenon for the industry that in Personal Care high margin and high value, there are counterfeits across the board?

Saugata Gupta: You are right to an extent that if you look at some of the developed e-Commerce markets like China, there is high extent of counterfeiting. In this case, I cannot comment about others but we are facing it, but there is a way out and therefore, we would be in the next 3-4-months based on experiences of counterfeiting from other markets where manufacturers have taken an action, we will take action.

Abneesh Roy: My last question is on the mustard prototype, which has been successful in Rajasthan. So now this expansion in North and East markets, you see this gaining share from essentially the unbranded mustard or could this have cannibalization on your other brands also?

Saugata Gupta: What happens is a significant source pool of people moving from unorganized to organized happens either through moving into Amla. They never had an offering of pure mustard. So there were customers who prefer the sensorial of the Mustard, yet they wanted something which is non-sticky which is sensorially better but close to mustard. So these are the consumers who are more likely to shift to a value-added mustard offering which we have. Actually, what happens with increased prosperity and disposable income, consumers want to shift to Value Added products. So that is where we are playing. Our pricing is attractive, it is also around I think 10, 20 and 45. So our pricing is extremely attractive for people to uptrade.

Abneesh Roy: Just one follow-up on this, so what is the premium versus the unbranded mustard? Any sense on how large the category, because it is unbranded only. My sense is it will be extremely large, but what is your sense in terms of crores how much it is?

Saugata Gupta: We do not have a fair idea. It is difficult to get an idea but let me tell you it is substantial.

Abneesh Roy: Will it be fair to compare with an unbranded mustard because you will have a lot of other inputs, but for a consumer still he will see what is the premium, so what is the premium versus unbranded mustard oil?

Saugata Gupta: It will be in the region of 100-150%.

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

Karthik Chellappa: A few sets of questions; firstly, on the Coconut Oil, you alluded to the point that the pipeline inventory correction will take some time, that is why the volume growth is low at about 4%. But you have taken another price cut in January of another 6%. So does this mean that this pipeline corrections could get prolonged because of another price cut? Related to that, how do you see the elasticity of the Coconut Oil category because our medium term volume growth target is about 5% to 7% and the price cuts that we have taken are higher than that. So this could lead to some kind of negative value growth. So how would you assess the elasticity from a medium term perspective? Secondly, will the pipeline correction take longer than required because you have taken another price cut?

Saugata Gupta: Our objective is two-fold; one is to maintain the long-term consumer franchise and second is to ensure that the new price stocks hit the consumer quickly as possible so that they do not lapse out of Parachute and move into something which is unorganized or on a competition branded stuff. We believe that, yes, there could be some volatility in volume growth in one or two quarters, but I think it is one-time, we are maintaining the thin pipeline, we are not reducing pipeline. So we have had a one shot pipeline reduction. Now, we are continuing to maintain that pipeline. So therefore, we do not see further reduction in pipeline happening this quarter. As regards the value thing, you are right, even if we have a 5% to 7% growth in Parachute or beyond, there could be a negative value coming from Parachute in the next two-three quarters, it will equalize sometime in Q3 where the catch up on the base will happen.

Karthik Chellappa: Second question on the Value Added Hair Oil. We have had fantastic share gains in the Shanti Amla segment. Now this new Rs.5 pack which we are prototyping, especially the low cost Amla category, at this price point in a sachet kind of pack, will we be the only brand who has this offering?

Saugata Gupta: It is in a spout as opposed to Sachet because we want the consumer to at least use it on more than one occasion and that is obviously a differentiation as far as Hair Oil packaging is concerned. We are using this to penetrate much more into rural as you know that two things ï one is our rural journey started four years ago when we were 25% direct rural we are now 33%, the journey has to continue. In the situation where there is a little bit of softness in rural consumption, I think price points have a huge role to play. So therefore instead of actually defocusing on rural, we are playing a strategy in terms of continuing to expand rural and actually aggressively driving price points.

Karthik Chellappa: If this clicks, it could kind of further accelerate or probably even consolidate your market share in the Amla segment?

Saugata Gupta: I think our objective is to actually expand in rural now. It would be obviously some expansion of the category I think that is what we hope as well as market share. But I think our primary objective of the price point strategy is to expand the category from loose to branded or unorganized to organized.

Karthik Chellappa: If I just look at your consumer offers for the quarter, especially for a brand, let us say like Hair & Care, now historically my understanding was that you had actually projected this as like a fun, light hair oil brand targeted at the youth. Now giving away 20 ml free on 100 ml pack, in a way does it not dilute the brand? It is going to be difficult for you kind of take away this promotion and it might make the customer just used to this and it kind of dilutes the brand. What are your thoughts on that?

Saugata Gupta: It is like this; if you buy S6 at a 30% discount from an e-Commerce I do not think it dilutes, same thing for iPhone. So why should I dilute for Hair & Care?

Karthik Chellappa: So you think tomorrow you will be able to withdraw this offer once demand recovers without having any impact on your own growth?

Saugata Gupta: I think it ran for a month and we do run such offers. We also run other things; we have given some Glitter Gel and other stuff. So it is not that we have run these promotions which are not in line with brand equity.

Moderator: Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.

Arnav Mitra: Firstly, on the EBITDA margin. So you actually now reached nearly a 19% margin on the consol business. So what is your comfort range in terms of the margin band given that input cost further continues to go down? Can there be a situation where for a year or so you actually operate at a much higher than 15% to 17% band, which you kind of wanted to operate in the past?

Saugata Gupta: Each stop a bit, we said that we will now be comfortable with 16-17%. Having said that, in the immediate term, if it is 17% to 18% or a little higher, it is okay. But as I said that for us growing volume and market share, so delivering a growth of 8-10% in volume terms and market share gain in more than 80% of the portfolio is of paramount importance. Maybe in the short-term there could be higher margins, but we do not want to be greedy for short-term unsustainable margins.

Arnav Mitra: On the Value Added Hair Oil portfolio, where LLP prices have come off sharply and packaging is also down, in that segment, are you seeing any pressure to drop prices at all or the price reduction is largely going to remain in Coconut Oils, where you have that unbranded market to deal with?

Saugata Gupta: It depends on in terms of the volume. If we see in certain cases especially some recruiter packs which actually people move from base to Value Added if there is pressure we are willing to look at it. But if you really look at the Value Added Hair Oils space, we cover all spectrum. So Shanti Amla actually in terms of pricing is perhaps very-very value pricing.

Arnav Mitra: Do you see any risk of Value Added Hair Oil growth going down, because Coconut Oil is much more cheaper now or that is not a really big driver of the transition?

Saugata Gupta: In the Value Added space, we are operating across different categories, for example, as I said the Value Added Mustard is a big driver of growth, similarly, Hair Fall is emerging as a big category, it is already Rs.900 crores category and that will be another lever of growth, the third could be premiumization. So I think there are multiple dynamics playing in. Our endeavor is to participate in all potential price segments and all potential consumer needs and having a broad base play in that.

Arnav Mitra: On your comment on inorganic growth with the cash generation in the business, if you could just throw a little bit of light on why you think you want to do some of those kind of investments where you do not take on the entire business? Secondly, you seem to have given a pass to a couple of the Hair Oil acquisitions which came up last year, basically Kesh King and Indulekha. So do you think that within Hair Oils there is no need for Marico to actually do an acquisition and you can do it yourself, is that confidence because of which you are not looking at those things? Would acquisitions largely be focused on areas where you are already strong?

Saugata Gupta: I think two things; one is obviously an acquisition has to be a strategic fit and in certain segments where we do not operate but their adjacencies, they will be far more attractive than something we can build. So there is always a build versus buy question. Also, I think some of the franchises we also realize after having done the Paras acquisition, when some of the products efficacy claims, unorganized and a very small player can make when it comes into the organized sector, when you put in the good manufacturing practices, and the claims in place it becomes a difficult proposition. So I think we measured all that and decided perhaps not to look into some of these offerings. The reason we are trying to incubate some of the things is because we believe in a large organization like ours it is better to incubate an entrepreneur with our funding, process, system and other support to get scale up big bets as opposed to being a part of our own system. In this context also, it becomes a great opportunity for some of our talent who is entrepreneurial, at the same time once the air cover of a large organization to move into these essence. So, we would like to explore this opportunity of incubating things which are adjacencies to us like Salon.

Arnav Mitra: Anything you could throw light on the copra demand/supply situation, because we are entering into the flood season. So how do you see the demand/supply situation there?

Saugata Gupta: Copra and crude, both are expected to be definitely tough till September and as you know that in all these we can take strategic position, so we should be secured for 2016 & 2017.

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

Percy Panthaki: My first question is the Value Added Hair Oils volume growth of 21%. Is that including that 20% volume extra you have given on one of your brands?

Saugata Gupta: Yes, that would have contributed less than 0.2% Hair & Care growth. I do not think the promo quantity base-to-base has increased actually.

Percy Panthaki: Q3FY15 Vs Q3FY16 the promo was more or less the same?

Saugata Gupta: Yes.

Percy Panthaki: Secondly, given the deflationary scenario that we are in, even if I build in a double-digit volume growth for Saffola and for Value Added Hair Oils, it is quite possible that next year on a consolidated level your sales growth might be high single digits or just about 10%-11% kind of a number. In that kind of scenario what really drives the profit growth? If I look at your gross margins, the peak has been about 51% in FY13 as well as in FY10. You have never broken that 51% level. So one is do you think that can be broken this time around? Secondly, if not that what else can drive bottomline ahead of topline next year?

Saugata Gupta: You are absolutely right. You can expect a high single digit value growth to start off with. Now, if you really look at the deflation and while I am not giving you an exact number but broad number, the deflation factor will be peaking in Q1, it will start reducing from Q2 and it will start reducing in Q3-Q4. Similarly, your input cost advantages will be high in Q1, Q2, and it will reduce in Q3, Q4. So if you really look at it, I am just giving you a broad theoretical model, if we grow 8% to 10%, and transfer say 60% to 70% into pricing and A&P and retain 20% to 25%, you can still have a double-digit earnings growth. Second is also in this yearsô first half, a lot of international business units were struggling. So that is also in the base. If we deliver 8% to 10% volume growth, international business delivers (+10%) and we retain some of the input cost gains with a single digit topline, you can deliver a double digit bottomline.

Percy Panthaki: On the Sarso Oil that you have launched, it has been in a test market for about 6-months plus now. So can you share what kind of experience you had, what are the kind of consumers who are using this, from which type of oil are they migrating, is it all from unorganized or are shifting from some other type of packaged oil, what kind of sort of conversion rates are you having after the first use? Just wanted to understand, is it meeting or exceeding your action standards of the launch? Based on this now, what is the medium term plan that you have in terms of going all India, how long that will take in terms of next 3-years, what kind of revenue targets would you have on this, any color you can give?

Saugata Gupta: Percy, in December, we have scaled up after it met action standards in Rajasthan. We have been in the market since December and we have been on air actually from January-February.

Percy Panthaki: Is it all India now?

Saugata Gupta: All India means it is in Hindi speaking market; it is in Bihar, Jharkhand, U.P., M.P., Rajasthan, Chhattisgarh and Punjab, Haryana. These are the states we are consistent. It is mustard selling market. So it is too early to say. What we are seeing is the source pool is obviously people who use loose mustard oil. More the younger lot who do not like the sticky sensorial of mustard and the heaviness, but at the same time would like the benefit of mustard on the Hair. So, a lot of people I think today young consumers seek packaged goods and I think what is also there is that Nihar Shanti stands for something, it is a brand with a purpose in terms of educating large section of the Indian population in the price sections of the society. So people want to adopt these kinds of brands. So, I think we are seeing some traction. It is too early to say. But having said that it will be one of our key growth drivers in the (HSM), Hindi Speaking Market in next 2-3 years. It is also in the bottom of the pyramid. So one of the things that will help in our further creation of a critical mass in the rural portfolio, will be this brand.

Percy Panthaki: What is going to be the strategy to drive this -- is it like going to be a high decibel media spend or is it going to be very slowly seeding the market kind of, which of these two options would youé ?

Saugata Gupta: I think it will be a combination of two, but there will be huge emphasis on rural activation because with this brand we now have another brand in the portfolio other than Shanti that takes us really into the 5,000 population towns and it will give a boost to our drive into direct distribution in some of the areas which we are not very strong at.

Percy Panthaki: For the Sarso Oil, would the gross margin profile be higher or lower than your VAHO average?

Saugata Gupta: Obviously, starting it will be higher. But after that it will go up.

Moderator: Thank you. The next question is from the line of (Bhavesh Shah from CLSA). Please go ahead.

Vivek: This is Vivek. First thing on the Saffola. Very strong growth. Any stocking issue, any volume freebies helping the numbers and how sustainable this growth is? I heard that you are talking more about 10% growth on a sustainable basis. What went right in this quarter then?

Saugata Gupta: That is why I said; that 17% could be a tad higher. For Saffola, two kinds of target segments which we were trying to drive; one was through Gold. What was happening is that it restricted the source of growth in Saffola. So with Active we massified the TG in terms of people who look at fitness and have a high active life wanting to have a lighter oil, which is good for the heart and the fact that Saffola also the pricing helps, because we now have an entry point Saffola. What has happened is as I said the price premium because of a selective pricing strategy in certain markets also reduced by around 6-7%. So all three have worked together. It took us sometime because we were trying out different experiments and we then realize these things work. Because of the festive season and perhaps the low base as I said we started off and also I think this is the first time the system started seeing gains. So the 17% as I said is a bit higher. But I think do I have the confidence that we will now deliver double-digit growth in Saffola in the coming quarter with this strategy in the immediate term? The answer is yes.

Vivek: But there was no issue whatsoever with the stocking or inventory at the say modern trade or at the distributor level and all? There should not be anyé

Saugata Gupta: As you know, Marico follows a pool system unlike some other companies. So what we do is we have a replenishment model which we have moved to 100% in the first quarter but whatever is done secondary are based on stock norms, we do automatic primary. Our sales force do not intervene in primary, so there is no stocking issues.

Vivek: You have done a phenomenal job in targeting the white spaces within Hair Oils, but say Parachute Advanced Body Lotion, a few years back there was I think some debate whether Parachute Advanced will transition from Hair Care to a body kind of portfolio, it has done very well, I think your exit market shares are 9%. Any thoughts about expanding this to other parts of whether Skin Cream or something beyond the Body Lotion?

Saugata Gupta: Just want to correct you, I think we are still at 6%, so we have not done so well. Also, the category has struggled. So, I think we need to first have a strategy to get this into 9 or 10% before thinking of anything else. In the last 2-3-years this category has actually stagnated and our share has not improved in the last 2-years. So therefore we have a task at hand to actually get this back on track before we decide on anything else.

Vivek: At what level of market share would you say that okay, we have done enough and let us look at white spaces beyond body for example, any such number in mind?

Saugata Gupta: First, let us get out of the ditch. Anything less than 10% is a ditch. So I would like to first get into a double digit market share which will take some time before we actually contemplate. I do not want to diffuse the teams focus into trying to do new things when there is a task on hand with this itself.

Vivek: A small bit on the tax rate. You guided at the beginning of the year around 29% to 30%. What you are running with is more like 28% right now. Should we take this as the blended tax rate for the full year now?

Vivek Karve: This is Vivek here. You can continue with 29% as the guidance for the coming year.

Vivek: Since YTD weighted average is 28%, for fiscal 2016 shall we now pencil in 28% or we should still build in 29% to 30%, which was your original guidance?

Vivek Karve: It will be between 28% and 29%.

Vivek: Next year you said is more like 29% to 30%?

Vivek Karve: Yes, that guidance continues. I think the finer aspects can be known once you get into the new year.

Moderator: Thank you. The next question is from the line of Suruchi Jain of Morning Star. Please go ahead.

Suruchi Jain: I just wanted to follow up on the question on margins. When you mentioned that the deflation factor will continue till Q1, Q2 of 2017, did you also mean that the margins will stay inflated at the gross margin level and that is when you will see peak margins or would you say they have already played out?

Saugata Gupta: In terms of the commodity gains, it has already played out, but what will happen is since the commodity started correcting in Q2, there will be some play out in Q4 and Q1 at current levels of gross margins.

Suruchi Jain: So it is more of a base effect than what you are expecting in terms of a commodity perspective?

Saugata Gupta: Copra is likely to be lower because if you see Copra this quarter versus the previous quarter, copra is already lower. So there is still some flow to be realized as far as copra is concerned. As far as crude is also concerned, I think you will see something. But it should stabilize maybe in Q1 I would say.

Suruchi Jain: You were guiding for 16%, 17% EBITDA level for fiscal 2016. Would your guidance be similar for 2017 as well?

Saugata Gupta: As I said, we have given medium-term guidance and not a yearly guidance. Now, given the current situation if in the immediate term we can deliver 17-18%, we will deliver 17-18%.

Suruchi Jain: You would not want to hazard a guess for next year, is that what you are saying?

Saugata Gupta: It is too early as I said to predict how it pans out. I think as long as we maximize volume growth and market share, and as I said that the model of saying that you retain something as long as you deliver an earnings slightly ahead of topline growth, we are happy.

Suruchi Jain: Also I wanted to follow up on the question on Bellezimo. Could you give us some more details? Actually, I could not come across anything on the Internet. Where are these parlors located? How many locations? Why did you choose Bellezimo versus a number of other parlor chains?

Saugata Gupta: It is a start-up. As I said we wanted to incubate a business. This person has experience in similar kind of products. It started out with skin care products. It is being prototyped in eastern India. Very soon perhaps we will look at scaling it up and also scaling it up in a product portfolio by trying to start selling our Hair Care products; maybe customize it for the channel or could be some of the existing Hair Care products which we have in Styling or Hair Fall in this segment. So the reason we are doing it is instead of getting this inside, we decided to incubate it because here is an entrepreneur with no escape buttons and huge entrepreneur zeal which might not be there in a large professional scale set up in terms of focus. We are supporting him with funding, we are supporting with processes, systems, R&D and other capabilities and we believe this is the way to grow and we are looking at perhaps similar other initiatives in this space.

Suruchi Jain: Would you be comfortable sharing the name or at least a city where this is located and how manyé ?

Saugata Gupta: It is there in West Bengal and Northeast you will see it.

Suruchi Jain: How many locations does it have? Is it like a chain ofé ?

Saugata Gupta: No, it is not a salon chain, it is a company which sells skin care products to salon. So there is a brand which is a salon brand of skin care products.

Suruchi Jain: It is not white labeled. It is actually branded as Bellezimo?

Saugata Gupta: No-no, it is a brand, it is called Skyn Pro Natural.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: I just wanted to know how the Coconut Oil category in Bangladesh different from India per se because you are talking about the category maturing there, but given that all other demographics are more or less similar, so why is the category behaving so differently in Bangladesh than India?

Saugata Gupta: Two things; one is the level of competition in unorganized space and in terms of other branded players are weak. Because of that we rapidly gain scale both in terms of market share and share of branded to loose forms in India, maybe 60:40, in Bangladesh it was 80:20, in our case our CNO market share is 57, in Bangladesh we hit 82. So, extreme saturation. To give you a perspective, what we also did not do that time is that we developed a certain complacency in us and also in the international business in Bangladesh was a key driver when we had a three unit structure of India, Bangladesh and Kaya products Bangladesh become a cash cow for the rest of the struggling international business unit especially Middle East. So we should have played the India strategy of driving as a market leader. It was our responsibility to drive category growth and also category upgradation in the Value Added space and we should have done it. So we were perhaps two to three years late. We are now doing it. I think the other thing that we are investing in by integrating the Bangladesh operations at the marketing and sales level and leadership to India. We are getting far better economies of scale, resourcing and capability because we believe that sales and marketing and leadership capability was an issue in Bangladesh when we did the standalone business. So we are going to play catch up and get it back on track.

Sanjay Singh: In terms of acquisitions, you mentioned that you would now look at inorganic opportunities again. Is it more focused in India or is it more focused in your international geographies?

Saugata Gupta: I think we will look at both, but as I said we will be far more flexible in not looking necessarily at just 100% acquisitions but looking at something. There are two ways of looking at it ï one is also in international business when markets were in difficult conditions, valuations can be also better because you can always then have cyclical growth back again. So we would be looking at both. But, having done a lot of acquisitions and having tasted success in some and some struggling, I think we are far more knowledgeable and we will hopefully not make some mistakes and we will actually be a little more choosy now.

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

Sanjay Singh: In the óinformation updateô you mentioned that the capex for each of the years FY16, FY17 would be around Rs.100 crores to Rs.125 crores. Can you throw some more light on where you will be investing?

Vivek Karve: Every year typically the capital expenditure is towards capacity expansion or replacement. So, that is where the capital expenditure gets incurred. So we have given a direction number. In some years it could be lower than that.

Sanjay Singh: Will it be in the existing major categories like Parachute, Value Added Hair Oils or majorly in the new categories?

Vivek Karve: As Saugata briefed earlier, we are looking at 8-10% volume growth. To cater to this volume growth, whatever capacities are required, the capex would typically be focused towards building those capacities.

Sanjay Singh: If we assume that the copra prices stay stable, can we expect flattish price growth for Parachute Rigids, or there is a chance of further price cuts going forward?

Saugata Gupta: All depends, but as I said, because of the base effect in any case till Q3 next year which is of FY 16-17 there will be a deflationary effect.

Sanjay Singh: I understand sir, but will there be an active price cut from the company assuming copra prices stay where they are, they do not decline further. So in that case can we assume that there will be no further price cuts?

Saugata Gupta: I think it is difficult to say right now. We will wait and watch. We will try to ensure that we maximize volume growth and market share. It all depends on when the seasons arise. The season is usually March and therefore we will have better visibility in March-April about this.

Moderator: Thank you. The next question is from the line of Ashish Upganlawar from Elara Capital. Please go ahead.

Ashish Upganlawar: Sir, you touched upon the Value Added Hair Oils growth of 21%. But how do you call out sustainability, what run rate would be a good guess on this and what would be the reasons for that?

Saugata Gupta: I think it was as I said that some because of three things ï one, there was a little bit of seasonal shift, we did some new initiatives. This is a little higher, but I think over the medium term we are much more confident of 13-15% kind of volume growth and we continue as we have a broader participation strategy and also trying to gain market share. If you look at it, we are looking at both volume and value market share every year. So, as long as that plays out, that is a more right number is 21, obviously could be a one-off, a little bit on the higher side.

Ashish Upganlawar: On the acquisition, just wanted to understand what kind of ticket are we looking at here -- is it going to be something big or would be something which will be subsumed in the system and kind of we can help it grow based on our capability?

Saugata Gupta: It depends on the opportunity. It is very difficult to say. Having said that, we will look at the strategic opportunity, and the second thing which we have not looked at in the past is that we are doing the acquisitions, the management capability in delivering success on the acquisition. So based on that, if we believe in that market the management capability is still not there and operating at 70 to 80%, we might not do it. So it depends on the management capability as long as the strategic fit. Earlier, we were doing only on strategic fit of the acquisition. We are now employing the second criteria on the management capability. Of course, you can ask me that I think it is a logical question, if there is an acquisition and if the management is not capable, then you have something to think about.

Ashish Upganlawar: Given the way overseas currencies have been behaving, would it be fair to assume that India would be a better place to look for acquisition because currency volatility has not been justified in the past acquisitions for most of the companies?

Saugata Gupta: You are right that India is invest to grow market and the very fact that we have 75% of our businesses coming from here. So there are risks. But having said that if you really look at it, had we not done Vietnam or Egypt, we might not have got a foothold. So in certain markets you might need a foothold and it is better to do an acquisition when the currency is weak, where the economy is weak, if we see that that particular acquisition and this one has potential in terms of growth. But we will be certainly less adventurous and far more careful and selective. We have experienced or the other players in the sector have experienced.

Ashish Upganlawar: Given the way we acquired the Paras portfolio of the Youth brands, probably at that time the analysts would have thought that that is an expensive one and the numbers did not turn out to be kind of to justify the price that we would have paid. So can we assume that it will be more kind of conservative on the valuation that we would be paying? Is such an opportunity available in India given the fact that there is scarcity of good businesses on offer now in the space that you operate?

Saugata Gupta: I completely agree with you. If you look at Paras we acquired, that was the tail end of the economic boom in terms of urban growth, all the categories like growing at a certain rate. Now in hindsight, was it a good acquisition? Yes. The price rise the price was not right. But it is always in hindsight and perhaps you learn from it. Having said that we have now made 6-7 acquisitions and are still learning. So there are ups and downs. We would be looking at in that context. We are certainly not in a place that without an acquisition or any growth is suffering. So therefore unless if there are strategic fits and the valuation is right, we are not going to be desperate in terms of acquisition. Having said that, in the international market however, if it gives us a foothold in some of the markets which we are not there, hypothetically, West Africa, Indonesia, the brand is strong, I think one of the biggest learnings why hair code in Egypt and an X-Men in Vietnam has worked versus something which has not worked, is the brand equity has to be strong, the management has to be strong, I think if those factors play out and the valuation is reasonably good, we will still go ahead with it.

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

Kaustubh Pawaskar: Sir, in the initial comment you mentioned that you have started seeing a pick up in the modern trade. So can you just support it with some kind of numbers, what kind of growth you are seeing in modern trade and what it was earlier?

Saugata Gupta: We got 20% growth in modern trade this quarter. What we are saying is that a little marginal improvement in modern trade growth as compared to the rest of the urban GT growth.

Kaustubh Pawaskar: So going ahead, what kind of scenario you are seeing -- whether this kind of growth would sustain, you are seeing pickup in demand in the urban regions that would help you to achieve good growth in the coming quarters?

Saugata Gupta: I am not seeing immediate significant increase in urban areas. But having said that, I believe that definitely in 2016-17 towards the latter half as and when things like OROP is implemented, Sixth Pay Commission is implemented, something we see on the GST front, we believe that there will be some urban uptick. I think I believe that however, there is enough opportunity through innovation and if we can drive execution capability internally we can get that 8-10% growth which we are talking about. But a significant improvement if at all will be gradual.

Kaustubh Pawaskar: Second question is on the international business. MENA we have seen this quarter strong growth on the constant currency basis. So is this kind of growth sustainable in MENA region?

Saugata Gupta: If you look at it, we looked at the entire foundation of the MENA business, whether it is the go-to-market, we looked at the portfolio, we looked at our processes, we looked at the brand, and we have just restaged the brand Parachute master brand in Middle East. It is a very exciting package in terms of very international class products, efficacious product, very good packaging, great communication. I think we have got back the confidence of our partners and trade. So this is continuing. In Egypt, we had an issue on the go-to-market, we struggled with it, we have now got it right, we have a professional set of distributors, we have to have the next leg of growth. So, I believe that in Middle East, North Africa, the growth is sustainable. I think we have done fundamental work in the foundation of the business which was weak and I think from now on the next set of growth will also depend on the expansion we do in our portfolio and also realizing the full potential of the go-to-market which we have now deployed.

Kaustubh Pawaskar: About South Africa, for the last few quarters we have been seeing lull progress or muted performance from that particular region. So, is it something like that you are de-focusing on that particular region or there are serious economic problems out over there that we are not seeing pickup in demand in the South African region for your products?

Saugata Gupta: If you look at our South Africa growth, it is actually 8% on constant currency. It is BT, CPG growth in that country. So if you look at South Africa, the GDP growth is almost zero to flat, CPG growth is also flat, there has been a significant devaluation which has led to inflation and the South African rand has devaluated significantly. So our performance has not been that bad. Having said that, the South African business per se is a sub-scale business. So, unless we expand that franchise into the sub-Saharan Africa, we will not be able to get economies of scale in that business. I think that business also is management bandwidth.

Kaustubh Pawaskar: But then what is your thought process on expanding the business intoé ?

Saugata Gupta: We have started the process; we have started some organic business in Kenya and we are now moving into Tanzania and Uganda using the South African portfolio, also there is opportunity of perhaps taking some part of our global portfolio in that market, we are going about organically and maybe there could be inorganic opportunities also in sub-Saharan Africa. But we are going in a very careful sort of steady sort of manner and I think as I said there are learnings to be had from not only us but some of the other Indian companies that have gone into the African market, so you are putting that into consideration before expanding in Africa.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Rakshit Ranjan for closing comments. Over to you, sir.

Rakshit Ranjan: Thank you. On behalf of Ambit, I thank the senior management team of Marico and all the participants on the call. Mr. Vivek, would you like to make any closing comments?

Vivek Karve: I would like to close todayꞌs call by saying that the performance in Q3 has been very-very assuring for us. We look at the future with a renewed optimism and confidence. We sincerely believe that our continued focus on the five areas of transformation will definitely bear fruit. I take this opportunity to thank all of you for joining todayꞌs call. Wish you all a very good evening. Thank you and good bye.

Moderator: Thank you very much, members of the management and Mr. Ranjan. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.