# "Marico Limited Q4 FY15 Earnings Conference Call"

## April 30, 2015

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

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

**Moderator:** Ladies and gentlemen, good evening and welcome to the Marico Limited Q4 FY15 Earnings 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan of Ambit Capital. Thank you and over to you sir.

**Rakshit Ranjan:** Thanks Shyma. Good evening everybody; welcome to Marico's conference call. We have with us the senior management of Marico lead by Mr. Saugata Gupta – Managing Director and CEO; and Mr. Vivek Karve – CFO. I would now like to hand the floor over to Mr. Saugata Gupta who will take you through the highlights of Marico's performance during the quarter; over to you sir.

**Saugata Gupta:** Good evening. I will just spend two or three minutes giving a background before we take the questions. So just to give a view, we have had a satisfactory quarter and a year. In spite of severe raw material inflation and prices increases which we have taken as well as some challenges in various international markets we clocked a topline growth of 22% and a PAT growth of 18% for the year. I think we are also confident that our EBITDA margins have settled in the range of 15-16% up from the 13-14% say two years ago. There has been a significant movement in our ROCE, dividend payout which was stuck at 30% this year is likely to get close to 40% next year subject to acquisitions next year and at this point in time our focus is on organic growth. Our quarterly result in Indian business was in line because of our 7.3% secondary growth. International business was a bit soft, we could have done better obviously, and I think we will continuously strive to raise the bar. Having said that I think you must appreciate that we are running a marathon and not a quarterly sprint so the key elements of this journey is to make the organization future ready in capability in the five areas of transformation which I have talked about and deliver boring but consistent and sustainable growth.

Let me talk briefly about the hits and misses this quarter. Our secondary growth in India was healthy except for Saffola; I think 9% in Parachute has been good, 10% in hair oil. We gained market share in India in 98% of the business, the South East Asia growth is back on track after four quarters, the Gulf business is under control, the youth business has seen recovery and the gel re-stage performance based on early trends is exciting. This gives us a high level of confidence of delivering 15-20% growth next year in the youth business from Q2. The reason is that in Q1 last year we had launched Set Wet Infinity Deo and therefore that is there in the base. The food business I think continues to gain momentum and we now have an ambitious five year plan for foods including a strong innovation pipeline which we are developing. We are in the process of successfully transiting into a new auto order replenishment system which will create much better forecasting demand planning, material requirement planning and this will be an end to end system. The total inventory will go down and also the distributor stocks will be minimized leading to better ROI for the distributor or alternatively that resources can be diverted towards market activation.

As far as sales force is concerned there will be significant increase in bandwidth because you will not spend any time at order management and primary sales discussion with the distributor and that time will be focused on driving demand generation and maximizing secondary scales. So we are transiting this and in May we should transit one or two regions and in the next two to three months we will be following this state of the art system nationally. We had a couple of misses and I think the first one is Bangladesh. The situation in Bangladesh continued to be fluid which impacted our performance. The distribution transition in Egypt has not yet settled down and the Saffola volumes have been disappointing. Now let me take each one of them.

The situation in Bangladesh, we believe, is improving. However, even if it's uncertain, we are working on alternative plans of growth in the international business in case there are hiccups in Bangladesh. As far as Egypt is concerned let me place on record we took this decision for the long term, we strongly believe that things will go back on track from this quarter. Obviously when you do these kinds of transitions we first had to ensure minimal disturbance by getting the pipeline cleaned which we did before we undertook this action sometime in December. Our expectation was that things will look up this quarter. It hasn't because we believe that the earlier distributor had certain stock in the system which has created some market disturbance. Things are looking up as far as we are concerned from April and all I can tell you is that we didn't do anything short term to get volumes back on track but we wanted to ensure that we don't do anything which will damage our long term growth and we believe that a new distribution system is settling down and it will deliver solid performance this year from quarter two onwards.

As far as Saffola is concerned, I think I had indicated last time that we might want to take pricing decision. I think that would have been the easiest thing to do to get back volumes. Instead we are looking at two or three other alternate initiatives. The first one is a 500ml pack which is being test marketed in some parts of the country. We believe a lot of people want to use Saffola but there is a pricing issue and therefore we wanted a lower price point pack and a lower outlay pack and we believe that adoption will happen. We are also trying out one more initiative which we have just launched in last week of April in some markets. We will prototype two or three things and one innovation in Saffola this year and we expect that growth through these set of initiatives as opposed to a pricing call will help maintain a certain margin level. As of now as trends indicates we now have a visibility of April that we should get back to that 9-10% growth in Saffola from quarter one.

Now I will come back to the consumption story. I think we strongly believe in an urban recovery this year which is expected to be gradual over the next few quarters. Whatever steps the government is taking, is committed to drive the economic growth and we are confident about the higher GDP growth this year. As far as the rural sector is concerned there could be some damping of demand because of unseasonal rains. One thing is good that we are not over indexed either in overall rural contribution or specifically on the impacted markets which have got impacted because of unseasonal rains. We closely track the monsoon which might create more sluggishness but at a micro level the demand crunch at this moment is likely to be more in the case of discretionary goods and things like auto, mechanized equipment, durables as opposed to daily consumption FMCG. So if you look at our quarter four rural growth rate it continues to be good. Also we haven't seen a significant dampening or anything in April. So before I conclude I would like to re-emphasize our philosophy of executing a repeatable model of doing the right things in the five areas of transformation without chasing outcome. We strongly believe that results automatically follow if we execute our long-term strategy well. In this context I want to share that we are making significant strides in all the areas and we now have a far robust innovation pipeline. You will be able to see the evidence over the next 12 months.

I think you will be able to see in the next 12 months unprecedented number of prototypes with a special focus on premiumisation of hair nourishment and value added foods in line with the urban consumption tailwind. We have worked well in terms of developing that robust pipeline. In talent management, we are taking definitive steps towards improving leadership capability, depth of talent and making Marico an exciting place to work. There are key Go To Market transformation projects being executed in our core markets over the next two years. In IT business applications, digital, and analytics, we will significantly move the needle to become cutting edge over the next three years. So all the initiatives when executed well will make the organization much stronger, capable, and future ready. And I would like to thank all of you for your support and patience for listening and I would like to welcome any questions.

**Moderator:** Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir my first question is on the youth portfolio 14% secondary growth, I understand that Deo category it's hyper competition so could you tell us what's the growth in gel and serum?

**Saugata Gupta:** Won't get into individual categories but all I can tell you is that Deo is flattish so therefore the growth in the others will be more in the 20-plus range.

**Abneesh Roy:** Sir on the other new products for example you had mentioned body lotion category was flat and it's just a 20% penetration so sir could you explain why 20% penetration product category will be flat what's the reason for that?

**Saugata Gupta:** I think two things if you really look at it, the category the body lotion category had been growing at a 15 to 20% kind of a rate between say 2008 to 2012. A lot of discretionary personal care products in the last two years have been impacted because of an urban slowdown and also it is a seasonal product so, as marketers we need to invest behind this category and drive the need of this category. And I would think that, once urban consumption picks up, all discretionary personal care products, penetration as well as growth will come back.

**Abneesh Roy:** Sir how positive are you on Sarson Kesh Tel you have said that it's the largest in the hindi heart land, how easy is it to succeed in that segment because obviously unbranded will be the main usage currently, how easy is it to translate from unbranded to branded in this and have you tried that earlier?

**Saugata Gupta:** No, we haven't tried this earlier but we do have a good track record of moving consumers from unbranded to branded and as you know that ultimately rural consumers are aspirational. They would like to try out branded products which are superior in quality. Our current trends indicate that the loose oil for mustard is very high and therefore it's a huge potential. Lot of them may get converted into other entry-level products and therefore our first signs are encouraging but I think once we meet action standards we will like to scale this up. But we are pretty positive about it.

**Abneesh Roy:** Sir my next question is on pricing, you saw 121bps gross margin improvement in standalone but Saffola has been suffering for two quarters so my question is, in such high ticket item like Saffola will 500 ml make a difference because for Rs2, Rs5, Rs10 SKU makes a difference but at a Rs.70 does it really make a difference and what's the pricing strategy you have in the near term, medium term over Parachute and Saffola in the current context of the raw materials?

**Saugata Gupta:** As I said, that our strong belief is more innovation and initiative based growth as oppose to just pricing based growth on Saffola. As far as Parachute is concerned obviously the situation is different because there are a lot of recruiter packs as the source of business is price sensitive. So for Parachute we will continue to have a pricing strategy in place should the copra go down. At this moment we don't see any significant reduction in the copra input price. Secondly you must realize in Saffola also there are different ways of driving pricing because as you know 30% of Saffola comes from modern trade and hence the strategy need not be just absolute pricing but could also be tactical promotions. So we are not taking a pricing call and we have deliberately not taken a pricing call and will wait and watch. As I said we now have the visibility of April and we believe that what we are doing is perhaps a better strategy for the long term than just taking a pricing action.

**Abneesh Roy:** Sir one follow-up on this copra recently news flow was there, that companies are evaluating other countries like Indonesia so is that feasible and can that really bring down the pricing from a medium/longer-term horizon?

**Saugata Gupta:** I can't comment. I don't know what you are referring to. I have not read it so I cannot comment on that.

**Abneesh Roy:** Sir question is simple, is it possible to do copra sourcing outside India and have you tried it earlier, so that's the question.

**Saugata Gupta:** We source copra from Indonesia for Bangladesh not for India.

**Abneesh Roy:** Is it because of taxes?

**Saugata Gupta:** Because Bangladesh is something which we have done for Indonesia we have tried it out.

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

**Prakash Kapadia:** Sir last quarter we had envisaged a 15-20% topline growth in that deflationary kind of raw material scenario so we think for FY16 we are comfortable with that 15-20% sales growth?

**Saugata Gupta:** As I said, this year actually the sales growth is 27% for India. What we have indicated a 15-20% topline growth over a 3-4 year period and in inflationary times that number could be higher, when there is no inflation the number could be lower. The best way to look at is to look at volume growths where we are envisaging and driving towards 8 to 10% growth and that is very much possible this year.

**Prakash Kapadia:** And sir on Saffola what is the value growth in this quarter and could you give us some sense what is the reason despite low food inflation, lower petrol and diesel prices, sentiments getting improved why are consumers not expanding the franchise or people are not shifting to super premium edible oil. What is our sense sir?

**Saugata Gupta:** Saffola, just to give a perspective, a full-year value growth is 11%. If you look at the average premium which Saffola currently has because of the pricing table of some of the other oils where we get our business from has increased. We had indicated to you that in the last quarter and as I said in my opening remarks, the easiest thing for us would have been to take a pricing call which we have not taken consciously. We are putting in place some set of alternative initiatives. One I have spoken about, the second one is in the market from last week so I will be able to speak on it maybe in the next quarter. So we are experimenting to be fair and our belief is this will work better for the long term than just taking a pricing call.

**Prakash Kapadia:** But sir consumers in any sense why despite lower food inflation, lower petrol prices a Rs.10 say premium vis-à-vis Rs15 or a 10% premium to others doesn't consumer think it is more health related or benefit so it doesn't matter in terms of that bit of extra pricing?

**Saugata Gupta:** The premium is actually more in the region of 40 to 50 bucks a liter and if you look at an average consumer who has 3 to 4 liters per month kind of consumption so the outlay is actually 200 bucks and not 10 to 15. But we would like to maintain this price premium and as I said that the pricing call is always in our hands.

**Prakash Kapadia:** Okay. And sir lastly other expenditure is up more than 17% on a year-on-year basis and also if I look at it on a sequential basis it is up so any one offs in this?

**Vivek Karve:** Hi this is Vivek. There are two elements here, the first element is fees towards the outsourced services and second element is about the exchange hit on account of repayment of the ECB which were borrowed years ago for funding our Vietnam acquisition. So in terms of going forward, other expenses line item will be 14 to 15% of sales.

**Prakash Kapadia:** And is there some amount if you could quantify and this outsource services are for some new process which we are looking at?

**Vivek Karve:** No, as we had informed you in the third quarter, there is outsourcing of some financial accounting process and some of the supply chain operations processes. So this outsourcing has led to this professional charge.

**Saugata Gupta:** So the cost is front ended but you will start getting the benefits over the next year. This is a one-time switching cost.

**Moderator:** Thank you. We will take the next question from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.

**Ritesh Vaidya:** Just a few set of questions, one was on the new Sarson Tel that you are launching can you just give us a sense of the market size so how big is the Sarson market size currently and how is the split between branded and unbranded and who are the key players right now in the market?

**Saugata Gupta:** See all I can tell you is that there is certainly one branded player. It’s a hybrid oil which is more of a Sarson Amla than a Sarson. I don’t think there is any large scale branded player in the pure Sarson for hair segment at this point in time. It’s very difficult to estimate the size of the market, having said that, all I can tell you is that the size is reasonably significant and our proposition is essentially to have a Sarson Tel which is good for hair and which is sensorially better while retaining some of the elements and signals of a mustard oil. We have a reasonably attractive pricing and we are pretty satisfied with the current state of affairs and the current results of the prototype.

**Ritesh Vaidya:** And just on the pricing part, so are you at a significant premium to the single-largest branded player in the market or how are you going to play the pricing game?

**Saugata Gupta:** I think our entry point price is Rs. 10 and Rs. 20. If you have a 10 and 20 pricing, same as our Shanti so that is a similar pricing strategy. I am not aware of which player. I don’t know about their pricing but our pricing is a 10 and 20 so.

**Ritesh Vaidya:** Okay. The next question was you have mentioned that the company is planning to increase its participation as skin care segment so what are we looking at over here. What kind of products are you targeting any kind of?

**Saugata Gupta:** I think what we have said is that we want to participate in this segment in terms of the body lotion. I don't think we have mentioned increase in our participation. We are saying that the penetration is 20%. We believe that this category is expected to grow and we will participate in it. We have managed to grow higher than the market; the category growth has been flat this year but with increased urban consumption which we believe is going to happen I think this category is going to get back in shape.

**Ritesh Vaidya:** Okay. Just the last question was on Saffola can you tell us which is your highest selling SKU in Saffola edible oil is it the 5 liter or 1 liter which pack sells the most?

**Saugata Gupta:** We will not be able to share with you SKU-wise sales.

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

**Percy Panthaki:** My question is the Sarson oil which you have launched, what is the reason that this category has remained completely unorganized? Why is it that, if it is such a large market size, no one else has actually launched this offering before?

**Saugata Gupta:** That is an interesting question; I think yes it has been a miss as far as we are concerned. I wish we could have done this 5 years ago. However, having said that, I think some of the upgradation has been going to Amla also.

**Percy Panthaki:** Yes, that was the entire story even 10 or 15 years back that basically the ladder is from lose Sarson to a branded Amla so there have been lot of players in Amla, etc., sort of running since so many years and they are actually attempting to up-grade from Sarson so if a packet Sarson is possible then why are they attempting to go into a upgrade cycle from Sarson to Amla wouldn't it be easier to upgrade the consumer from a Sarson lose to a Sarson packaged?

**Saugata Gupta:** No, I think, as I said, you have a valid question and I said that we missed that opportunity but having said that it's better late than never.

**Percy Panthaki:** Sure. I was wondering why not only you but the entire industry has missed this opportunity. Is it that it's for whatever reason it is very difficult to have consumers in a packaged Sarson kind of a format?

**Saugata Gupta:** Percy I think it is also because of the fact that if we look at the other players in the value added hair oil segment each one of them focuses only on one species or one ingredient or a single brand and they have leaders in that. We are the only ones who believe in our strategy of consumer backward as opposed to ingredient forward participation and I think with this context while we did that, we perhaps missed out on branded Sarson. Also, we had a journey on Shanti Amla to do which we have done. Today we are at 33% market share in that segment so I think that gives us the confidence perhaps to get into this.

**Percy Panthaki:** Right. Can you tell us a little bit more about the product itself so is it 100% Sarson oil or is it mixed with LLP? What is the product itself?

**Saugata Gupta:** Value-added hair oil which has the goodness of Sarson at the same time a sensorial of a hair oil so we have balanced nourishment with sensorial.

**Percy Panthaki:** Right, so it's not like Parachute, it's not a pure 100% coconut oil which has been packaged that's not the same thing which is happening in Sarson.

**Saugata Gupta:** As I said we have designed the product based on consumer needs and aspirations.

**Percy Panthaki:** Fair enough and can you give us an idea what would be your price premium on a per liter basis for one of the most popular SKUs let say a 100ml for this price premium versus loose Sarson oil.

**Saugata Gupta:** All I can tell you is our MRP is 10 and 20. I don't think that the strategy is pricing. We are giving a value added product in an attractive price and consumers will I think look at that rather than what is the loose oil price and other things.

**Percy Panthaki:** Fair so this 20 is how much ml?

**Saugata Gupta:** I think it's 70 or 80 ml I am not sure.

**Percy Panthaki:** 70-80 ml. Okay sir my second question is on basically your strategy for FY16, you will be getting some benefit from Copra according to my calculation even if copra remains where it is today you would have may be 5% savings on copra on an annualised basis and then you have savings on account of LLP and HDPE and all that. So gross margin on a FY15 base actually the expansion can be pretty huge given that the cost, drop in the input prices are so small that you might not actually have to take MRP cuts. So what is your plan to reinvest this substantial gross margin benefit? Will you let it flow down or you're A&P which is let's say currently at around 11.5% will that see a sort of good amount of increase also?

**Saugata Gupta:** Yes, I think it's too premature to actually count the savings because I don't think the copra prices have significantly come down. So I will give you a broad perspective, I think our philosophy is to maximise volume growth at the same time what I have indicated is that we are now confident as an origination of delivering an operating margin in the range of 15 to16%. As long as we do that, we will maximum the investment towards innovation-driven growth.

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

**Arnab Mitra:** I just want to understand this change in the distribution to replenishment base system. So we had this hit this quarter do you anticipate a similar quantum of hit next one or two quarter and if you quantify what kind of impact in terms of number of days or as a percentage of sales that one should expect next one or two quarters?

**Saugata Gupta:** No, we have taken a onetime hit so that we are ready for doing the transition. I think we have taken around Rs. 35 crores of stock correction in the system. We are best in class in terms of the number of days of stock in the industry. We believe this is good enough because what it will do for the distribution system is, it will either improve their ROI or we can demand that investment be channelized towards market activations. And with this stock norm we will now start scaling up full country. So that is a onetime hit we have done on 31st March rather than doing it in phases.

**Arnab Mitra:** So basically it's going ahead primary and secondary sales should be again similar, there should not.

**Saugata Gupta:** Primary will now be a derived from secondary so we as system now won't have any control actually on primary but the entire system will just focus on driving off take and secondary sales. And our prototype which we have done in Mumbai has been actually pretty encouraging. We believe that it is a win-win for the distributor and also the fact we have seen better range selling because what is happening is it's now forcing the system to focus on secondary and demand generation. We believe long term it will actually give higher growth and also what it will do is it will lead to better control and better working capital. It's a change management for the organization but I think since we are doing it in a phased manner we are pretty confident about executing it well.

**Arnab Mitra:** Right. The second question is on the MENA business. So firstly Middle East after this year you have gone back into very high growth rates recovering from last year. What is the reason that the business is still loss making? Is it gross margin issue, is it overheads and is here a pass to get to 10% plus margins at least in the next one or two years? If you could just highlight what is the issue there and secondly on Egypt you mentioned that probably things are improving so would you expect a Y-o-Y growth back or its' going to be another couple of quarters of negative but reducing negatives there?

**Saugata Gupta:** Okay, let me address MENA first, I think MENA what we are doing is once we get back into the old scale automatically the margins will start happening, obviously we are going to invest behind driving that growth so the 10% EBITDA which you are talking about in MENA is very much possible over the next two years. As regards Egypt, I think we can see a little bit of Y-o-Y growth this quarter and moving forward I think the next quarter definitely the growth is expected to come in. We have a firm belief that what we have done for the long term it's a good decision and I am re-emphasising I am not there for a quarterly sprint and we believe that if we are doing the things right I think growth will automatically happen. So full year will definitely see good growths in Egypt. And MENA again this year we expect a decent topline growth also from the Middle East.

**Arnab Mitra:** Right. And just lastly on Saffola this seems to be a big shift in strategy because in the past I think you have always looked at maintaining a certain premium over the unorganized or the lower brands. So is it like, is there something that is giving you confidence that now this brand can break out of that kind of a fixed premium that it always used to work on. Probably what may be Parachute did may be 10 years back. Does it give you, anything that you have done which gives you confidence that this is the time to kind of move ahead with that strategy?

**Saugata Gupta:** No, I think we are prototyping. As I said, the option of doing a pricing is always there with us. We just want to prototype certain things and we believe that this year we have the luxury of prototyping these things for the long term and in case it doesn't work I am sure we have to revert back to the pricing strategy. If you look at our track record in the last one year we are relooking at everything. For us there are no holy cows. We are just trying out this initiative and my team has confidence that this will work and we have to take a few risks and I think it's worth taking a few risks because unless you take those risks you will never know what is the potential of this brand.

**Arnab Mitra:** Right. And just one housekeeping question on depreciation there seems to be a reduction from the 3Q levels with the 3Q had seen an increase in depreciation so is the current quarter kind of representative of what's likely to be and same question on other income?

**Vivek Karve:** Hi Arnab, Vivek here. So the current quarter can be a good representative except for the fact that although new capitalisation that have happened in the current year that impact going forward in the quarters will be felt in addition to that whatever normal capex we take that impact will be felt. Other income, if you see it's completely a function of the surplus that we carry on the balance sheet so depending upon the dividend strategy the other income will vary. At a same time in the fourth quarter there was an income that we recognized on the fixed maturity plans that matured. So as you know on the fixed maturity plans you cannot recognise unless they are redeemed. So that would be a one-time, so other income is completely a function of the treasury book.

**Moderator:** Thank you. Our next question is from the line of Gokul Maheshwari from Allard Partners. Please go ahead.

**Gokul Maheshwari:** On the Bangladesh business, this is around 45% of your international revenues but I believe the margins over there are in mid-20s and then hence it will be more like 60-70% of your international profits. So how sustainable are these margins as you built your business around the Parachute business over there.

**Saugata Gupta:** I will give you a broad perspective. One of the things we have done in the last two years is to jump shift the international business margins from 8-10% to 16-17% and we are happy with this kind of operating margin. Our entire endeavor in Bangladesh is actually to reduce our dependence on Parachute rigids. We believe that given our strength in distribution, brand equity, and our talent out there, we can have a far more broad-based play in spite of the severe disturbances this year. If you notice, even in this quarter the value-added part has grown by 38% and directionally we believe over the next 2-3 years 80% of the incremental growth will come from this value-added play. So we will be in invest-to-grow mode in Bangladesh as oppose to trying to treat that as a cash cow. And also you must realize that the other businesses like Gulf will start giving a significant movement so that we don't have to depend on Bangladesh. So I see the significant reduction in our dependence on Bangladesh for profitability over the next two, three years.

**Gokul Maheshwari:** Okay. And within the Bangladesh business as you said its 80:20, 80 in favour of the Parachute business?

**Saugata Gupta:** 80% of the incremental growth from non-Parachute business that is what I said.

**Gokul Maheshwari:** Okay. But I believe that around bulk of the revenues are still coming from the Parachute and which is the lower growth category if you could quantify from a three to five years' sense, how the value-added or the non-Parachute business grows and Parachute grows?

**Saugata Gupta:** So broadly I can tell you that the contribution of the non-Parachute business should increase 10% over the next two to three years.

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

**Ashish Upganlawar:** Sir continuing on the question of copra, copra prices haven't come off this year. So, do you think there is a new normal that is there in copra now, maybe not at these levels may be at lower levels, but it may not dip significantly even with a supply increase may be the next season?

**Saugata Gupta:** I think the supply-demand mismatch in copra is very sensitive and the pricing can turn volatile. Yes with every inflationary trend it reaches a certain normal where the base can be higher than the preceding base. Now historically if you look at it, we do better in inflation so actually we are not very unhappy that the copra price hasn't dropped very sharply. I think anyway what we are doing as a part of the portfolio also is ensuring that we grow the hair oil portfolio and the other value added portfolio much faster but having said that, we believe that with the current scenario as it exists today, a 7-8% Parachute growth is very comfortably possible.

**Ashish Upganlawar:** Okay. So just to continue on copra you said that it's very difficult to share the strategy as far as the FY16 is concerned how you would play if prices would go down from here. So is there any kind of profit growth that you target for the company annually and accordingly probably the company would work on your product strategy or your pricing strategy rather?

**Saugata Gupta:** As I said, I think I have reinforced it a lot that we believe that as long as we deliver your operating margin in the band of 15-16% we would like to maximize the volume share and market share growth. If you see our track record, we have been gaining market share in more than 80% of the portfolio. In India it is more like 90-95% in the last two quarters. And so that is how we operate and I don't think we would like to look at individual categories. Obviously would like to grow the core which is Parachute rigids and Saffola and accelerate the growth in the value-added segment. That is a broad strategy and obviously we have threshold gross margins for each of the categories but we would not like to make short-term profits for sacrificing long-term volume growth or market share.

**Ashish Upganlawar:** Sir point taken that, volumes are priority in this business but you don't at all take any call as far as how much of minimum profit growth delivery the company has to do or may be, because we haven't seen Marico falter on may be a 15-20% kind of range of profit growth for long-long time now. So that is why my question change from, considering the fact that next year seems to be bit difficult on the copra?

**Saugata Gupta:** Actually I don't think it's very difficult on copra. You can work your numbers if I am saying that we are confident of doing 15-16% operating margin and driving 8-10% volume growth with not much inflation as I see and I think aspirationally we would like to deliver 15% constant currency growth in international business. So I think that gives you a broad outlook and in terms of what should be the profit growth looking like, you are right I think we would like to ensure that we maintain a certain level of PAT growth every year. But we will not want to just do a volatile PAT growth but we would like to give a consistent PAT growth year after year.

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

**Tejas Shah:** Sir in your press release you mentioned that we are gaining market share in value-added hair oil can you just elaborate which all brands we are gaining market share again?

**Saugata Gupta:** I think it has been a broad growth while Shanti Amla has been the biggest driver of growth but all other brands which is the Nihar perfume coconut oil, Hair and Care and Parachute Jasmine and Ayurvedic have also performed well. So there has been a broad growth and if we really look at the volume growth which has been double-digit consistently most of the brands have delivered double digit growth.

**Tejas Shah:** Would you like to mention which all brands are losing market share?

**Saugata Gupta:** None of our hair oil brand has lost market share.

**Tejas Shah:** Will it be possible to share secondary volume growth of key brands in value-added hair oil, you have given primary was just wondering what is secondary.

**Saugata Gupta:** If you see for the quarter it is 10%.

**Tejas Shah:** Okay. And you also mentioned in your update that we will be focusing from here on non-Parachute portfolio in Bangladesh. So if you can help us understand what is the competitive landscape in value-added hair oil platform in Bangladesh?

**Saugata Gupta:** They are the local brands and there is some brand from India. We believe that given the distribution strength and given our brand strength, we'll be able to fast forward and compress the kind of the growth curve which we have witnessed in India. So there is no reason why if the situation comes back to normal we cannot deliver a 30-40% growth in that part of the portfolio. We have also launched some part of the male grooming in Bangladesh. We are market leaders in colors and last year we prototyped body lotion which has done well, we would like to scale up body lotion also this year. So I think we will have a much wider portfolio play in Bangladesh, it is ultimately an India arbitrage model in a market where we have much more distribution strength and brand equity and lower competitive intensity. And economies of scale which we enjoy as compared to other players are far higher.

**Tejas Shah:** Just wanted to reconcile, in your annual report FY14 you had mentioned body lotion market as 500 crores and in the investor updated you have mentioned the same number as 1000 crores so is there any reclassification in body lotion segment?

**Saugata Gupta:** This is the right number what Nielsen is projecting.

**Tejas Shah:** Annual report mentioned 550 crores perhaps.

**Saugata Gupta:** Might have been a typo or a miss my apologies for that.

**Moderator:** Thank you. Next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

**Harit Kapoor:** My first question is on the Parachute portfolio just wanted to understand how much is non-rigids of the total Parachute Hair oil now and what has been the kind of volume growth or decline in this quarter?

**Saugata Gupta:** I think the Parachute non-rigids coconut oil is around flattish to slightly negative. We have been defocusing on it because we believe that we want to make a certain margin and our entire focus is on driving Parachute rigids growth.

**Harit Kapoor:** Understood and how much would that be now of the total Parachute Hair oil portfolio the non-widget part?

**Saugata Gupta:** It's around 15-20%.

**Harit Kapoor:** Okay. Next thing wanted to check on account of this automated sales order management system, where would you have booked the cost it would be an employee cost as well as other expenses?

**Vivek Karve:** It will be other expenses.

**Harit Kapoor:** Completely in other expenses?

**Vivek Karve:** Because this is an outsourced activity so we cannot book it in employee cost.

**Saugata Gupta:** And obviously there will be a corresponding reduction in employee cost. You will see over the next couple of years.

**Harit Kapoor:** Understood sir. And third thing sir just wanted to understand was that you spoke about slew of new launches or innovations that you are looking at which is much higher than you have done in the past. So, if you could just give us a broad sense on which areas will these innovations be aimed at in terms of carry, very broadly obviously you can't speak too specifically about it and also will it result in higher A&P spend over the next 12-18 months from our normal levels of about 11-12%.

**Saugata Gupta:** We are prototyping it so we might not scale up everything based on action standards. So over the last two years we have been completely revamping innovation as a part of our transformation and to becoming best in class. Through that we have generated a series of ideas. We will be prototyping primarily in the area of premiumisation Livon and hair nourishment and some in the area of foods. So one of them, if you see, is aroma therapy. And if there is enough growth potential I don't think there will be a shortage of A&P. I think that is something which we will manage. But having said that we will prototype them and only if they meet action standards, we will scale up. So therefore the A&P requirement will come up only when the scale up happens and not so much during prototype.

**Harit Kapoor:** Sure. Sir one last one if I may. Rural growth for you in Q4 has been very strong and you said going into April also it seems to be pretty resilient, the macro trend seem very different from this and most companies have been reporting still a very strong rural growth. So just wanted to understand your view as to how do you expect rural growth going forward, do you expect some kind of a softening from what you have seen in the last two quarters which is pretty strong?

**Saugata Gupta:** See over the last three to four years yes urban growth has been lower than rural growth. Now that has happened because of two reasons - one is that there has been an uptick in the rural growth and at the same time urban had slowed down. We now expect urban growth to kick start. Further as far as rural is concerned, if you really look at mass FMCG, I am not seeing an immediate impact and of course as I said we will wait and watch. However, the more slow down seems to have happened in more discretionary categories like durables and I have not seen the numbers but that is the current feel because what had happened was that discretionary cash in the hands of rural consumers because of consistently high MSPs and other initiatives and leakages from the system was getting translated into this higher demand for discretionary products.

Now in products where the outlay is low, at this point in time, we are not seeing any significant impact. Having said that what, if there may be impact of drought we could see down-trading. What happens is items of daily consumption people don't stop using. They either don't up-trade and growth in low penetration categories slow down. Categories with high penetration what happens is normally there is little bit of down-trading or may be a maximum tight-ration of consumption. The categories we are in, I don't see any significant slowing down at this point of time.

**Moderator:** Thank you. Our next question is from the line of Jaugal Jain from Phillip Capital. Please go ahead.

**Jaugal Jain:** I have two questions. First if we look at the standalone gross margins they have expanded by 121bps but if we look at the consolidated gross margins they have decreased by 15bps so what is the reason exactly. And second can you just tell me the size of the Oats portfolio as well as Hair Gel and Hair Care portfolio.

**Vivek Karve:** Okay, I'll take the first question. One of the reasons for the question that you asked is that there are two geographies one is Egypt and the other one is Bangladesh which have had muted growths or de-growth which has led to expansion being lower at consolidated level as compared to the standalone level.

**Jaugal Jain:** Sir but in case the revenue is lower, most of the amount in the gross margin would be variable right, or is that not the case?

**Vivek Karve:** No, in fact the gross margins the way it's calculated is sales minus the material cost.

**Jaugal Jain:** Exactly, so the material cost would mostly be variable right so if the sales are impacted?

**Vivek Karve:** Yes, but it's also mix impact right.

**Jaugal Jain:** Okay.

**Saugata Gupta:** See Saffola Oats this year we did Rs. 80 to 90 crores and we expect that to move to +125 crores next year. And if Youth is Rs. 200 crores portfolio, within the Youth portfolio, gel will be around 35% of that.

**Jaugal Jain:** And rest would?

**Saugata Gupta:** So deo was earlier 33, deo has moved down and the rest will be Livon.

**Jaugal Jain:** Can you repeat that figure, how much is gel out of 100?

**Saugata Gupta:** 35%

**Jaugal Jain:** And rest would be hair color?

**Saugata Gupta:** No, hair colour is not part of Youth portfolio. There is Livon serum and deo, deo may be slightly lower.

**Moderator:** Thank you. Our next question is from the line of Chitranga Kapoor from Reliance Securities. Please go ahead.

**Chitranga Kapoor:** I apologise in advance if it is a repetitive question. My question is more of a bookkeeping question, I wanted to understand what were your inventory days in FY14 full year consolidated level and what is it currently right now?

**Vivek Karve:** So it has come down from an average of 60-odd days to an average of 55-57 days.

**Chitranga Kapoor:** On a consolidated level?

**Vivek Karve:** On a consolidated basis. So reduction of about 3-4%.

**Chitranga Kapoor:** Okay. And somewhere in the opening commentary you had mentioned that going forward with a new streamlined supply chain management that you are undertaking there would be further improvement in the inventory days that you are foreseeing, so could you quantify on that sir?

**Saugata Gupta:** No, it's difficult to quantify but as I said that at least the first thing we have achieved is the reduction in distributor inventory and we are now moving to an automated forecasting accuracy system. We have just prototyped it, we have a significant increase in forecasting accuracy. That gain will happen next year so it's too early to actually see what will be the gain. But also it will lead to better service levels and decrease loss of sales owing to non-supply of stocks.

**Moderator:** Thank you. Our next question is from the line of Poorna Venkateshan from Jefferies. Please go ahead.

**Poorna Venkateshan:** The change in inventories of finished goods and work-in-progress and stock-in-trade that bid in your income statement.

**Vivek Karve:** No, the change in income statement the way it gets accounted is that the consumption gets accounted and thereafter anything that moves out as compared to the opening inventory and the closing inventory is getting recorded as change in inventory, but my advice to you is that you please don't look at this as a standalone. You please look at all these four line items together which will give you consolidated cost of goods sold, that would be a better way to look at it otherwise it will be very difficult for you to explain what that standalone line item.

**Poorna Venkateshan:** But was that increase due to any revaluation of your inventories?

**Vivek Karve:** Not because of the revaluation.

**Poorna Venkateshan:** It was not because of revaluation.

**Vivek Karve:** We can't do any revaluation because it is against the accounting standards.

**Poorna Venkateshan:** Okay. And it's not impacted by the de-stocking as well?

**Vivek Karve:** No, the de-stocking has happened actually at the distributor level so we are talking about distributor inventory de-stocking and we are not talking about primary level de-stocking.

**Poorna Venkateshan:** Okay. Sir another question was with regard the implementation of GST what kind of benefits do you expect sir, is there any market share gains that you think you can get from unorganised sector?

**Saugata Gupta:** I think if there is better compliance I am sure our competitive position will improve - not only us but for all FMCG players which compete with the in the grey market and with unbranded and unorganized players. So that is I think true for any FMCG player.

**Poorna Venkateshan:** But would you be able to quantify something for your hair oil segment?

**Saugata Gupta:** I can get a lot of learned people to actually do models but unless I get the rates it's very difficult to quantify.

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

**Vivek Maheshwari:** First question on volume sir, you have been mentioning a lot about sustainable volume growth, volume being priority but somewhere I get a sense in your entire discussion that all those volumes related issues or focus is only is for the entire portfolio but for Saffola. A few years back you had taken up prices you did not take down prices in Parachute, you realised the mistake and took those prices down, why the same mistake again in Saffola why are you not bringing down the premium to lose or unbranded oil or is there a different reason for a different strategy here?

**Saugata Gupta:** No, see as I said that you must give me the leeway to do some experimentation. See you learn from mistakes so unless I experiment and take risk I will never know if there is any other potential for growth. So I think Parachute and Saffola operates differently. And as I said, it's not that we are not concerned about Saffola volumes we are concerned about Saffola volumes.

There is a belief that a plan B could work, and I will get to know if the plan B works only if I do that experiment. As I said that given our position we believe that we have the current luxury of taking a few risks, doing a few experiments, and learning from that. So I think that is all I have to say. I think we learn from our mistakes and we should be allowed to make a few mistakes and learn from them.

**Vivek Maheshwari:** Sir totally understand and thanks for the perspective I just wanted to understand what the thought process is.

**Saugata Gupta:** Thought process is that we have to challenge all holy cows like we did for Parachute in 2005 for example. Sometimes we have done it and sometimes we have not. As I said, it's easiest for me is to just get the pricing call. So there are certain initiatives in place and you will see the sight of the second initiative may be in another month or so. This is for the long term growth and profitability of the brand and is perhaps the better option than just doing a pricing call.

**Vivek Maheshwari:** Got it and second, again pardon me for the question but did I hear it currently you are talking about 10 prototypes this year?

**Saugata Gupta:** I said 5-6.

**Vivek Maheshwari:** A few years back you were one of the most active companies on new launches but then you changed the strategy a couple of years back saying that we will try fewer things but bigger and scalable things. Why again such a change of trying 5-6 things in a year compared to what you were following for the last two, three years?

**Saugata Gupta:** No, I think the shift is as follows – We started doing few things but we did straight away scale up. We will still scale up few things. It's just that we now have a much better new product pipeline so we will scale up few things. They will be big initiatives and we will not be doing niches so we are not going to do let me assure you five very small things. We will prototype five big things, since big things require huge investments we better be sure about those before we scale it up.

**Moderator:** Thank you. Our next question is from the line of Sandip Patodia from Fundsmith. Please go ahead.

**Sandip Patodia:** I just have two related questions on capital allocation. First one is I guess, assuming you pay 40% of your profits as dividends, abstain M&A you said next year. And assuming 20% will go into CAPEX you still have a bulk of it left. 40% roughly going to cash and you got net cash this year. So I am just wondering what is your capital allocation strategy? And two related to that is what's your M&A strategy in India and international businesses?

**Vivek Karve:** Okay, I will first answer the dividend strategy. If you look at our dividend strategy last year was 24% dividend pay off if you were to keep aside onetime special dividend of additional

24%. From the 24% we have moved up to 30% in the current year. And as Saugata said earlier, that the focus is likely to be more organic and given the cash flow situation and the big cash that the company throws out every year you will actually see the dividend payout is going up. To what extent they will go up will depend upon any acquisition coming our way in the coming year or not.

**Saugata Gupta:** So just to conclude on the acquisition part. I think we are far more confident of delivering the organic growth whatever we have on our plate. I think we have a lot of exciting things in terms of the foods business, hair oils, in fact we haven't realised the full potential of cross-pollination in all our markets. And therefore I think there is enough opportunity to grow organically. Having said that, if some significant opportunity comes up, we will definitely go for it, it's not that we won't go for it. But the bias is towards delivering organic growth and not having an escape button to get inorganic, inorganic will be a top up.

**Moderator:** Thank you. Our next question is from the line of Neeta from UBS. Please go ahead.

**Sunita Sachdeva:** Sunita Sachdeva here. Just wanted to find out when will the primary and the secondary volume growth converge for you and why have we been seeing such a large difference in the last two or three quarters?

**Saugata Gupta:** There was no divergence of primary and secondary up to quarter three, this divergence is only in this quarter because I have taken the stock correction and as I said that we are now moving into replenishment models so therefore primary going forward will be equal to secondary.

**Sunita Sachdeva:** Alright so that is one. And second I wanted to know given that your view is that rural may be slightly soft on demand. You have just prototyped this Sarson Kesh Tel so what kind of time horizon you may have to achieve your standards or how long are we looking for some sort of sustainable size in this business?

**Saugata Gupta:** If we look at our Hindi heartland and HSM markets, actually we are in a far better position because most of our significant portion of our growth and our packs are at a price point base. So Sarson Kesh Tel actually is also a Rs.10 and Rs.20 price point so even if rural dampens the impact will be more on higher MRP brands than us. So we are actually better positioned even if there is a dampening of rural demand. So I don't see that will have any impact in terms of our action standards and ones the action standards are fulfilled we will be able to scale it up.

**Sunita Sachdeva:** So you have any potential size of this particular brand that you are looking for in three, four, five years?

**Saugata Gupta:** It's very difficult. Let us scale it up first. As I said, that I personally believe that I will do and then say rather than say and do.

**Sunita Sachdeva:** Alright. Last question. In the last three years we have brought our advertising down quite significantly despite growing top line quite healthily. You are saying you are going to be prototyping 5 big innovations this year and all the best for that but what is the outlook for advertising?

**Saugata Gupta:** If you look at the figure, it's grown by 16%, in this year also. So what we have done you must realize is that, we did a huge value management exercise in both the India and international business where a lot of optimisation has happened in terms of effectiveness of spend especially in the area of consumer promotions. So GRP if you really look at it hasn't come down - it has grown. So I think a lot of the fact that we have been able to manage that A&P to sales ratio is because of the value management exercise which we have done in the last two-three years in both the Indian and international and we have cut off a lot of unnecessary spends.

**Sunita Sachdeva:** Yes, that is obviously something that you have done but what are you looking for into the next couple of years?

**Saugata Gupta:** We will be in the band of 11-12%.

**Sunita Sachdeva:** And the reason I asked you that is because I guess you will have a lot more leeway with gross margins expanding in FY16. So are you looking at returning to 13-14% kind of levels is that in your purview or no just 11-12% is okay?

**Saugata Gupta:** See if there is an opportunity to move it to +12% which gives us growth why not.

**Moderator:** Thank you. Participants that was the last question. I now hand the floor back to Mr. Rakshit Ranjan for any closing comments. Thank you and over to you sir.

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

**Saugata Gupta:** No, I think nothing much to say as I said that we now looking forward to getting the international business back on track. And I understand the concerns on Saffola, I think it's our endeavor to get that back on track and we are hopeful as I said of urban consumption really getting some good boost while we will be on a wait and watch on rural. I believe that FY15-16 will continue to be a good year for us but more than anything else I think we are as a team going to continue to strive for making ourselves best-in-class and top quartile in the five areas of transformation we have identified. This journey is a two to three years journey from now on. So thank you very much, thank you for your patience listening and good night.

**Moderator:** Thank you sir. Ladies and gentlemen with that we conclude this conference call. Thank you for joining us, you may now disconnect your lines.