# "Marico Quarterly Result Conference Call"

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

**Krishnan Sambamoorthy:** Thanks Stanford. On behalf of Motilal Oswal Securities, I welcome you all to the Q4 FY2017 conference call of Marico. We have with us Mr. Saugata Gupta, MD and CEO; and Mr. Vivek Karve, CFO. Over to the management for initial comments, which will be followed by the Q&A.

**Saugata Gupta:** Hi everybody and welcome and thank you for attending the call. I will just give you a small flavour of how the quarter was and what is our outlook in the coming few quarters in the medium-term outlook. So just to summarize, I think we had a satisfactory performance in the last quarter. We had good growth from all of our markets other than MENA. Just to give perspective, MENA contributes right now to 3.1% of our total overall business and 15% of our international business. If you take MENA out, even then the overall international business constant currency growth has been 5%. So let me first talk about the India business which delivered a good volume growth of 10%, a combination of refilling of wholesale and rural pipeline post the demonetization. Competitive pricing in Parachute in the last quarter because we had pre-built copra stock, so we were comfortable in terms of margins. This led to a much higher uptake and market share gain which explains the Parachute growth. We now taken around 8% to 9% in Parachute in March and we will evaluate perhaps another potential price increase based on market conditions and raw material situation over the next three months. We believe that the near- and medium-term volume outlook in terms of growth aspiration of 5% to 7% is very much achievable. Value-added hair oils bounced back with remonetization in the key markets of East and North, which got impacted more in November and December. We continued our journey of consolidating market leadership by gaining 100 basis points in value share and 150 basis points in volume share in the past 12 months. We expect to maintain the momentum supported by significant new initiative this year. To neutralize the impact of input cost increases, we have commenced the process of taking selective price increases in the value-added portfolio in the month of May. Saffola did fairly well and with the new launch of super premium oil, we expected the brand to deliver double-digit growth this year. Foods remain flat and again it got more impacted in the second half being discretionary and we have to however drive category growth through innovation this year.

The annualized growth in the youth business has been 5%. We had a good first-half which was 20% growth but the business being discretionary in nature got impacted in H2 with a decline in 10% in addition to that of course there was a high deo base in Q4 because of re-launch. However, we delivered this 5% full year growth will significant rationalization of A&P spends primarily in deo. We are confident of delivering around 15% growth in youth business this year. Our aspiration for the India business is to deliver our 8% to 10% volume growth which will translate definitely into a 15% plus stop line however, there will be an operating margin shrinkage owing to higher input cost and higher A&P; because of the uncertainty post demonetisation, we had pushed the new product launches and some core brand restaging initiatives to Q1 and Q2 of this year which has resulted in a one-time lower A&P spend in Q4. However we continued to spend behind the core in Q4 the cost wherein foods, deo, and body lotion. The annual A&P for 2016-2017 was around 11.1% and it is expected to move up marginally next year. There will be a power packed innovation calendar in terms of driving premiumization of hair nourishment core, more investments behind bottom of pyramid and driving the categories of top-end edible oil, male grooming, and foods this year and we are confident of improving our execution of new product initiatives this year. Having said that there could be some near-term uncertainties as we navigate the GST transition in the first half, the wholesale channel and some parts of the trade continues to be affected as they struggle with compliance on cash sale and the impending GST which will force a newer business model. There could be some temporary pipeline reduction in retail during the switchover but all this will not impact consumption unlike perhaps in demon, there was some consumption hit for discretionary items. In the second half of the year, we are expecting a more favorable business environment in a post GST era especially with our profile of portfolio supported by continued economic growth low food inflation and a decent monsoon though there could be some hiccups in the first part.

I will now cover the international business. We expect the growth momentum to continue in Bangladesh and South East Asia. Our efforts in portfolio diversification and GTM transformation will continue to pay rich dividends in Bangladesh while in the Middle East the worst is over, we can expect modest growth. The Egypt business is expected to recover only in H2 post anniversarization of the currency devaluation. So in H1 there could be constant currency growth but in INR terms the growth will only perhaps happen in H2. We are aspiring for a double-digit constant currency growth international business with margins between 16% and 17%. As regards expansion, we have revaluated the Africa strategy and we have decided to go slow in any new countries other than South Africa and Kenya, Tanzania we have just started a journey. One aspect to consider for the international business is the currency depreciation vis-a-vis INR in some of the markets. Fortunately for us, our international business contribution is only around 20% to 23% and some of the volatile markets like MENA and Egypt and Africa are much smaller in our portfolio for Marico. I would like to cover one more thrust area for our growth, which is IT and digital. We will continue to make significant investments behind e-commerce, digital marketing analytics besides harvesting a revamped IT system and sales, we now have dedicated e-commerce team which is driving growth in some of categories and the early results are extremely promising. To conclude, we will focus on high volume growth and market share gain this year. We will also get some price-led inflation tailwinds, which will improve realization. We have a very powerful innovation program and we are confident that will improve our execution track record. A combination of higher input cost and A&P coupled with currency depreciation in international markets will reduce our overall operating margins but will maintain our threshold 17% to 18% for the overall business. So with this I would welcome questions.

**Moderator**: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy**: Sir congrats on good set of numbers. My first question is on the foods portfolio FY2017, your growth has been quite low, it is flat and FY2016 was a very good year so you had said FY2018 it will double. So now what is the time period for doubling and in initial comments you said you cut back on new product launches in the foods portfolio. So my question is why do you cut back because we are seeing urban growth rates improving for a lot of category so why did you cut back on this and multigrain flakes launch, you had tried mostly earlier, so is in this is there a right to win because there are already entrenched players in this. So do you need a new category, so essentially for doubling sales, for getting back good growth rates, would you need altogether new category in this?

**Saugata Gupta:** Okay Abneesh I think there are four questions but I would take the broad theme, so let me first address the foods I think as far as foods is concerned we believe we want to play in in-between meals healthy snacking. If you really look at the oats or the savory oats business again if you look at H1 and H2, we have a different picture. We grew in H1. Now in H2 what happened I think is a lot of discretionary categories in the urban had slowed down because of demonetisation. Also what happened I think, innovation rate if you look at category growth as well as in flat so we have not really lost share, I mean we started the year with 71%, we are at 68%. So essentially what has happened is that the category has been flat, so I think it is important as market leaders and other participants is to expand and grow the category and yes we are open to looking at adjacencies obviously the food number of doubling will not happen this year, it will take two years perhaps to get to that number and during this year, we can look at adjacencies. Now coming to multigrain flakes, I think in muesli it is not that we did not do well, I think again the question is of growing the category as you know the primary breakfast cereal in this country is still corn flakes and chocos both are not essentially the most supreme in health. Corn flakes is not suitable because of the fact that it has got a higher glycemic index, here is the hybrid kind of a category which is multigrain flakes which is a hybrid between the muesli and corn flakes. We expect to grow the category. This is not a category where we are going to highly invest behind. We believe that today with e-commerce and modern trade and just visibility spends at present, you can actually have an alternate business model in foods, which we are trying that. It is not going to be a high investment. So I think overall that is what we intend to do in foods perhaps we are in terms of our aspiration we are a year behind but I think we should be able to catch up.

**Abneesh Roy**: But Sir one follow-up here when I see masala oats, you started that category essentially but now I see all other players also copying it and prices might be similar or even low than your pricing. So in that case for this part of the business what is the way forward because these are much larger players in the overall oats category versus you and now there are being much more aggressive in the masala oats part of the business?

**Saugata Gupta:** So let me first just remind you that we were not the first one to do masala oats, I think Quaker came before with the masala oats. We were the fast follower but we got the product right.

**Abneesh Roy**: I was referring to the sachet form, sachet form essentially...

**Saugata Gupta:** Sachet format only I am talking about. Even in sachet if you go back to history, we were the fast follower but we got the product right. We were actually five or six months… we are the number two player in terms of entry. It is a different matter we got in and expanded the category. So I think what happened as I said is that I do not think in these kind of categories where the market size is around Rs.150-200 Crores. Even if there are three, four players, it is the question of how do you grow the category. That is why I said that we have not lost market share. We started the year with 71, we are exiting with 68 or 69. So I do not think we lost market. We have to innovate and drive category relevant. Even now, the product format have not penetrated beyond the certain influence in terms of it has moved from perhaps healthy individual eating, it has not driven family consumption. Definitely it has not entered the kid's repertoire, so there is a journey to be had. It is the easiest thing to jump from one category to another category and say that okay let us leave this and jump to another category. We will have to stay invested and grow the category as market leaders and I think in these kind of categories where category expansion and relevance is happening I think three players spending is much better than one player driving the category.

**Abneesh Roy**: Sir my second question is on Saffola your modern trade has grown quite stronger at 17% but Saffola is at only 6% so if you could help us understand in modern trade now how is the business mix, so what really drives modern trade now and second is Sir 6% volume growth in Saffola for two quarters and it also had that quarter in which demon impact help modern trade big time, so that would have helped Saffola. So here what is the issue because Saffola would have been double-digit volume growth in most quarters but we are seeing 6% for the second half so do you think the new launch in the premium that will help or there are competitive issues here which will limit the growth to may be high single only from a longer-term perspective?

**Saugata Gupta:** No I think I do not see any reason why Saffola cannot grow at 10% next year especially with Aura present in the super premium segment as far as the this Saffola is concerned, the impact has been marginally GTI and CSD and CSD as you know this quarter has been negative and that is because they again have been reducing their stock holding, every year they have been gradually reducing their stock holding. Modern trade just because consumers shifted from GT to modern trade does not mean that non-Saffola consumers started buying Saffola in Q3 because of demonetisation that was people who were consuming existing product in maybe general trade shopping in modern trade for some time when there was a cash crunch, so that is not likely to impact, so I think 6% to 7% volume growth for a product category, which is reasonably discretionary in premium compared to lot of categories has been fairly good, I do not think we should be extremely unhappy about the 6% to 7% growth. Having said that I think with Aura coming in and we will see some more action in the very super premium and of Saffola this year, we are pretty confident of delivering a 10% growth. I think the overall full year growth has been 8%, so it has been fairly okay, I think if you look at all product categories in foods, a brand going at 8% volume growth over the year is not a bad performance.

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

**Karthik Chellappa:** Thank you for the opportunity Sir and congrats on a great set of numbers, firstly the information update says the rural growth has been close to 4%, but if I look at our coconut oil and VAHO, the value growth is about 9% to 11%, so can you give us some sense of how these two categories did in the rural versus urban?

**Saugata Gupta:** So I do not want to get into category wise breakdown, but I said that we continued to face some headwinds especially in the North and East in rural even in January and to an extent until mid February on the demonetisation part, so rural sales for us suffered while urban fully recovered.

**Karthik Chellappa:** So it is fair enough to say that this 9% to 11% growth for coconut and VAHO is predominantly urban driven, rural would have underperformed these growth.

**Saugata Gupta:** Yes, that is a fair assessment.

**Karthik Chellappa:** Okay and secondly would you be able to share the turnover or revenue size of Parachute Jasmine and Hair & Care at this point?

**Saugata Gupta:** No.

**Karthik Chellappa:** Okay fair and Sir lastly on our Parachute market share if we look at our market share this year it is about 58, last year it was around 59, the year before around 57, so it has been hovering around this range, apart from rural recovery and general inflationary trends, which actually benefits you what are the things need to happen for our market share to breach that 60% and maybe move onto like the next level?

**Saugata Gupta:** Yes, okay, so there are two things, one is absolute led inflation, in this year actually we significantly lost market share in Q2 when as you know we had a 6% volume decline, we have started again gaining market share in Q4, I think there are certain markets where our market share is slightly low like Tamil Nadu and then in certain places in Maharashtra, so there are – I think we have to start gaining and we are clear that the next step of journey is going to gain this market share in some of these markets, empirically speaking if you look at data in the past six, seven years we usually gain around 150 to 200 basis points in inflation year and decline anything between 50 to 75 basis point in deflation year and that is the why the net gain happens in the last couple of years, we gained net of – because if you see inflation cycle comes and they follow 18 months kind of a cycle inflation, deflation.

**Karthik Chellappa:** Perfect and just one follow-up, your volume guidance of 5% to 7%, what….

**Vivek Karve:** Just one more point we wanted to add here is if you look at our near-term market share in Q4 they are around 6.

**Karthik Chellappa:** Okay, for volume guidance of 5% to 7%, what additional price hikes are you building in roughly for the rest of the year?

**Saugata Gupta:** We have not yet taken that call we will see how the market situation and copra this month pans out we will take a view, I think once in the next three to four months we will take a view.

**Karthik Chellappa:** Perfect. Thank you very much Sir and wish you all the best.

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

**Amit Sinha:** Hi Sir. Thanks for the opportunity. Sir in the Saffola edible oil segment the value growth have been lesser this quarter compared to the volume growth for the first time in the last four quarters if I remember correctly, so was it because of higher offers in the segment or was it because of any pricing issue there?

**Saugata Gupta:** No, I think it is a slightly mix issue perhaps maybe we grew a little marginally more in Active, also the mix of modern trade and GT little bit, I think it is just primarily a mix issue, but that is a marginal one.

**Amit Sinha:** Okay and the mix is expected t come back to the normal level?

**Saugata Gupta:** Yes.

**Amit Sinha:** And secondly what will be the pricing strategy here in the edible oil category?

**Saugata Gupta:** I do not think it is pretty stable, I think if there is a marginal input cost increase we might take a marginal cost, but I think more or less the situation is in terms of the input cost is pretty stable to slightly marginally, there will be some there and so I do not see any major pricing action, there could be a minor pricing action.

**Amit Sinha:** But there is no scenario of price cut here because there was a media article sometime back wherein it was talking about price cuts in some of the edible oil brands?

**Saugata Gupta:** I have not seen any price cut so far.

**Amit Sinha:** Sure okay, secondly Sir in your international business one of the reason which you mentioned in the update for lower operating margin in that segment was the full year charge of the intra-group services, which was charged, the entire year charge was charged during the quarter, so it is a normal practice, do you do every fourth quarter you charge it?

**Vivek Karve:** Yes typically that is how we do it.

**Amit Sinha:** And would you quantify this number?

**Vivek Karve:** No we would not like to exactly tell you how much it is, but yes we normally do it in Q4.

**Amit Sinha:** Sure Sir and the last question from my side would be is your entire wholesale distribution completely back to normal?

**Saugata Gupta:** No, I will tell you what happened, again it depends on state to state, we got back normalcy in March, again it is a little bit, I think we are experiencing some turbulence in certain markets, it is also got to do with things like the new cash transaction limit and obviously people trying to prepare for impending GST, trying to change business model, so I would say that it continues to be a little disturbed while it had perhaps stabilized up to March. There are certain states, which continue to be disturbed and we believe that it will continue to remain disturbed till the GST transition happens. However, having said that I think overall there would be a change in which the structure of the business especially the wholesale channel has to change. Fortunately for us our wholesale contribution is relatively smaller compared to the overall industry, but I think there will be a long-term change in structure in terms of the way to do business because once they have to do in terms of guiding compliance and the way of doing business.

**Amit Sinha:** Sure, okay one related question, at this point of time what is your distributor pipeline in terms of number of days and how would you approach it going into GST implementation?

**Saugata Gupta:** I think we continue to have 11 to 12 days of stock and it never changed whether it was demonetisation, remonetisation or anything. As far as GST is concerned I think GST firstly there will be a trade pipelining on this one and obviously we have to look at as the time comes in the treatment of the stocks and I think we have already started conversing with our partners in terms of how we do we help in that transition, but as of now our distributor stock currently continues to be at around 12 days.

**Amit Sinha:** Okay Sir and that is it from my side. Thank you.

**Moderator:** Thank you. We take the next question from the line of Sameer Gupta from IIFL. Please go ahead.

**Sameer Gupta:** Hi. Good evening Sir. First of all congrats on a good set of numbers. Sir my first question is on the price hikes in Parachute that you envisaged in this year considering that the copra price has remained where they are, I know you mentioned that you will analyze it in the next few months, but more or less if the copra price has remained where they are, what kind of price hike do you see in Parachute to offset that?

**Saugata Gupta:** So it is difficult to, because we have to look at not from a point-to-point copra prices, but what is our terms and what is the consumption hit we have because as you know we carry strategic positions, then we take that strategic position, so I would think as things stand now we may have to take one more price increase, it is difficult to quantify that.

**Sameer Gupta:** Okay Sir, so considering that last year was a deflation year and this year, you will take price hike so will 20% be a fair assumption?

**Saugata Gupta:** Very difficult to say as I said, I think we will be able to give a better picture sometime in August.

**Sameer Gupta:** Fair Sir and how do you look at gross margins this year, would you see gross margins contract because even if you take price hike this will usually lag the cost inflation, so are we looking at gross margin contraction this year?

**Saugata Gupta:** Yes, you are absolutely right, I think the philosophy always have been that we drive volume growth and market share gain over gross margin subject to a special level of margin, as you know we operate within a band of gross margin and that is because as we have a Parachute pricing model, which we operate in which we believe that the elasticity of the brand changes significantly below the E points on both ends, so what we do is there would be some gross margin contraction and that we are willing to live with it, as long as we continue to deliever the volume growth.

**Sameer Gupta:** Sir my final question is related to this, so in a year where we are seeing gross margin contraction and ad spends already at 11.7% and considering this is a IndAS number, this is actually a little on the higher side if we look at your last five years of ad spends as a percentage of sales, now in a year where we are seeing gross margin contraction, why would you still want to increase your ad spend level and not protect margins?

**Saugata Gupta:** Let me just tell you we are here for the long term, we are not to manage the short-term margins for the year, just to clarify the number for A&P is 11.1%, and not be 11.6%. There could be a marginal increase in A&P, ultimately the way that we look at it is that we want to invest behind growth and if you look at it, it is not about one-year margin neither we are at looking at a short-term mandate to just improving margin, our mandate for the leadership is to continuously drive sustainable profitable growth subject to a threshold level of margin. So if we believe that we have a power packed innovation program, in fact it is a smarter thing to invest behind on the back of GST especially where it gives advantage to organize plus we invest behind growth as opposed to trying to cut back on A&P and show short-term profits and that is something which we believe is not the right thing to do in emerging markets.

**Moderator:** We will move to the next question. We take the question from the line of Amit Sachdeva from HSBC. Please go ahead.

**Amit Sachdeva:** Hi. Good evening and thank you for taking my question. Saugata you mentioned about power packed innovation and the innovation program for this year, can you please slightly elaborate more on that that what could be the direction and strategy around it and which sort of size of categories and subcategory we are looking at and what is the five-year picture that emerges out of it, can you give us a little bit of strategic landscape around it for us?

**Saugata Gupta:** Let me give you a very I think macro flavour rather than going into too much granularity, so I think there are three areas where we are going to invest behind the innovation, so one is premiumisation of the core, second is driving bottom of pyramid and the third is actually actively growing the new categories which is the completely high-end super premium edible oil, male grooming, and the thirdly foods**,** so you will see most of the action in these three areas, these will be our drivers of growth over the next few years. I think we as I kept on saying during the last couple of calls that we need to improve our innovation track record, we have improved to some extent in the last one or two years, but it still is a longer journey to be done, it cannot be done without as I said the GTM transformation, which we are doing in adding chemist,/cosmetic outlet, rural, it has to go in tandem with our improvement in our execution excellence, focusing our investment behind that. So I believe that irrespective of whether there is inflation or deflation, we will stay invested behind these three, four broad themes over the next two to three years.

**Amit Sachdeva**: So, when is your premiumization of the core, I assume that direction would be more personal care dimension of something which is right now not so much.

**Saugata Gupta**: Yes, when I meant core it is the hair nourishment core, which is right.

**Amit Sachdeva**: Nourishment core, okay, got it and if I may just quickly talk about your thoughts on the upcoming GST and you could also remind us what is the overall taxation you are paying and what are your expectations are and how you are placed around the whole GST thing which is coming up?

**Saugata Gupta**: I think let the rate come out, we will talk about it, all I can say that obviously we have done our scenario evaluation and we have plans for all scenarios, so let us not get into that surveys**.** We strongly believe that once the GST transition settles down, we will be in a far advantageous position. I think that the two things we are better versus a lot of competition is that we have far more direct distribution and we have far more organized distribution and so I think we will be in a far more advantageous position. So, let us wait for the rates to come, as I said that there are different scenarios and we have actual plans for each of these scenarios.

**Amit Sachdeva**: Okay great, all the best. Thank you so much, that is very helpful.

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

**Arnab Mitra**: Congrats on a great set of numbers, on the VAHO portfolio I am seeing that basically our Amla shares are now starting to kind of plateau out at around 40%, so given than the category itself may not be growing very fast from here on to maintain this double-digit growth in VAHO would you necessarily require the ayurvedic oil and the mustard and the other segments to also start accelerating and what is the kind of traction you are seeing there on the ground?

**Saugata Gupta**: I think we have to grow, I think we have a broad-based growth. Having said that, I think it is not that the other parts of the category did not grow, so you will see some action on the premiumisation part of the segment, as far in Amla is concerned, which did grew this year. It is not that we did not grow, our market share did grow. We are now around 40, which is the exit versus I think we entered at 36, 37, so we did grow and we believe that we should be able to grow 2% to 3% every year and I think even in Amla now we have to focus on the large packs for driving growth because our market share in the large packs and especially in one or two markets like UP and Bihar where we are relatively less underpenetrated is where the gap is currently.

**Arnab Mitra**: On Amla, given that you have now gained a lot of share, is there any thoughts around playing the pricing lever at all or you think there is still room for market share gain to continue and therefore you would like to maintain the differential in pricing?

**Saugata Gupta**: I think just articulating our strategy will be presided , so I think let leave it as at that right now.

**Arnab Mitra**: On VAHO in general given the inflation in the LLP and some packaging what kind of pricing would you require in the VAHO side to hold your margins there?

**Saugata Gupta**: 8%, so we are taking as I said selective pricing we are not SKUs but we will take a blended portfolio approach so that 8 will suffice for the year as of now.

**Arnab Mitra**: Right, so I am just trying to understand because your guidance for the full year volume and value growth I think the pricing that you are assuming is about 4% to 5% that looks very low considering that there is a Parachute price hike plus VAHO is also seeing a price increase plus Bangladesh also, so is it really on the cautious side that 4% to 5% pricing component in your topline?

**Saugata Gupta**: If you look at what we have I said in my narrative is we have said 8% to 10% volume growth and 15% topline.

**Arnab Mitra**: Sure, and just one last question on the Guwahati facility

**Saugata Gupta**: Part of the business might not have that much price increases also, so it is around you can expect 7% to 8% overall inflation definitely.

**Arnab Mitra**: Sure and just one question on the Assam, the Guwahati facility, so besides the income tax rate is there any benefit on the excise duty for any of your products there?

**Vivek Karve**: It is a unit where we get excise duty refund and so unlike in case of the Himachal factories where you get exemption in case of NER, it is excise duty refund.

**Arnab Mitra**: No, what I was asking was is it incrementally going to lower your excise outgo from next year or this is a kind of replacing what you already had earlier may be in some other facility.

**Vivek Karve**: Yes, some of it is an expansion so it actually caters to additional demand, so to that extent the existing units in Uttaranchal and Himachal are continuing to enjoy those excise exemption till 2020 that can continue and Guwahati unit will give us the benefit in terms of the additional demand that the market needs to be catered with.

**Arnab Mitra**: Thanks, that is it from my side.

**Moderator**: Thank you. We take the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

**Kunal Vora**: Congrats for good numbers sir. Two questions, first is like the Saffola Aura launch, how has been the initial response and how big do you think the super premium edible oil category can become in the next two to three years?

**Saugata Gupta**: I think it is too early to talk about how or whether it is a success or not, the way we look at it I think the olive market is around 800 crores and it is growing at a certain pace, right now it is relatively commoditised so just the way we, therefore we did not come with the plain vanilla olive, we came with a blend, which we believe it is superior to plain vanilla olive in terms of what it does and if you look at the way we played the edible oil game earlier with Saffola where we believe in the power of the brand and some kind of ATL driven as opposed to just promotion driven where it becomes the brand power, becomes low and it becomes innovatives, it is mostly in the hands of BPL and we will play different game in this category and we will participate in the growth and I think this is one area where it was a leaky bucket as far as Saffola is concerned, we had a huge overlap of Saffola consumers were also consuming olive, so I believe this way it will arrest that kind of a decline and we will ensure that we will retain those set of consumers.

**Kunal Vora**: Second one is you mentioned that you setup a dedicated e-commerce team and have got good response, can you share some of the initiatives which are the products you are marketing through this e-commerce channel and what is the potential you see in this e-commerce channel?

**Saugata Gupta**: I think we believe that for certain categories like male grooming, premium hair care like hair fall, e-commerce could be a significant contributor and also it is a very interesting channels who do some test marketing, rapid prototyping, some cross pollination of international products, so we have just started the process, the very fact that we have dedicated unit we see that we will be able to double sale this year, but having said that I think over the long term we believe in certain categories like hair fall some of the premium foods like, we have already started prototyping, virgin coconut oil with one partner, I mean our association investment in a thing like a Beardo will also help in learning digital marketing, so I believe that for at least male grooming and premium hair care and premium foods, this will be a significant channel and when I mean significant it can contribute to at least definitely 10% of our sales of those category 10% plus.

**Kunal Vora**: Would there be any meaningful investment behind this, would it be sizable?

**Saugata Gupta**: No, it is like any other channel, you invest in modern trade, you invest in e-commerce. In any case, I think our digital marketing investments are hovering around 10% plus.

**Kunal Vora**: I understood. That is it from my side. Thank you sir.

**Moderator**: Thank you. We take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah**: Sir, thanks for the opportunity. Sir, just wanted to know in any of the overseas geographies we operate in, has GST been implemented there, after we started operation there?

**Saugata Gupta**: No.

**Tejas Shah**: So this will be first GST that you will be handling?

**Saugata Gupta**: In Malaysia, we are hardly present, it has GST. We are too insignificant.

**Tejas Shah**: So how was the experience there? How much time does it take to…?

**Saugata Gupta**: We do not have such an export model, we do not even know.

**Tejas Shah**: Sure, sir second in wake volatility I had lined up for H1 FY18, would you revisit your margin guidance just in case revenue growth does not come through and broadly what I am asking is would you extend the strategy of 4Q of going slow in A&P spend to H1 FY 2018 as well, just in case if volatility continues?

**Saugata Gupta**: We are not really because it does not matter one quarter here and there, ultimately what we believe is that the long-term India story is very much intact if the economic growth continues to be at a good rate in terms of low food inflation and the fact that the GST advantage, so just because there is an one-quarter problem I do not think and as I said there is a difference in a demonetisation time because of cash issues the consumption especially of discretionary and impulse got impacted, because of GST the consumption will not get impacted, it is more of a pipeline issue, so therefore I do not think it is judicious enough to actually not to spend. In fact I would think in anticipation of the fact that we will get a far more level playing field for organized players like us and the fact that our wholesale contribution compared to some of our competitors are lower, actually we should continue to invest and get that advantage.

**Tejas Shah**: Sure. What would be our wholesale exposure?

**Saugata Gupta**: It is less than 35%.

**Tejas Shah**: So lastly when we entered FY17 you said that the whole focus in Bangladesh would be to expand non-coconut hair oil portfolio, so just wanted to know if there is an update to share how you have…?

**Saugata Gupta**: Yes, we have moved to 23 and we expect to move to 30 in the next two years.

**Tejas Shah**: This is beyond the hair oil portfolio as well?

**Saugata Gupta**: No, this is a non-Parachute portfolio. So non-Parachute coconut oil portfolio was 10 two years ago, and it is now 23 exit, it should be going to 30 over the next two years.

**Tejas Shah**: What about non-hair oil portfolio?

**Saugata Gupta**: I do not think let us not dig so much of a slice, so I think it is better to look at a Parachute coconut oil as a core there and then take everything else as a diversification, that is how we measure the metric.

**Teas Shah**: Sir, lastly in your investor update you mentioned that CST and institution sales declined 13 and 3% any special reason why institution I believe you mentioned?

**Saugata Gupta**: It is destocking, as I said I think CST has been doing an overall destocking every year, so it is a destocking I mentioned.

**Teas Shah**: Okay, that is it from my side and all the best.

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

**Amit Sinha**: Sir, just one follow up on the VAHO portfolio, you have mentioned earlier that the focus on the lower unit packs will go up going forward, so I just wanted to understand what is the contribution as of now and how do you see this going forward?

**Saugata Gupta**: I think it just started, we are prototyping in two or three markets, we will continue to stay invested behind this and I think we believe that currently if you look at our rural contribution it is still 32. There are enough opportunities of growth both in that and I think we expect this to become significant. Having said that we do not want to have too much dependence on sachet, the reason is if we look at value-added hair oil, our focus will be much more to drive a 10 rupee price point or rigid packs as opposed to sachet because sachet dependency beyond a point leads to volatility on margins and sometimes reduction of realization, so we will try to grow some of the value packs, but I would say that our focus will be on driving a 5 rupee, 10 rupee price point is opposed to a 1 rupee.

**Amit Sinha**: As of now the contribution would be less than 5% from…

**Saugata Gupta**: Yes, it is.

**Amit Sinha**: Okay, thanks a lot.

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

**Vivek Maheshwari**: Good evening, first question is you have 10% volume growth in India, would you have the details on secondary sales, how much it would be?

**Saugata Gupta**: We have got margin sales, the primary secondary for the full year is similar, as I said the distributor closing stock was well did in March 2016 and it still continues to be 12 days a month 2017, so there is no change.

**Vivek Maheshwari:** I see, but for the quarter would you have by any chance this number.

**Saugata Gupta:** What I can share with you may be very marginally parachute would be slightly lower that is about it, no other change and that was because in Q2 when we had a minor 6% Parachute decline, the secondary decline was not that much. Just to clarify as you know we are on auto replenishment model so we do not play around with primary or secondary. Our distributors are based on auto replenishment the primaries happen.

**Vivek Maheshwari:** Sure. Second on margins on two things one if it is possible for you for near-term as in FY2018 what is the kind of margin correction we can see. Are we talking about something like 100 basis points for FY18?

**Saugata Gupta:** No it could be more, but as I said our threshold level will continue to be an overall threshold level of 17 to 18.

**Vivek Maheshwari:** But you are let us say 19.5 for FY17.

**Saugata Gupta:** Let us take it at 17 to 18 any point. It is very difficult to start of the year to give a kind of a margin exact number, but we are committed that now we want to maintain it, our medium term has always been to 17 to 18 kind of a thing. We should be able to deliver that.

**Vivek Maheshwari:** Sure. On medium term that was my second question, but specifically for FY2018, so you are saying it can be over a percent or so kind of because inflation is higher obviously you spoke about 7% kind of price hike possible. That means that the margin cut could be over 100 basis points because you are going to also increase A&P. Is that a correct understanding?

**Saugata Gupta:** Maybe. As I said that our main objective is to deliver 8% to 10% growth and ensure that our new products, which we are doing are properly funded and as long as the operating margin is between 17 and 18 that is a resultant number, we are fine.

**Vivek Maheshwari:** Because 17 to 18 is a medium-term guidance right, which I presume will be over two, three years.

**Saugata Gupta:** It is a fair guidance for this year also 17 to 18, so it is very difficult and as I said our objective is actually to drive that 8% to 10% volume growth ensuring that our NPD is fine and in NPD the corrected it will be actually not judicious just to cut A&P just because to manage a quarter or a first half margin or if there some destocking issues in GST, which are short-term turbulence, which are not consumption-led issues. The only reason you could cut margins if there is a macro environmental issues, which are economy or which are headwinds in terms of consumption. We do not see any headwinds in terms of consumption. These are short-term issues with respect to inflation and therefore as I said that our endeavor is to ensure that we maximize volume growth and market share and as long as we deliver that 17 to 18, it is very difficult to say that it will be 17.1 or 17.9, we will ensure that we stay committed to the 17 to 18 target.

**Vivek Maheshwari:** And second bit on the launches basically first half given that everybody including you have spoken about GST and perhaps disruption around this time. Do you think it makes sense to move the launch calendar to second half rather than first half?

**Saugata Gupta:** No it does not matter because I think a lot of our launches are on premiumization which will be sold in modern trade and general retail so they are unlikely to be impacted. The issue today is happening is mostly on wholesale and stocking. So if I had a completely rural portfolio it is understandable, but the significant part of it is slightly more general trade, retail, and modern trade, I do not see that issue and as I said that I think it makes sense because I do not see any risk of consumption because of GST.

**Vivek Maheshwari:** And one small bit for vivek, the depreciation number that we have for Q4 does that fully capture Assam impact or there will be a further increase in depreciation as we head into Q1 and thereafter.

**Vivek Karve:** No.

**Vivek Maheshwari:** You have INR 27 Crores deprecation for this quarter is that what will be the run rate going ahead or Assam is partially only captured over here.

**Vivek Karve:** It could be slightly higher because there could have been new capitalization during the year whose impact would not have been felt fully in the current year, but in the coming year, which is FY18, a fuller that impact will be felt. At the same time, there could be some assets that would have got fully depreciated last year, but we do not expect a significant improvement let me put it that way.

**Vivek Maheshwari:** Assam will be how much on gross block?

**Vivek Karve:** Sorry.

**Vivek Maheshwari:** Assam capitalization would be how much?

**Vivek Karve:** I would not like to be very specific here, but what I can only say is if you look at our historical performance also about 1 billion to 1.2 billion has been our capital expenditure in the year.

**Vivek Maheshwari:** Got it. Thank you and wish you all the best.

**Moderator:** Thank you. We take the next question from the line of Sameer Gupta from India Infoline. Please go ahead.

**Sameer Gupta:** Sorry Sir my line got disconnected at the previous question I asked. Sir I was more interested in understanding this movement in ad spends. You are saying that you might see an increase, so what is actually driving this increase because in every year that I see the last five, six years wherever my gross margin is contracted my ads spends as a percentage of sales have also come down. So why this year, we will see an increase and what is driving this increase.

**Saugata Gupta:** I think more aggressive investment behind new initiatives.

**Sameer Gupta:** That is fair. Thanks Sir.

**Moderator:** Thank you. We take the next question from the line of Aditya Joshi from Antique Stock Broking. Please go ahead.

**Aditya Joshi:** Good evening Sir. Sir I just wanted to know about the recent acquisition that we made with regard to Beardo.

**Saugata Gupta:** I think it is a small initiative it is more on, if you want to learn digital marketing, male grooming is a very exciting category. The entrepreneur is running the business. It is more of a learning and we will like that integrate it in the next couple of years and it is more of a learning and as I said our participation in that category.

**Aditya Joshi:** Sir what will be the investment for this same for the acquisition of stake.

**Vivek Karve:** We have taken a 35% equity stake. In regards to values are concerned, once we publish our annual report, we will get to see.

**Saugata Gupta:** It is very, very insignificant.

**Aditya Joshi:** Thanks a lot.

**Moderator:** Thank you. We take the next question from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

**Rahul Maheshwari:** Good evening Sir. Congrats for the great set of number. I have two questions.

**Moderator:** This is the operator. Mr. Maheshwari there seems to be static noise coming from your line.

**Rahul Maheshwari:** Is it fine?

**Moderator:** Yes thank you.

**Rahul Maheshwari:** I have two questions. First of all in your presentation you have made currently the Amla category, which you are into, you have a volume market share of 40% and by FY2018, which is the next year you are targeting to become the leader surpassing Dabur, so what is the strategy over there that you would actually surpassing the market leader in terms of the pricing or in terms of the SKU strategy and second question is in terms of the olive oil, the premium, which you have launched Saffola Aura, so it is actually already the competitor Modi Naturals is already into the market, which is much significantly lower as compared to the price levels, which are there, so how would you combat that?

**Saugata Gupta:** I think as far as Amla is concerned as I said that we have been gaining share and we have been following our strategy so I do not see any difference in what strategy we are going to follow. As far as the Aura is concerned, if you look olive, I think olive there are three versions. The market operates caters across three sub categories, there is pomace, there is refined, and there is virgin to extra virgin. We are not in pomace, pomace is actually not olive. It is a pretender to olive category where some of the brands sell in that category. People who are conscious about and who are aware about the category they select refined or virgin. Refined can be used for sauteing and light frying while the virgin or the extra virgin is used more as a dressing and therefore I think people look at flavours. The connoisseur of the category look at and we want them intend to play in that segment. Similarly in edible oils, base edible oil, or the premium edible oil there are two kinds of business models. One is on pricing and volume. The other is ATL driven and Saffola continues to remain invested behind brand building, so similarly we will play in olive oil. As I said it is a growing category. There is enough space for everybody to grow.

**Rahul Maheshwari:** Currently what is the market size of olive market because there are very a few players and what growth rate at which it is growing.

**Saugata Gupta:** It is a 800 crores and it has grown at around 25% in the last three years.

**Rahul Maheshwari:** How big is the market size for olive oil?

**Saugata Gupta:** It is 800 Crores.

**Rahul Maheshwari:** 800 Crores and especially which are the geographic regions where the olive oil market is specifically more consumed as compared to the normal edible.

**Saugata Gupta:** It is a more metro skew. It is a metro modern trade skew.

**Rahul Maheshwari:** Once the GST would be coming, so what kind of destocking you might be expecting or also in terms of the working capital impact because in the current quarter there was an increase in inventory days because you said that there was an inflation into the copra, so gradually what kind of period… how much copra has been kept in terms of the number of days or in terms of number of months, which would be carried on for the normal operations business.

**Vivek Karve:** There are two questions you are asking. So let us take the first question first. In regards to our destocking is concerned, it is going to be a timing issue. So if there is a destocking, there will be an upstocking later because the consumer demand is going to continue. So I think it is going to be a short-term issue and something which does not really impact from a long-term point of view. As regards to the copra stockholding is concerned, this is not something that we can divulge.

**Saugata Gupta:** In any case, I would like to say that I think we are a company, which drives brand equity and drive market share volume growth. These kinds of small marginal things, I do not think it would impact business. As I said the working capital, which we have, is a strategic, some of the strategic working capital that helps in actually volume growth.

**Rahul Maheshwari:** Thank you Sir.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Krishnan Sambamoorthy from Motilal Oswal Securities for closing comments.

**K. Sambamoorthy:** Thanks to the management for allowing us to host the call and thanks to all the participants. If the management has closing comments you can go ahead and make them.

**Vivek Karve:** We would like to thank you all for attending our Q4 earnings call. As Saugata said earlier we have had a satisfactory volume growth. FY2018 will be eventful with GST coming in. We are targeting a very healthy volume and value growth and we will continue to invest in core and new products, which may result in some correction in operating margins, but as we said earlier they will continue to be very healthy. Thank you once again and good evening to all of you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us and you may now disconnect your line.