ñMarico Limited Q4 FY16 Earnings Conference Callò

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Marico Q4 FY16 Results Conference Call hosted by Ambit Capital. As a reminder, all participantsô line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing ñ*òthen ñ0ò on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you, sir.

Rakshit Ranjan: Thank you. Good evening, everybody. Welcome to Maricoôs conference call. We have with us the senior management team of Marico led by Mr. Saugata Gupta ï Managing Director and CEO; and Mr. Vivek Karve ï Chief Financial Officer. I would like to hand the call over to Mr. Gupta who will take you through the highlights of the quarter and the full year and then we will open the call for Q&A. Over to you, sir.

Saugata Gupta: Thank you and good evening, everyone and welcome to our conference call. I will just take a couple of minutes to give an overview about the quarter and in terms of what we see the year panning out this year and then I would welcome questions from you.

So we had another satisfactory quarter, with good broad-based volume and earnings growth across most of the franchises and business units. We have been also able to record a steady recovery and consistent performance in some of the categories of businesses where we were facing headwinds. We have invested a large chunk of our input cost savings into A&P and pricing. There has been a 34% increase in A&P towards both international markets and in some of the innovations in India and suitable pricing actions in the quarter. This clearly indicates our focused approach coupled with our long-term capability building and transformation journey have started to deliver results.

So I will now talk about the consumption situation in India. The forecast of good monsoon coupled with lower inflation and consistent economic growth will certainly spur consumption in the second-half. However, in the first half, especially in Q1, the demand situation especially in the areas affected by severe drought will continue to be tough. We believe that once there is a certainty on monsoon front the situation will ease out by end of quarter two. The conditions will also be right for a good urban recovery in the second-half.

In the given situation, we have taken aggressive stance on pricing in terms of price cuts, along with a strong investment plan behind innovation and price point packs so that we continue to maintain our 8% to 10% volume growth.

As a result, there will be a low value growth in H1, this will start improving from Q3 and Q4 and you would see some price increases going forward. It can happen in Q2 or in Q3 once we get a better visibility of consumption trends and input costs.

As regards the performance of the Indian business last quarter, we continued to perform well across franchises with 8.3% volume growth. Parachute Rigid growth was back on track with 6%, although given the volatility on input costs and price competitiveness there could be some variability in growth across quarters. This is because we would like to restrict the number of price changes in order to create more stability in the system. However, given the potential cost push that could be expected in copra prices we will be better placed since we tend to thrive in an inflationary cycle; and I strongly believe it is very difficult to predict but there would be some inflationary costs push in second half when we will be taking price increases. And as you know that we perform better in an inflationary cycle, in a deflationary cycle for the first time this time after two cycles we also have done fairly well in volume growth.

The easing of the drought situation has also helped in better growth in the second-half. As of now, a 5% to 7% growth in the Parachute franchise is a distinct possibility for the full year. The new Saffola strategy is playing out well in terms of the new communication and the regional pricing and we expect the brand to deliver consistent double-digit growth across the quarters. We crossed the Rs.100 crores mark in the food business precisely somewhere near Rs.110 crores or may be falling short of Rs.5 crores to Rs.10 crores but the new variants are doing well and we should be on track to hit the Rs.200 crores mark over the next two years.

In the value-added hair oil space, we continue to gain market share and clocked double-digit growth. We give you whatever number we have given you of both volume and value growth, so it is not just value growth; sometimes value growth could be deceptive depending on pricing action. We will continue to invest behind our new innovations, hair fall, mustard and actively drive both premiumization in urban and low unit packs at the bottom of pyramid.

We continue to be confident of delivering double-digit volume growth in this segment. The hair fall segment performance, which is both ayurvedic in the south and the scaled-up ayurvedic gold in the north and west, is encouraging although we are yet to fully scale up mustard oil. We have scaled up in two states because we want to get some mix tweaking to be done and also scale up investments. So while we are prototype in Rajasthan and scaled up in one or two states we are yet to fully scale it up.

The youth business has shown significant recovery. Gels continue to do well in terms of driving penetration, category growth and market share gains. Initial results from the deo re-launch are encouraging. In fact, in one month already we have picked up share, but again it is too early but we believe we have a very powerful mix.

We still have to get the Livon franchise completely back on track over the next two quarters. If we can get most of these initiatives in this category on track, we should be able to deliver 20%+ growth in the youth business next year. I think we have completed our work in gels with regard to the new positioning. The pricing is working well, the Rs.10 price point. After a long time the market, we are driving market category growth. We believe deo is also on the way to recovery in terms of getting back shares to the levels during the pre-acquisition stage and now we have to get Livon. So I think there are two out of the three in control. We have to get the Livon thing back on track. Even if we get two out of three, I think a 20% growth is possible because Livon perhaps will take another one quarter or two to get it right completely.

I think also I believe there would be consumption tailwinds in the second half and that will hit the growth of a discretionary category like youth.

In the international business, our efforts to rebuild the foundation have yielded results and you will see some more predictable and sustainable results next year and this year every quarter. While we have a journey to do both in Bangladesh and Egypt, there is significant confidence in delivering double-digit constant currency growth in the business.

Bangladesh growth for this quarter is on a low base and therefore we still have to stabilize Parachute growth and accelerate the non-Parachute franchise. Things are much better now but we still have some ground to cover. The new structure in Bangladesh, which leads more synergies with India, will certainly help in delivering better results in the future.

The new mix in the Middle East is doing very well. However, we need some more work in Egypt in the coming quarters to accelerate the growth. Now we are in the process of tackling most of the issues that were hampering growth. There is a significant investment behind new innovation in both these markets. We expect the Vietnam business to continue to do well in the coming quarters, delivering double-digit growth. We are getting back volume growth, some of the new initiatives like ñno gas deoò are doing very well and we now have a very good and stable team in place.

Our new country performance has been satisfactory but we need to accelerate our pace in Sub-Saharan Africa. While there are some headwinds in Middle East and South Africa in terms of economic growth, we believe that the international business is poised to stage a smart recovery this year subject to the absence of any black swan in the geopolitical space.

I would like to briefly mention that we continue to make progress in each of our transformation areas as we undertake a journey of making the organization future ready for 2018 and beyond. We still have some ground to cover innovation, GTM, talent and culture as well as IT, especially in the area of exploiting the digital world opportunity; but it is a continuous journey and the entire team is behind it.

Before I conclude, I would like to state at Marico we continue to live by our purpose of being more every day for all our stakeholders. In this context, we shall continue our journey of driving brands with a purpose. Some of the work done in Saffola Life and Shanti Amla has been I think best in class in terms of driving costs. We will continue to partner with the ecosystem in our business units for the betterment of society.

We have given you a brief insight and information update and we will follow it up with the detailed report later. Thank you and I would like to welcome your questions.

Moderator: Thank you very much. We will now begin with the question and answer session. Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the youth business; it has seen a good performance in Q4. You are seeing out of the three if two do well, you can get the 20% growth. So my question is in deo, there has been a lot of competitive issue, so where is the competitive intensity currently and this day usage concept which you are driving which is very unlike the competition; does the customer really understand this? So could you take us through how much is the confidence level in deo getting back lost market share?

Saugata Gupta: We have done three things - we have an revamped packaging. I think the packaging stands out clearly. We have an improved product and I think the entire concept and the communication; I think Ranveer adds a huge zing to the entire package. As far as the day thing is concerned, let me tell you I do not think our deo is like most of the deos which are targeted at the audience who go clubbing and pubbing every evening which is not the case in India. A lot of deo today is used in terms of covering body odor and smelling good and the young 15 to 25 is the target segment. The usage actually is day and not necessarily at night and I think the new product itself is a vastly improved product and we are investing behind it and I believe that Ranveer is a property. And the fact that we have done gel and deo both together there is a bit of you know in terms of it supports each other in advertising. So we have modeled it in terms of the fact that when you do deo advertising, it supports gel growth and vice versa to a certain extent. And I think another thing I am sure all of you do trade visits you should see the shelf how it stands out new packaging. So I think overall we find the initial thing very encouraging. Having said that, we have a journey to do. But as you know that we are starting up also with a very low base. I believe that we are reasonably poised to deliver that 15%-20% growth. As regard to Livon also, we have made some progress but still have a journey to do and I think by quarter two we should get our act right and start getting growth in second half. Number two, I think the consumption recovery if you really look at it, urban with economic growth, low inflation, these categories are reasonably discretionary and therefore with the consumption recovery these categories will have tailwinds also in the future. So what I can assure is the way things stand out, yes 19% will not be an aberration. We are pretty confident on delivering decent growth in this segment in the coming year.

Abneesh Roy: Sir, one follow-up on the Livon part - it saw a decline and the counterfeit issue in e-commerce has been there for a few quarters now clearly. But if I see the e-commerce ads across categories they say it is original. So I do not understand in an FMCG why that is not percolating and this unique identity number, do you see this actually solving the problem?

Saugata Gupta: Yeah, I think it is; whether it is packaging it could be new packaging, it could be the UI. So we are taking a series of steps on it. Itǿs not that all e-commerce there is counterfeiting. There is counterfeiting in some of them and you might also realize that e-commerce is a significant portion of Livon Hair Gain sales and the potential for counterfeiting is far higher in higher ticket size FMCG items, not necessarily low ticket size because the profitability is lower. So we are tackling it in best way and Livon Hair Gain there is a counterfeiting issue and in the case of Livon Serum there is a relevance issue we have to drive. So counterfeiting is not the only reason for the entire decline. We have a job to do in terms of driving relevance for it and we will see a significant revamp in the entire mix in the coming year, which should happen by quarter two and we are pretty confident that I think it will get it back into growth. But as I said, to deliver 15%-20% you do not need all the three firing - even if two fires we should be able to get 15%-20% growth.

Abneesh Roy: Sir, my second question is on your Coconut Oil business. You have been very proactive with a 6% price cut further in April. Sir, now I see Shalimar ads after a long time on TV. Dabur also seems to have upped its presence in terms of advertisement of coconut oil. Although your market share does show improvement of 63 bps on ground, are you seeing these players who had been kind of forgotten? Are they coming back? And is that the reason why 6% price cut?

Saugata Gupta: No, not really. I think whenever some new players see we have a 59% share, there would be a 41% share amongst 20 players. What is happening is three players get aggressive they perhaps mop up some shares from there. We also have two flankers, which is Nihar and Oil of Malabar. Should there be a threat from any player for us to play in terms of flanking the Parachute strategy. The reason we have taken a Pan India 6% price drop further as a significant portion of the Parachute strong markets there is drought; we believe it is a question of three to six months we wanted to maintain that 8% to 10% volume growth across the franchise and 5% to 7% share in Parachute and protect our market share. We believe that is a wise short-term decision; having said that, the way I see it, there could be price increases in Parachute in the second half definitely; the fact that copra has bottomed out and if there are increases. So we have taken this tactical call simply because we believe that we have to just cross this hump as far as these three to five months is concerned. See what happens, the rain starts it is not that the consumption will immediately kick-off; because first the farmers need to spend on fertilizers and seeds. It is only when the first harvest you will see the signs which in September-October the consumption will pick up. So it is better and prudent to maybe have slightly lower value growth as long as you maximize volume growth, market share and I do not think there is stress as far as margins are concerned. So, I think this is a call we have taken because philosophically we said we want to maximize volume growth and market shares subject to a threshold level of margins.

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

Arnav Mitra: Hi, Saugata. Just couple of questions: one on the pricing that you alluded to about some possible price hike in 2H. Just wanted to break it up in two parts; one is, do you see potential to take up prices in VAHO and Saffola even in 1H? It will partially offset the price decline that Parachute is seeing. And secondly, is there any reason why you think copra is bottomed out? Is there some supply side or demand side dynamics that you are seeing which is making you believe that there could be inflation from here?

Saugata Gupta: No, I see it is a cycle; so we believe and we have a forecasting model, we have a supply demand and there are influences of international prices. So we believe that copra has bottomed out, and again, it is very difficult to forecasté it is like crude. So having said that, I think we now have experienced multiple cycles, we have sophisticated forecasting models with us these days which operate at 94% to 96% accuracy. It is very difficult to operate at 100% and therefore our model suggests that we have bottomed out and we believe that it will because of the supply-demand situation there could be certain slight hardening of prices. We are happy to take on price increases that time. Now, coming to whether we will take VAHO and Saffola price increases to compensate for the decline or inflation in Parachute. We treat each segment as a separate in terms of maximizing the volume and the market share potential. And of course, each segment has a threshold level of profitability. I do not see any stress in our profitability over the margin. So therefore, even if as I said that we are okay to bear the pain of a slightly lower value growth as long as we deliver 8% to 10% volume growth, we deliver market share gain and deliver marginé I mean bottom-line increase. The other thing you must keep in mind is I think unlike last year and especially in the first half and second half, we expect good growth in the international business also. That will also cushion some of the value issues.

Arnav Mitra: Sure. And just on Saffola, given that other edible oils have moved up, does that give any room for price increases there or would you like to utilize this opportunity to drive upgrades much more?

Saugata Gupta: So I would say that our first protocol is to ensure that we get a consistent double-digit growth in one or two quarters. But yes, having said that, there could be some pricing as I said; now we are following a regional pricing strategy and a variant strategy. In some of the variants we could be taking pricing calls maybe in the coming quarters.

Arnav Mitra: Sure. On the gross margin fronté this quarter your gross margins are actually 54% and I think the first quarter of this year you started at 46%, if I am not mistaken. So do you see gross margins having kind of peaked off or given that copra has continued to trend lower through March quarter also there is still some potential on gross margin going up from here?

Saugata Gupta: I would say it could go a little up in quarter one but after that it will steady out because your input cost baseline will start catching up.

Arnav Mitra: Just a couple of bookkeeping questions... the depreciation being high this quarter, you have written something on useful life of moulds. So is it like a one-off impact you have taken this quarter or is there an increase in general? And secondly, similarly on employee cost, there is a 19% hike, is there any one-off in the employee cost also?

Vivek Karve: So far as the moulds are concerned, we had changed the useful life of the mould at the beginning of the year itself in fact, last year. This year we have changed the moulds, the useful life of the mould so as a result of which there will be a cumulative impact which gets spread in the current year. On the employee cost, it is more a timing issue but if you look at employee cost as a percentage of sale it has hovered at around six odd percent.

Arnav Mitra: Sir Sure. Just on depreciation so basically using the full year number this year is representedé

Vivek Karve: About Rs.102 crore it is likely to remain in that range in the coming year also.

Moderator: Thank you. Our next question is from the line of Latika Chopra from JP Morgan. Pleaseé .

Latika Chopra: Yeah. My question is on Bangladesh, have you taken any incremental price reductions for the coconut portfolio post the March quarter there? And you did see benefits of a benign base but what would be more sustainable growth rates you are expecting for this geography going forward?

Saugata Gupta: So as far as Bangladesh is concerned some pack price drops we took in quarter two, we took some in the large packs and then in Parachute smaller packs we took some price drops in quarter three. So there I think around 6% to 7% price drops. As regards growth, again the philosophy of Bangladesh will be similar to India. We will try to get back Parachute volume growth to 4%-5% in the full year and also ensure that we continue to see 82%-83% market share. I think the Bangladesh story will be different in terms of accelerating the non-Parachute portfolio. In the last three years that number has become 10 to 20; we want to accelerate it significantly. We believe the biggest change that has happened in Bangladesh is a synergy of marketing and sales efforts with India including media and cost sharing will significantly help in accelerating the growth journey. To give you an example, I think you can see far better growth in the value-added hair oils. We just started a similar Amla journey in Bangladesh, where we were I think 4% or 5% market share. In two or three quarters, we are already 16%; so, we will see similar efforts in the value-added hair oils. In things like body lotion, we have done decently well; our market share was around 7% or 8% in the first year. We will re-launch deos, we will do male grooming. So we will have a much broader portfolio play in Bangladesh and I think we believe that we are poised to grow in Bangladesh at least in delivering 10%+ volume growth next year.

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

Abhishek Banerjee: Sir, a good set of numbers. I had a few questions. One of your competitors pointed out that there was some weakness in urban general trade. So, is that something that you are also witnessing on the ground?

Saugata Gupta: Yes, our urban growth is only 3% while modern trade growth has been in double-digits. I think there continues to be a weakness and I tell you the first time our rural growth has also been 3% in value although in volume terms both are more towards 7%-6%. I think we are seeing some uptick in modern trade in the last two quarters. But my expectation is urban recovery is going to more happen towards the second half of the year.

Abhishek Banerjee: Okay. So you also mentioned that Saffola volumes were helped by some substitution effect if I am not wrong, the price, inflation and some base oils.

Saugata Gupta: You see the price premium of Saffola is a significant factor for the uptrade that happens in terms of people who want to choose healthy oil; but sometimes the price premium is prohibitive. What has helped us is the variant pricing strategy where we have regional pricing strategies. Our pushing of Active which actually gets in a new set of consumers and, yes, I think, the price premium because of the fact some of the other competitive oils of its species have increased. So it's a combination of all three factors that is fueling Saffola growth and we believe that similar conditions will continue to exist in the one or two quarters. But what is helping is I think the news, communication and pricing are attracting a different set of consumers to Saffola as opposed to what it had attracted in the last couple of years.

Abhishek Banerjee: Okay. You would say that the substitution effect would be comparatively negligible, so that because of the inflation in base oilsé

Saugata Gupta: No, I think all the three factors playingé that is also a factor. All the three factors, and that's why I said we might increase the prices of Saffola maybe in this quarter, we might increase some in the next quarter. But we will like to continue to get double-digit growth. And, as far as overall margin is concerned, as long as we maintain the kind of margins which we are talking about in the business, we are okay.

Abhishek Banerjee: And just one last question, have you taken any price increases in Saffola in this question? I am sorry, you have noté.

Saugata Gupta: No, we have not.

Moderator: Thank you. Our next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

Vipul Shah: My question is regarding oats. I am little confused. What is the total market size and what is our market share because at one place you have written 27% and at another place it is written some 70 odd percent soé .

Saugata Gupta: In the savory oats segment our market share is 70% and the overall oats, which includes plain oats, as you know we do not focus on the plain oats segment. So that is in total oats and so that is this one category. So the overall size of the oats market will be in the region of Rs400 crores to Rs450 crores.

Vipul Shah: And within this flavored oats, our market share is 70%.

Saugata Gupta: Yes. Rs275 crores is the total size of the oats market as per Nielsen.

Vipul Shah: Which includes the plain and masala, plain and flavored both?

Saugata Gupta: Yes.

Vipul Shah: Okay. So in that our market share is 27%, then it does not work out to Rs100 crores.

Saugata Gupta: That is because the pickup factor as far as Nielsen is concerned is around 60%. So when I gave you the number of Rs400 crores ï Rs440 crores initially ï that number is the derived number if my number and my share is right, okay. So, for small categories, the Nielsen pickup factor in this category is around 50%-60%. In reality, I would say the market size, if you look at our numbers which is Rs110 crores and 27%, the market will be more towards Rs400 crores to Rs440 crores.

Vipul Shah: Okay. And within two years, you expect your size to double to Rs200 croresé so what type of growth you are expecting in the overall oats market?

Saugata Gupta: The market has been growing at 40%-50%; the reason it has been growing is that it started off with the plain oats and when we started off masala oats, the significant portion of the consumption was breakfast. Now more than 50% of the consumption is in between meals and today you can replace savory oats with any consumption occasion or a category. It can replace an instant noodle; it can replace a diet snack. So anybody who wants to have a tasty, healthy in between meal product, I think it fulfilled it. So I think the total category of the market we are now attacking is something much more significantly high; it would have restricted itself if we had attacked only the breakfast market.

Moderator: Thank you. Next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, this question is on your Saffola oil business; we are seeing costs of air fryers come down, huge advertising also. So any study you have done that is this a big risk because obviously this class of consumer will also be consuming Saffola in a big way and globally any study is there that oil consumption goes down drastically because of this.

Saugata Gupta: No, so see again air fryers penetration will not even be 1% and in any case as a brand we encourage people to use less oil but use the right oil. I think you are absolutely right that in certain cases there is reduction on the brand is done by families who anyway use less oil. So I do not think overall oil consumption to going to really go down. It could go down in the top end of the market but what will happen in the large belly of the market is people will like to choose more healthier oils, at the same time, at least do share of frying. So one of the things you observe is some of the households we are now getting into the fold of Saffola, thanks to the advertising and the Saffola Active and the pricing. They consume dual oils in the household for frying, they use Saffola for other cooking, they might be using a different oil. It also happens in a very premium household that they might be using Saffola for cooking but they use olive for dressing their salads; but that is one more segment of premium thing Saffola needs to tackle in the coming year.

Abneesh Roy: And sir, this rice bran thing which came by one player and then other players also enteredé would you say that risk of market share loss to them has really come down? Where do you see rice bran settling in terms of the market shares currently? Nielsen may not report the right numbers.

Saugata Gupta: I think we believe that ultimately we have to design the best oil for the consumer that is healthy. Therefore what happens is if you just flog a particular species then there is a risk of commoditization, which we do not believe. So we design oils for the consumers that deliver the best balance in terms of health and we will continue to do so. Obviously, there could be certain species which have health connotations which I think they can also obviously continue to do wellé but what happens is that if you just flog a particular species, there tends to be a risk of commoditization. So if you really look at, yes, olive has done well but I think the problem that happens in olive oil in India today is that it is to a certain extent commoditized.

Abneesh Roy: Sir, my next question is on urban consumption. Modern trade has done well for you but if I see that is also aided by a strong comeback in Saffola and youth portfolio. If I see the other consumer company also said general trade in urban is lagging rural. So, where do you see urban consumption really in terms of the health of the urban consumption and what is really giving you confidence that second half you will see recovery? Because all this interest rate, lower food inflation, everything happened but we did not see urban recovery really pan out.

Saugata Gupta: I think there are two things, let me just address first the modern trade. The recovery in modern trade has been a function of Saffola. Youth business in modern trade is not that significant. In fact, youth, especially gels and deo, is a reasonably mass GT business. Also modern trade growth has also been obviously because of B2B. As far as urban is concerned, you are right that there has been certain action which have been taken from the government, consecutive quarters of better economic growth, lowering of interest rate, etc. But you must realize it takes time for Indian product consumption to increase. We believe good monsoon, which has a sentimental effect, will also lead to inflation continuing to be under control. Things like the new Pay Commission, benefits of which will start panning out in the second half and lead to growth. So I think we are fairly confident and I think there are some changes on the ground which we see with some of the steps taken by the government which is helping and which will help some recovery in consumption.

Abneesh Roy: Sir, my last question is on premium hair oil. You are targeting the premium and now even the super-premium hair oil. I wanted to understand the plans in the super premium hair oil? Coming back to premium hair oil, you have a very long brand name called Parachute Advansed Ayurvedic Gold. So what is the market, from where are you getting the share? It has done Rs60 crores and you are targeting Rs100 croreé which are the key players currently in this?

Saugata Gupta: It is a hair fall product. It is sold in the southern states. We have just launched the new version call Parachute Gold. So, there is a Parachute Ayurvedic and there is a Parachute Ayurvedic Gold. It has got around 30% share of the hair fall market in the South. It has been there for three years, four years. I think it is a very efficacious product and I think in terms of actually controlling hair fall in 15 days and 30 days. We have now launched a product which is tweaked. As you know that the consumer in the North and West in terms of sensorial, they needed a different product, that is what we have launched. We believe hair fall is a big market. In terms of the need gap and the primary problem which consumers face in India is hair fall. If you design an efficacious product, it definitely works because what happens otherwise, if you do not have an efficacious product that does not deliver, with advertising, you can get good trials, but you have high lapsation rates. It takes time to build. So, we believe what we have been able to do in the South, we are going to replicate in the rest of the country.

Abneesh Roy: And super premium, you are targeting Kesh King, Kesh Kanti market?

Saugata Gupta: I do not think there is something called super premium. People want a need to be fulfilled. Now, if that need is fulfilled at 99 bucks instead of 150 bucks or 130 bucks people will choose that. Ultimately what we want to deliver is a product that drives efficacy, the product the consumer accepts in the sensorial terms and also in the value equation. I do not think that segmentation exists in the consumerọs mind about super premium. Pricing, yes, as long as the price is within the tolerable index, then I think you can substitute each other.

Abneesh Roy: Sir, the super-premium word is mentioned in your earnings release. So I thoughté

Saugata Gupta: Yes, so this is premium. So I do not think there is what I am trying to say, there is no super premium segment, there is no premiumization. I think super premium is in Saffola. There is no super premium mentioned in value-added hair oil.

Abneesh Roy: No, it is there in the hair oil, hair fall only. I will take it offline.

Saugata Gupta: Sorry, Abneesh, this is we talked about the things like Dove Elixir and the Kerastase; this is not Kesh Kanti. So this super premium which we talked about is some of the conditioning oils, which could be the future trend in India. It did not mention Kesh Kanti and this is not true for us.

Moderator: Thank you. Our next question is from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur: Just wanted to check on the number of 4.6 million retail outlets which is mentioned in the information update. If I remember correctly, last time around the number was around 3.8 million outlets. Is there a kind of a retail panel change from the Nielsen?

Saugata Gupta: Yeah, you are absolutely right. It is retail panel change. This is a new panel and I think there is far better coverage especially in the lower towns and rural.

Ajay Thakur: Okay. So in regards to that, actually in reference to this context actually, just want to check: is the penetration and presence in the rural market been changed or revised upwards?

Saugata Gupta: Yes. In the last four years our contribution of rural has increased to 25 to 34. We continue to invest behind some of the rural markets and especially Shanti Amla growth has been fueled significantly in rural. So I think that is also getting reflected. In addition, we would have added some outlets in the urban in part of Project One. So it is a combination of both. I think Nielsen panel is capturing a better reflection; so I think in the earlier panel what would have happened was the sampling because of the lower samples especially in the areas we would have increased distribution that would not have got captured. But I am sure this will be the same for a lot of players who are increasing distribution.

Ajay Thakur: Yes, I have noticed that with Bajaj Corp results as well. But in that context actually does it also change the unorganized versus the organized market share? I am referring to conversion rates as well. So will that also change or that 70%-30% kind of a thing still hold? We still have 30% kind of an unorganized market which is there to be kind of exploited?

Saugata Gupta: Yeah, because that anyway is captured from the household panel and not from the retail panel. So that exists. I think what it gives is within the branded segment, if you would have increased distribution of some of the categories, which did not have a good pickup factor. The new panel would have given a better reflection of the reach in some of the market shares.

Ajay Thakur: Secondly, I just want to check actually your dividend policy; what it would be because you have already raised it to 69%. Whether that will be the new norm or we can see some kind of volatility in that rate? And, also if you can just throw some light on your capital allocation going ahead for like next one or two years?

Saugata Gupta: As far as the dividend policy is concerned, I think since we have certain cash and in the last couple of years we did not go for any acquisition. We have been progressively increasing our dividend payout. We believe that a 50% to 60% kind of a dividend payout is something we could look at, but subject to perhaps any acquisition opportunities happening. Vivek, you want to like to take on the capital allocation?

Vivek Karve: Yeah, so far as capital allocation is concerned, Ajay, typically our capital expenditure every year is in the range of Rs100 crores to Rs125 crores and that is likely to remain in that ballpark. If we do not make any acquisitions then the capital requirements will be in the steady state and can easily be met by our internal cash accruals.

Moderator: Thank you. Our next question is from the line of Kastubh Pavaskar from Sharekhan Limited. Please go ahead.

Kastubh Pavaskar: Sir, my question is more on distribution; so this year we have seen that Project One has contributed around Rs60 crores additionally to your revenues. So going ahead, whatever distribution initiatives you have takené how much percent it will add to your revenues, maybe for FY17 and FY18?

Saugata Gupta: What we have done in Project One is that we started off in the first top six metros; we have stabilized it and in the initial first year we supported it in terms of subsidizing that distribution. We are slowly withdrawing that subsidy so that the thing stands on its own because it is important now that it is generating Rs60 crores of business, the cost of sales should come down. We are ploughing back that money into the next set of towns, which is 14 towns, which we plan to do in the next one year. We expect may be Rs40 crores - Rs50 crores to come, but I think the question is this takes around a year to 18 months to stabilize.

Kastubh Pavaskar: Okay. So another Rs60 crores - Rs70 crores would be added maybe in 2017-2018?

Saugata Gupta: I think we would be able to give you a better figure after we start this process and maybe another three to six months down the line.

Kastubh Pavaskar: My next question is on your international market. MENA region has performed really well in this quarter despite the fact that the oil prices are coming down; what is your expectation from the Middle East and the neighboring markets because things are a little bit stressed there?

Saugata Gupta: We are a challenger there. Our base is extremely low and I think somebody with a far bigger business and a dominant size will be much more vulnerable to the reduction, the consumption pressures which you have. I think we have an extremely powerful package in terms of the marketing mix, the new product, the new communication which is targeted at the ad-hoc consumer which we were not targeting earlier. So being a challenger with a low base, we do not see any significant pressure as far as our Middle East business is concerned. I think continuing to deliver double-digit 15% to 20% growth in the GCC countries is eminently possible because as I said we are a challenger. If we had a big business and a profitable business there with let us say Rs400 crore - Rs500 crore size I think the vulnerability is far higher. We also do not have so much business in countries which are affected by IS and another eco impact. As far as Egypt is concerned, we are recovering. I think we perhaps disappointed some time back in the distribution issue and it took us some time to recover. It took us more time to get the distribution in place. We believe that most of the issues we are tackling, although it will take another one or two quarters to stabilize. Given the low base, I think even in Egypt we can get good growth. I think our position is not an incumbent but more of a challenger there. And in Egypt, we are recovering; so I think given the unique position delivering that growth will not be that much of a problem. Having said that, I think obviously the overall consumption trends in the Middle East could be a little soft, especially in discretionary, given the fact that oil prices are going to be slightly at a new low, which is the new normal and also the fact that the economic growth especially in countries which do not have other sources of revenue will be low. There is always inflationary pressure because of reduction in subsidy of gas and petrol and also the fact that there could be VAT, value-added tax coming up in the region sometime next year.

Kastubh Pavaskar: My third question is on Parachute Rigid packs. This quarter we have seen 6% volume growth; so sequentially it has improved over 4%, which you have achieved in Q3. Now, whatever price reductions you have taken and even in April you have taken another round of 6% price decline. Is there any room for improvementé a further improvement in volume growth in the coming quarters?

Saugata Gupta: We believe that it could be in the region of 5% to 7%; but having said that, what I spoke in my opening address in terms of the fact that there could be variability across quarters, I think we need to look at an overall 12-month phase where it could be in the region of 5% to 7%.

Kastubh Pavaskar: My last question is on other income. This quarter, there is an exceptional item of Rs9.62 crores, which has been mentioned in Note #7 of your release. I think that has already been recognized in quarter one. So is there any mistake in that note?

Vivek Karve: No, no, not really. In fact, in quarter one, what you are referring to is the profit on sale of one of the small businesses that was earlier housed in Vietnam. It was a multi-level marketing business and what we have now recorded in Q4 is profit on sale of an idle plant, which was closed sometime backé so there is no mistake. They are two different items.

Kastubh Pavaskar: So, sale in Vietnam, right?

Vivek Karve: Let me repeat. In Q1, it was a sale of a business in Vietnam. In Q4, it was sale of an idle plant in India.

Kastubh Pavaskar: Okay, because the amount looks to be similar at Rs 9.62 crores.

Vivek Karve: No, no, it is natural to get confused, but I hope I have clarified.

Moderator: Thank you. Our next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Saugata, you have laid out the medium-term plans for revenue growth. Could you also share some flavor on what you expect for operating profit margins over the medium term?

Saugata Gupta: I think 18% to 19% is something I would say and 17% to 18% is something which is a given. There could be maybe a slip-up in terms of the immediate term; but ideally I would like to maximize volume growth and market share subject to a threshold level of 17% to 18%.

Nillai Shah: Okay. And will this margin expansion that you are looking at, even if it is a little bit of a margin expansion, come from a mix improvement or from gross margin expansion in existing categories?

Saugata Gupta: I do not see any significant gross margin expansion. There could be some mix and also the fact that there perhaps is some juice to be extracted maybe in the long-term or medium-term from the international business.

Nillai Shah: Okay. And the second question is on Bangladesh. I think you spoke about a 10% volume growth looking imminent for fiscal 2017, is it right?

Saugata Gupta: Yes. That is right.

Nillai Shah: So if you are going to get about 4% to 5% volume growth in Parachute with a price deflation at this point, how are you gunning for 10% volume growth in what is just 20% of your portfolio?

Saugata Gupta: We have been actually clocking 30% to 40% growth in the balance business and we plan to accelerate that. I think its eminently possible given the fact that we have significant A&Ps. I think the biggest confidence booster we have is in terms of sales and marketing capability and the kind of initiatives we are taking there and media synergies which we are doing. As you know, there is a significant portion of media overlap and footprint overlap between India and Bangladesh, which we have not been exploiting. I think the rest of that business is quite capable of delivering 40% to 50% and above growth, including new initiatives like male grooming, the body lotion which we have doneé we have also started playing the hair fall market. So some of the things which we couldn't do in India and perhaps we are late in India in terms of competitive actions we can actually do in Bangladesh, because in terms of distribution strength, brand equity strength, we are far ahead.

Moderator: Thank you. Next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Sir, my first question is on the value-added hair oils portfolio. So if you look at our full-year volume growth, it is in the range of 14% to 15%; obviously the base is catching up over here. What do you have to say on the same thing going forward? You are already gunning for a double-digit kind of volume growth number. But if you could just give your thoughts on the same and given the fact that even Nihar still continues to do well at this point of time. What are your thoughts as far as the next year is concerned?

Saugata Gupta: I think it has to be a broad-based growth. We are also having some of the new innovations in play for the full year this year; so for example, hair fall in the north. We are trying out one or two prototypes. So it is a combination of the base growing and the fact that I think there are three to four innovations; at least two of them will be scaled up through the year.

Prashant Kutty: Okay. So despite having a higher base as far as FY16 is concerned, we still believe that should be able toé

Saugata Gupta: And also in certain markets where our rural potential has not been fully exploited, we will continue to push in terms of rural initiatives. We have moved from 25 to 34 and there is no reason why that number should not move to 36-37 in the coming one or two years.

Prashant Kutty: If you look at strong growth in the value-added hair oils portfolio, Nihar Shanti Amla was one of the biggest factors as far as volume growth is concerned. If you could just share a bit of how the performance has been as far as Parachute Advansed and Hair and Care?

Saugata Gupta: I do not want to get into individual brands, but all I can tell you the non-Nihar Shanti Amla portfolio is also reasonably double-digit, okay.

Prashant Kutty: As far as A&P is concerned we have seen a little bit of heightening up over here as far as this quarter is concerned. How do we see that going forward given the fact that we are going to look up at innovations in the next year as well as far as the ad spends and promotions are concerned in the next year?

Saugata Gupta: I think we should be in the region of 12%, but I think the spend will be more focused. Number two, I think we now have spend efficiency models in place for both above the line and below the line and we will continue to do that. So I do not see 12-12.5% as a fair kind of a number.

Prashant Kutty: We do not see that getting elevated given the innovations lined up?

Saugata Gupta: Not really. As I said that, we are comfortable with that kind of a number.

Moderator: Thank you. Next question is from the line of Amit Sachdeva from HSBC Securities. Please go ahead.

Amit Sachdeva: You already talked about price cuts and volume growth recording about 10% in FY17 and given we are at the peak margin level already in FY16 ending at 17.1 in FY16. So is it like fair to say that you are not looking at much margin expansion in FY17 and focus would be to obviously maximize revenue growth to offset the price deflation in copra? And do you have any thoughts on how the margin picture could look like for FY17?

Saugata Gupta: We will ensure there is 8% to 10% volume growth. Obviously, value will be in single-digits and you can expect double-digit bottom line growth.

Amit Sachdeva: Okay. When you said double-digit, could mean anything but it would be like mid-teens you are targeting? The reason I am asking is that are you comfortable for further margin expansion or do you see that this margin is now in the borderline comfortable given the demand needs to pick up as well in the second-half and things, and you might as well maximize volumes rather than actually play more margins here?

Saugata Gupta: As I said, I think we will try to maximize volumes and market share subject to a threshold level of margins which we operate on. Our bias is for volumes and market share, but all I can say is there is no discomfort or stress on the margin front.

Amit Sachdeva: A&P spend obviously has inched up a bit over last year, right? And that very sensibly half the gains basically had come to EBITDA margin and gross margins and half the ones have been sort of spent on advertising, pro, and other things. So do you see some cushion there when you have to take these A&Ps down or you would like to maintain A&P at these levels because last year has been an extraordinary year for margin expansion at the gross level and this margin expansion may not be as much next year. So do you see this cushion which was ploughed back in A&P spend might actually come down if required?

Saugata Gupta: I think we will take a long-term view on this. Our philosophy has been consistent on two things: spending behind innovation, building brands and on talent. We never compromise even in tough years. So we will continue to invest behind innovation, and the A&P I believe 12-12.5% as a fair investment. As I said, I think what we concentrate on is efficiency of spends and we have a very good repeatable cost management or value management program in place in this organization that continuously churns out opportunities so that we can plough back behind long-term growth.

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

Poorna Venkatesan: I wanted to know how rural demand is shaping up for your company and on the ground are you seeing any sort of improvement in sentiment or any trends that you are picking up that is worth pointing out. If you could just share your thoughts on thisé

Saugata Gupta: I think rural demand continues to be a little stressed. I think especially in some of the statesé I can specifically talk about Maharashtra, Telangana and some of the states in the north where there is a severe drought and therefore will only improve post the monsoon panning out. We believe if the monsoon prediction and forecast is right, farmers will not start consuming based on perhaps the forecast, but we believe that once the first harvest is due, sometime in October, or even the fact that if you can see a visibility of good rains, sometime in September-October you can expect a recovery if the rains are good.

Poorna Venkatesan: Okay. But right now you don't see any sort of improvement, it has been just the sameé

Saugata Gupta: No, in fact in the drought affected regions the thing will continue to be challenging.

Moderator: Thank you. Our next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Do you see a risk of pricing for value-added hair oils coming under pressure of promotion rising given the gap with coconut oil is increasing with recent price cuts? Or do you think at the consumer end this differential does not really matter because of the kind of oil they want to choose?

Saugata Gupta: I think we have a clear strategy as far as value-added hair oils are concerned. I think we have a broad-spectrum pricing starting from Hair and Care and Ayurvedic hair fall at the top to Shanti Amla at the bottom. The consumers have a choice to pick up different brands of ours and I think we have a broad spectrum play.

Latika Chopra: So, we would expect the pricing for VAHO to actually hold out? We do not see any risk there?

Saugata Gupta: Not really.

Latika Chopra: Have you seen your market shares holding pretty good? There is a lot of talk around the whole herbal and Ayurvedic space. Have you seen any changes in the overall market landscape on account of that in any part of your portfolio?

Saugata Gupta: In Ayurvedic there is an opportunity, especially in hair fall and that is the reason we aggressively want to participate in this segment.

Moderator: Thank you. Next question is from the line of Suvarna Joshi from SMC Capital. Please go ahead.

Suvarna Joshi: You just mentioned in one of the questions earlier that it is really the drought-affected states where we are not seeing so much demand. Could you just indicate how much of these contribute to our revenues as far as possible?

Saugata Gupta: No, I would not be able to share that with you. But we are monitoring some of the states where there is drought.

Suvarna Joshi: And secondly, on the herbal and Ayurvedic space, are we seeing any kind of competitive intensity from Kesh King or Patanjali so to say? Because we have been seeing and reading across newspapers that Patanjali is scaling up big time and the category is likely to expand going forward as Patanjali becomes more aggressive. So what are our thoughts on that and how are we planning to play the space?

Saugata Gupta: Ayurvedic and the herbal segment are exciting. I think what consumers look for is efficacious products, especially in the hair fall segment or even one in which it provides nourishment. They look at value pricing and I think if there are more than one player investing behind this space I think this space or sub-segment will grow. But we intend to participate strongly in this space.

Suvarna Joshi: One last housekeeping question as regards the tax rate. Do we expect it to be in the range that we have clocked in the last quarter of FY16 or should it be lower than that?

Vivek Karve: The tax rate will hover at around 28%-29% as we look at FY16-FY17.

Moderator: Thank you ladies and gentlemen. As there are no further questions, I would now like to hand the conference over to Mr. Rakshit Ranjan for closing comments.

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

Vivek Karve: I would like to thank all of you for attending this earning call. As Saugata mentioned earlier, we have had a decent performance in the fourth quarter. The last two quarters have witnessed double-digit volume growth for Marico. As we look ahead, there are strong headwinds of deflation and severe drought. The recent IMD forecast of normal monsoon should provide the much required relief. We remain quite confident of delivering robust volume growth in the medium term although in the near-term there could be some challenges on the value growth front. Thank you once again for you patient listening and interactions. Good night.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital, that concludes the conference. Thank you for joining us and you may now disconnect your lines.