



**“Marico Limited
Q1FY18 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Marico Q1 FY2018 Results Conference Call, hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishnan Sambamoorthy from Motilal Oswal Securities. Thank you, and over to you, Sir!

Krishnan S: Thanks Lizaan. On behalf of Motilal Oswal Securities, I welcome you all to the Q1 FY2018 results conference call of Marico. We have with us Mr. Saugata Gupta, Managing Director and CEO; and Mr. Vivek Karve, CFO. Over to the management for opening comments, which will be followed by the Q&A. Saugata over to you!

Saugata Gupta: Good evening everybody. I just wanted to give you a flavour of the first quarter results before getting into the questions. So I think we had a disappointing performance this quarter largely due to the GST transition in India and the continuous sluggishness in MENA. I must admit that the disruption we faced in June was significantly higher than what we had anticipated. However current trends indicate that Q2 will be near normal in spite of the transition pangs, which may continue through a large part of this quarter.

Let me first address the issue of GST transition. While we continue to be extremely buoyant about the long-term impact of GST on the economy and the organized players, we believe as a company, we underestimated the transition impact and could have been a little better prepared. The biggest impact was in wholesale and rural which started in the second half of May and was then followed up with a near zero CSD orders in June and key customers including modern trade stopping orders towards the end of June.

Like in the case of demonetization, east and north were more affected because of the market structure. Since we were neutral to slightly positive in most of the categories in terms of GST rates and we follow automatic replenishment model, we desisted from stuffing the channel with higher discounts in May where there was a window of opportunity, which was done by some other players. As a consequence, we had shrinkage in our pipeline, which could have led to even stock outs in some last mile retail serviced by wholesale, rural retail and some CSD canteens. This loss will be permanent and difficult to recoup in the balance year, but largely unlike post

demonetisation period, there was no significant consumption loss during the GST transition in any category and that was the difference between demonetisation and GST.

The category growth and market share gain this quarter are inline with the past trends, the system is expected to do largely settle down this quarter, although we continue to face some headwinds in wholesale, rural stockists and CSD.

We believe that there are some structural changes in the distribution channel over the medium term and players with better reach, sales automation and demand generation that is the pull based operating model rather than push based model and also the mindset of demand led as opposed to push led, will benefit in consolidating market share. Cost of doing business in certain channels will also move up and the manufacturers and the channels will have to fund the cost together. In conclusion, we are confident about 8% to 10% volume growth in the balance year while maintaining our threshold margins starting with a near normal Q2.

A few words about post GST pricing. We have already passed on the benefits of GST in value-added hair oils and Saffola in terms of price reductions and they are in the process of hitting the market as we speak since we started manufacturing the stocks in the first few days of July.

The IT and business process transition has been smooth and over the next few quarters we will explore and execute the network optimization initiative, which is offered by the GST regime. In spite of the GST transition headwinds we continued with a slew of new launches. Some of them, which we launched, very bravely in May and June, which should ideally have got pushed to may be this quarter, but I strongly believe that with the much stronger pipeline and execution focus, our new product track record will definitely improve this year. We are already seeing some green shoots and we will be in a better position to give you a clearer picture next quarter.

I will now comment on the international business. The performance in Bangladesh is largely back on track and we are confident of a double-digit constant currency growth this year which is backed up by a significant diversification of the non-PCNO portfolio. We believe South Asia can do better; single digit constant currency growth is not good enough and will strive to get into double-digits in the second half of the year.

The near term prognosis of the MENA business is largely neutral to negative. Having said that it contributes only to 3% of our turnover and we expect to deliver constant currency growth in the second half. The South Africa acquisition is a neat bolt-on since we will plug gap in our

portfolio and deliver more critical mass of our business without any incremental overhead. Isoplus is the market leader in the styling wet hair category in which we were not present and has a strong brand equity with headroom for distribution expansion under our fold.

To conclude, I firmly believe that it will be largely business as usual for most of the balance year unless there is some black swan, although some transition hiccups will continue. We are committed to a long term strategic thrust areas; however, there will be long term structural changes in the channel operating model and cost structure in India, which will offer opportunities of competitive advantage and we will have to be agile to leverage them. So I will just open the floor for question. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Mihir Shah from Deutsche Bank. Please go ahead.

Manoj: This is Manoj here. One question on the GST transition, a bit of rearview mirror sort of question. The conceptual understanding was that companies or products with the higher staple characteristics plus rural exposure possibly being low and low distributor inventory should have lower disruption business. So in that context you are actually one of the companies with relatively lower rural exposure at least in my coverage. So I was just trying to understand is it that do you have slightly higher wholesale exposure in urban itself or how should I actually think about what has actually happened?

Saugata Gupta: Let me just address this. I think the impact has happened both in rural and in urban wholesale. Urban wholesale also feeds into rural, so our direct rural exposure is slightly lower. Secondly, we have CSD component which is 7% of our sale and that also got impacted which declined by 15%. Now it does not matter what distributor holding is as it is independent of the distributor holding and I just wanted to clarify this, because we are in automatic replenishment mode whatever secondary you do, its replenished through primaries and thus our average holding at the distributor end as on May 31 and June 30 never changed. As I said that unlike some players, we never gave additional discounts and that was the window of opportunity. It is on hindsight, maybe we could have had the window of opportunity in May to actually stuff in either distributor or trade giving extra credit, extra discount which we did not do. So I do not think distributor inventory will have any impact on the secondary drop because our primary and secondary are more or less inline.

Manoj: Understood and secondly one comment, if I heard you correctly just to clarify this that post July 1, 2017 it is mostly normal. The reason I am asking because I have heard on the ground not sure whether that is to be extrapolated nationally. Actually there are parts in which the actual demand or rather the actual sales is below budgets and basically the ramp up has been slower in the month of July essentially because in east wholesale has actually not normalized?

Saugata Gupta: East is always a problem I tell you. On a serious note, I think two things. One is, you must realize that I gave you a flavour that we functioned as if it was business as usual in Q1 so we went on an automatic distribution mode. Therefore in places where there would have been pipeline thinning, where people were not buying in the last week of June, we perhaps could have been able to sell more through discounts. Number two, yes you are right that there continues to be some disruption especially in wholesale and stockists and that is primarily more in the east and north. Also till almost the end of July there were no CSD sales. Having said that since we also did not do anything extraordinary in the first quarter in terms of extra discounts, extra credit, etc., so as far as we are concerned other than CSD and some part of the wholesale, we have been able to do near normal sale in July and we believe that it will be a near normal quarter. Also, you must see it in relative to the competitive set, may be other players are more wholesale dependent, may be the other players especially the locals or the other unbranded used to do more cash sales. We have to see it in relative terms.

Manoj: Got it and secondly on the margins a bit given the inflation what you have seen. So comment about the price increases what you have done in July in Parachute and what is the outlook for FY2018 while you have mentioned in the information update very clearly that margins could probably trend little lower. So from an objective aspiration point of view, are you looking to maintain margins for 2018 or it would definitely be lower than 2017?

Saugata Gupta: It would be lower than FY2017. I think as we have said that 2017 would have been a slight aberration because of the unique situation of very low input cost. I would say that our endeavour will be continue to get back into the normal growth, which we talked about it at least 8% to 10% volume growth and also in most of the international markets having double-digit constant currency growth for the rest of the year. We would get back into 11% to 12% A&P. As you know that we have taken some price drops, which are the GST benefits, around 5% price drop we have taken in value-added hair oils and around 3% to 4% in Saffola. Saffola while the output tax rate continues to remain the same, we have passed on the input tax benefit, to the consumers. I think it is the right thing to do. We see the GST benefit at a category level because we have looked at it in these two cases and we have passed it on. And where there is inflation, we have not taken

any pricing action last quarter as we said on Parachute because of the GST thing but we will take a call on that later. I would think that we would like first the situation to stabilize, get it back to normal growth and then take a call. I do not see any reason there is going to be any impact on the long-term margin guidance, which we have talked, there could be one or two quarter fluctuation, but even then if you look at it even this quarter, the margins are 19%, so it is slightly above the zone which we have indicated.

- Manoj:** Okay, just to clarify if I heard you correctly, there is no price increase in Parachute in July?
- Saugata Gupta:** There was no price increase and last price increase has been taken in March.
- Manoj:** I have the data till June I just want to clarify and secondly you are taking the GST benefit on a category-by-category approach not a portfolio approach?
- Saugata Gupta:** We have followed the category approach like especially in value-added hair oils where there has been reduction, we have passed it on.
- Manoj:** No, the reason I asked this because Unilever for example I am saying this because they have been very categorically in saying that they have really looked at the net benefits at the portfolio level sort of an approach which has essentially made there is a bit of cross subsidization. So, you are not really looking at VAHO benefit can be used to mitigate some of the Parachute inflation for example.
- Vivek Karve:** No Manoj. We are taking category view and not a company view.
- Manoj:** Understood. Thank you so much. I will come back in the queue. All the best.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnob Mitra:** Just on the margin question again. Any reason why this time the price hike in Parachute has been so much delayed despite the fact that you have written in the release that you expect the copra to further go up and in that context is you should logically see a significant volume pickup because of the lose to organize shares increase. So do you see that playing out in July as we speak?

Saugata Gupta: I do not want to comment on the exact thing what is happening in July, but to give you a perspective that we want the entire impact situation to stabilize. I do not think the situation has completely stabilized as in the last quarter, there was so much volatility and uncertainty but we will take a call on this pricing call soon. Just to give you a perspective on the copra prices, we believe that we are near the near term high, so I think we will have a visibility of how it plays and then we take a call on it. As I said, it does not matter if you have a one quarter some kind of impact on margins as long as we ensure that we leverage whatever possible to maximize volume growth and ensure that the price premiums and margins both are balanced. We will be able to give a clearer view of this sometime by October by that time I think the overall ground situation would have stabilized.

Arnob Mitra: Sure and the second question was on ad spend, now it has been two, three quarter since the ad spend has been cut significantly, so do you expect it to kind of trend back to absolutely normal at 11%, 12% level for the rest of the year and secondly in the context that some launches have happened, has the cut actually happened in some of the core products or you have reduced the spend on new launches, which has happened in the last two, three quarters?

Saugata Gupta: Most of the launches if you see have actually happened in May, June, so these have been distributed in the market, it was a part of our plan, we went ahead in spite of this volatility because we said let us do it, it does not matter, so the advertising behind that and the support will start up from this quarter onwards going towards the balance of the year, so for the balance of year you can expect that back to the 11% to 12%. If you really look at advertising spend, it will reach the near normal levels again. It was in Q3 during the demonetisation quarter, there was a slight dip.

Arnob Mitra: Just lastly on your comment that you expect Q2 to be nearly normal as a quarter would that be more on exit basis or you think a full Q2 itself goes back to that 8% to 10%, which is what you have said was a remaining of the year?

Saugata Gupta: I said near normal, so it will be close to 8% to 10%. I said that the only surprise could be the uncertainty on CSD sales, and yes wholesale is still not 100% back, there are issues especially in the east and north but if you have to look at also relative set in the sense that we compete in relative term versus other players who might have more wholesale exposure, who might have other operating models of doing business, so there could be potential of some of the growth coming from market share opportunities also.

- Arnob Mitra:** Thank that is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** My question is on the category performance, so we have seen 8%, 9% decline in VAHO whereas we have seen 3% sort of increase in Parachute in volume terms, so just wanted to understand the difference between the two?
- Saugata Gupta:** 3% for Parachute is value growth that was because we have taken a price increase. Parachute volume decline is also 9%.
- Percy Panthaki:** Sorry, my mistake.
- Saugata Gupta:** So we have been consistent in all three with a 9% decline, Saffola is also 9 so all three equally bad.
- Percy Panthaki:** Just coming back to your comment that next quarter will be normal should not September quarter be much above and all because whatever has been a destocking in Q1 that needs to be replenished or do you think that whatever destocking has happened that is a permanent loss now?
- Saugata Gupta:** As I said that I do not think even July the situation on the ground has been completely normal. I think the transition pangs especially in wholesale, some rural stockists, the CSD continues, and number two there has been destocking, which was there perhaps in urban, retail and large customers in modern trade. One can look at some of the making it up, but some of the stuff in rural is a miss, it is going to be a miss and as I said that may be towards the end of June and the first one or two weeks of July there could be certain last mile retail outlets, which are fed by two degrees of wholesale or some of the rural retail outlets actually went without stock because if you see you have an STR of hypothetically 30 days, now the 30 days is not uniform, some will have 50, some will have 10 or 15, if you have a disruption in supplies like especially what we have noticed in wholesale, which has now been 30, 40 days in certain pockets like east and north, I am sure in certain places there will be stock outs so that will be a permanent loss.
- Percy Panthaki:** So tell me one thing Saugata if the trade gets used to working on a lower inventory holding period for three, four, five months then why will it revert back to that higher inventory holding. What is in it for them, just block more working capital in holding inventory once they realize that

they can actually function on a lower inventory level, don't you think that will become the new norm then?

Saugata Gupta:

I do not think, again as I said the retail inventory what you notice is an average, I completely agree that in certain places where there has been perhaps depletion of STR, it will take time to go back, but you must realize that in India the demand patterns and the way the supply chain effectiveness is that everything is not just in time. So I would say that you are right in certain extent in certain places, for example where the cost of doing business has gone up, some of the channel partners might just hold certain SKUs, might actually reduce the SKU holdings or reduce their average inventory and hold only stocks, which have a high velocity of turnover, so the pattern will change and I think - but having said that it is an one-time stock correction, it is not going to happen month after month after month . That is the reason just to clarify, that is why I said that in my comment that it is not going to be easy to recoup all the losses of Q1, significant part of the loses will be losses. For example CSD we did not sell, it will be a one time, it will be loss, you cannot makeup to a large extent.

Percy Panthaki:

So in your opening comments you mentioned that there are going to be some changes in the distribution model, cost structures etc., some comments, I do not remember your exact words, but some that sort, so could you elaborate a little more on that?

Saugata Gupta:

I think two things - one is obviously the cost of doing business especially in channels, which were not necessarily 100% compliant, will move up and therefore it has to be shared. Number two as I said that players with higher direct distribution in the long-term, will gain. I think I am alluding to the same thing that ultimately somebody has to bear the cost of carrying stocks, companies which are much more agile are more likely to consolidate market share. I think long-term there could be structural changes with the level of compliance in the system and I think government has done a right thing – it will encourage more compliance, less cash sale, so players with a model dependent heavily on wholesale, cash sales and other things obviously will be at a strategic disadvantage over the medium term.

Percy Panthaki:

So this higher compliance cost, which needs to be shared according to you, how much of that could be a hit on our margins?

Saugata Gupta:

It is very difficult to estimate, but what will happen is that certain channels will then become more attractive to do or for example B2B cash and carry can replace traditional wholesale, so there would be also some kind of a movement or a mix change that could happen in the long-

term and as I said you have to visualize what is going to happen over the distribution system over three, four year period. I can give you one example like there is a traditional model today of distribution, which is wholesale to retail, but after some years it could be that slowly, companies which are large scale, the cost of sale for direct distribution will progressively go down or the relative cost difference between doing retail distribution direct versus wholesale will keep on going down.

Percy Panthaki: That is it from me, Saugata. Thanks and all the best.

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

Karthik Chellappa: Thank you very much for the opportunity. Sir my first question is on this GST related cost from which channel, do you think the requirement for a higher margin is the highest and where do you think the hit will essentially come from in the beginning, if you were to look at modern trade or let us say even your distributors or traditional wholesale?

Saugata Gupta: I have with me Sanjay Mishra who is the COO of Sales of India & Bangladesh business; I could request him to give a perspective and a flavour on this.

Sanjay Mishra: Hi everyone, see the way we look at it is the fact that the business mix will change between channels. For example that Saugata spoke about it that it is likely that a traditional wholesale business can shift into an organized go to market business, which is through the B2B, so it is the channel mix as every channel operates at a different cost, I do not think that per se any particular channel on its own basis will become significantly higher.

Saugata Gupta: In any case just to add that this impact would have been higher if your GST rate of a category goes up significantly. If the GST rates pre and post have not gone up, it will not shrink the margin that way.

Karthik Chellappa: Got it. The second question is if I look at the Parachute growth rate this quarter 3% value, about 9% degrowth in volume effectively the price plus mix-led growth is about 12%, now if I recollect in March we have taken a 8% price hike, which should have flown through this quarter completely, so the balance 4% essentially would be coming from where?



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- Saugata Gupta:** I think the way to look at it is also got to do with mix as CSD sales were almost negligible plus you have to see last year's base also.
- Karthik Chellappa:** So there is really no uptrading?
- Saugata Gupta:** No, last year you know that we took a price increase in July and then we took another price increase in March, so it is 7+5 also and plus the CSD mix, it is a combination of both.
- Karthik Chellappa:** Okay perfect and on the value added hair loss portfolio, now this quarter at a portfolio level we have had a 33% volume share and 26% value share this is the largely remained similar to what we saw in March, but however Shanti Amla has gained about 100 basis points market share compared to March, so which are the brands, which would have lost share and what would range of the market share loss be roughly?
- Saugata Gupta:** No it is not that way. By the way we have actually gained 100% sequential value share. In summer, the cooling component goes up, so we do not participate in the cooling and therefore it is a derived number where the market share goes down. In terms of offtake growth, the offtake growths in all the value added is in line with a near normal of around 10% plus.
- Karthik Chellappa:** Perfect and my last question is in terms of direct reach over the next three years by how many outlets can you actually expand the direct reach realistically speaking?
- Saugata Gupta:** The way we are looking at it is as follows, our first endeavor will be that within our urban especially in certain set of outlets which is chemists, cosmetic and specialty foods, which are aligned to our new portfolio will attempt to ensure that we keep on increasing our outlet base. We have already started this, Project ONE, we have started in the six metros first; we have then extended it to the some of the other towns. In rural we are going in a methodical way where we are in certain markets like UP where we were not so strong. We are first saturating certain markets rather than having a kind of a short-term approach; we are starting to do with multiple states, so I believe that we have enough opportunities in both expanding both in urban and rural. Having said that, we will also look at it in every one to two years that what is the return on investments and we will collapse some of it. To give you an example, we are now experimenting with differential levels of service levels, so hypothetically I can service a customer twice a week, I can service a customer once a week, I can service a customer fortnightly as opposed to in the past where it used to be a one size fits all, or weekly servicing.

- Karthik Chellappa:** Thank you Saugata, thank you and wish you all the best.
- Moderator:** Thank you. We will take the next question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.
- Abneesh Roy:** Sir my first question is male grooming has seen a 23% decline, Premium hair also 25% value decline, so in this how much is the wholesale, why is the decline here higher than the overall company average?
- Saugata Gupta:** So let me just tell you what happens normally whenever people destock, they still stock the leader brands and essential brands .This destocking happened even in key outlets, even in urban retail. This was a same thing that happened in demonetisation where the key brands, leader brands essential were stocked so I would stock Parachute and rather than stocking something which are essentially fringe so that is the reason and even will tell you the system psychology is first to protect your core whenever there is such volatility so I would think that these things will sort out by itself and we should get back to normal in the second half of the year.
- Abneesh Roy:** So here Deo would have suffered more because in balance of the male grooming, you are the leader right?
- Saugata Gupta:** But you look at the category per se that if I generally buy x quantity, but now I will have to buy half of x, so then what will I buy? I will buy only some of the essential category so this is going to happen that relatively discretionary goes out of the buying basket.
- Abneesh Roy:** Coming to Saffola my sense is in Saffola, the city percentage will be higher so rural will be much lower, urban will be higher versus overall company average but Saffola has seen 9% decline you have mentioned CSD has been impacted and CSD higher salience is there so what is the salience for CSD and what is the percentage of urban or rural split for Saffola broad?
- Saugata Gupta:** It is largely urban. Again as I said that even modern trade stopped buying sometime in the last half of June and also CSD stopped buying, CSD component of Saffola is higher than our average of 7%, it is in double digits.
- Abneesh Roy:** Sir is there any impact from any of the new players, I am seeing Emami Healthy and Tasty, Amitabh Bachchan Brand Ambassador. It is still early days, but longer term do you see impact? Even Patanjali is getting a bit more aggressive here so not necessarily on this quarter, but long-

term Emami is known to spend heavily. With Amitabh Bachchan Brand Ambassador and it is not generic brand name it is a healthy and tasty so what is your sense long-term on the competitive intensity?

Saugata Gupta:

I think that the competitive intensity obviously like in any category, there would be in oils as well. Our endeavor always is to design the best oil for the Indian consumer, which is best for the heart, best for fitness. If you will notice, Saffola has just undergone restage with four different variants targeting specific consumers. We will continue to invest behind the foods, which has a rub off with Saffola brand and given the tailwind of health there is no reason why we should not get back to 10% plus volume growth for the brand.

Abneesh Roy:

Coming to the Bangladesh, your non-coconut portfolio, your target is extremely aggressive, it seems very aggressive from 19% salience currently you want to make it 30%-40% in the next two to three years, which means extremely aggressive growth rate at least 25%-30%. Are you expecting coconut portfolio to decline or you are actually expecting 30% kind of growth in non-coconut oil portfolio?

Saugata Gupta:

The way to look at this that the Parachute coconut oil is reasonably saturated. We have 87% market share, the loose to branded is around 80-85%, I mean the branded part is 85 so growth has to be in line with population growth so it can be 2% or 3%. Having said that I think given our unique strength in Bangladesh, we are rapidly through cross pollination, actually driving diversification. Unlike in India, in value added hair oils we are not the leader we are present in male grooming, we have launched body care, we are also leaders in the colour component, which is basically the powder part of colour. I think in some quarters we have grown by 25% to 30%. We also want to participate in male grooming in a big way. Even if Parachute grows by that number which is the population growth, other part of the business has to grow at around 25%-30% in order to get double-digit growth in Bangladesh and which given our strength, given the profitability of the market, and our ability to invest, I think it is fairly possible.

Abneesh Roy:

Out of this which are the most positive on in this non-coconut say VAHO, Deo, Gel, lotions in Bangladesh which one?

Saugata Gupta:

VAHO we are still not the market leader, our first step is to be market leaders. I think I would say male grooming and hair colours.

Abneesh Roy: Coming to Indian business under 115% growth in e-commerce what is the base currently or what is the percentage?

Saugata Gupta: It is very marginal. Do not look at it that way. I believe by the end of this year and going forward, we will have to clock a reasonable amount of sales in e-commerce and we will be over indexed compared to some of the players. The reason is again we believe in two things. First thing we now have dedicated setup to drive e-commerce. We firmly believe that some of the categories, like Saffola hair fall, male grooming are more likely to have a higher share in e-commerce. I think these can be skewed towards the e-commerce. We sell Bio-Oil in addition to that Beardo for example where we have invested gives us a tremendous learning on how to do digital brands. Over the next six months, you will actually see some more digital initiatives which will happen where we will have some brands, which will be sold through digital and e-commerce. We have recently launched Virgin CNO, which is sold through e-commerce so I think e-commerce is one of our big bets of the future. It might be small but I believe that over the next four to five years e-commerce will achieve significance as one of our big drivers of growth.

Abneesh Roy: Sir 90% of the portfolio you are gaining market share which are the ones if you could tell us where there is some loss of market share?

Saugata Gupta: There is some loss of market share in body lotion, deo and some parts I think in Middle East and North Africa so those are the ones. India I think in most of it, if you look at, coconut oil, value added hair oil, gel, Saffola we have gained market share.

Abneesh Roy: That is all from my side. Thank you.

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

Vivek Maheshwari: Good evening everyone. First a basic question what is the wholesale mix for Marico, sorry I just do not know it.

Saugata Gupta: 35% of General Trade.

Vivek Maheshwari: 35% of GT. Saugata if I mean you have mentioned a lot of points thus far so on one hand you are seeing east there can be problem, wholesale can be problem. 35% is a decent number I know some companies are indexed to 50% because 35% number is a fairly high number and then you

also mentioned wholesale there could be some bit of challenges and on top of that CSD until July end of July you have not seen massive pickup. What is giving you this confidence of 8%-10% volume growth for the rest of the year?

Saugata Gupta:

Two things - if I look at it everybody wants to do business, the wholesaler also wants to do business. What is easiest way to do business at least you start driving and stocking your large brands, leadership brands where the velocity of turnaround is very high so I think in the south and west, I do not see any problem in for example Parachute is a leader brand out there. In some market today, Shanti Amla is one of our leader brand so I think the problem is localized largely to certain parts in east. Also as I said urban retail is reasonably back to normal. See, GST had not led to any consumption losses. People are going to consume irrespective of GST so I think any agile player will find an alternate route to ensure that the last mile retail and ensure that the product is available.

Vivek Maheshwari:

Sure but if you are saying that everybody wants to do business then direct reach or indirect if wholesale is the way to reach then the companies who are over indexed to wholesale will also find the way to reach. Is that a fair one? And also regarding your comment about east, my understanding is even north and central things are much below the normalcy rate. Is that also fair?

Saugata Gupta:

I would say east is still little more affected. Yes north and central could be. You are right that everybody want to do direct but for that infrastructure also has to happen.

Vivek Maheshwari:

My point Saugata is on the contrary, your remark that wholesale pickup brands which are leader brand, that would be the case if wholesale wants to do business then they will find ways and may be get registered or there will be in new guys who will join the distribution force, if that is the case that will hold true for everyone but you are commentary about volume. Is it also to do with the base because last year second quarter weak, third quarter obviously is that the reason 8%-10% is in the context of low very base that is why you are gunning for 8%-10%?

Saugata Gupta:

No I think let me clarify again as it 8%-10% for the balance year, definitely and I have said near normal though it is too early to give you an estimation as we just have visibility of July. As I said that whatever things stand now and whatever is our best judgment and judgment sometimes can go wrong, we would have near normal quarter. Let me just clarify this. We had the same call on February 1, 2017 when I stuck my neck out for Q4 after the demonetisation quarter maybe that time my judgment was right. I do not know. This time this is what my current judgment and the

collective wisdom of this team is suggesting a near normal quarter. There could be black swan in today's VUCA world.

Vivek Maheshwari: Second again this question has been asked but on gross margins or margins price hikes so in July you have obviously not taken up prices in fact there has been pause for a while. When do you think given government's focus on let say inflation and antiprofitteering although, there is no question of antiprofitteering because your cost have gone up decisively so when do you think would you be on pause let us say for a few months, for a few quarters, for a couple of quarters, can you give some sense on that?

Saugata Gupta: As I said that ultimately we first want volumes to come back to near normal, our channels to come back to near normal, margin never goes away in an emerging market. You cannot get back lost volumes or lost market share, margins always come back. That is the principle we will follow as long as we deliver our threshold levels of margins which have indicated.

Vivek Maheshwari: My apologies I have to look at annual numbers and because that is how our models are if that case are you suggesting that you know that means margin headwind could be there for the balance FY2018?

Saugata Gupta: Let us look at the second quarter then we will take a call on this. Another way of looking at it is you must realize is that I also gave you that indication that I think copra is nearing its peak and normally as you know, there it is an 18-24 month cycle.

Vivek Maheshwari: Alright Saugata. Thank you and wish you all the best.

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

Sanjay Singh: On the margin front pushing it little bit last year full year basis 19.6% under Ind-AS and you are talking about 17% to 18% if I take it mid point it is almost 200 BPS decline, so is there 17% to 18% number just long-term number or is it that we will be actually in this range for this year?

Saugata Gupta: We have always indicated that is the threshold, sometimes it can be up but ideally for annual year it will never be down.

Sanjay Singh: No I did not get you sorry.

- Saugata Gupta:** 17% to 18% is annual threshold. There could be volatility in certain times it could be up but ideally it should not be below 17% to 18% for a full year period.
- Sanjay Singh:** I am not saying it is below because in the sense that in the first quarter is 300 BPS decline in terms of margin, but even if for the rest of the year, you improve a bit and you are taking that 17% to 18% range still on a full year basis, there are 200 BPS decline in margins so is this scenario something which is possible or do you think you will be in the higher in the range or you will be actually beating that range?
- Vivek Karve:** Sanjay, Vivek here. We will not be able to give very specific guidance because there are many imponderables. What we are trying to say here is 17% to 18% is the floor below which we would not like to go. The realities of the business will unfold as they will but we will try to definitely protect the floor of 17- 18% is what we are trying to say here.
- Sanjay Singh:** It is more like floor per se then.
- Saugata Gupta:** Yes. That it is the base.
- Sanjay Singh:** Okay and in terms of copra I mean you saying this we have reached the peak, I mean is a tricky call on commodities but is there I mean even this year we have a little weak monsoon in south, does it impact things anyway?
- Saugata Gupta:** It does, but the copra thing is also impacted by the northeast monsoon because most of the thing is in TN and northeast monsoon there. In Copra and PKO also there is a lot of other dynamics so it is just not the copra per se. There are some things like palm and other prices that operate in tandem.
- Sanjay Singh:** I do not know whether I am taking it too far, is there any global consumption of coconuts increasing at a much higher pace? Is there any such trend like that? Is it also a demand the cycle, which is playing out or is it only supply cycle?
- Saugata Gupta:** I think the Indian market is mostly insulated. Yes, the fact that virgin coconut oil or coconut water is growing is correct, but if you look at the actual numbers per se when compared to the total coconut production in the world, I think it is a very, very miniscule one.
- Sanjay Singh:** So India coconut is an isolated commodity agri commodity per se it is not?

- Saugata Gupta:** To a large extent, but as I said that we are doing two things; for Bangladesh and others we have already explored and executed alternate markets like we now get a significant amount of Bangladesh copra for markets like Indonesia, Fiji, and other places, so in that way we are reducing our dependence on India and we are here also doing a lot of work with farmers in terms of improving productivity and other things.
- Sanjay Singh:** Lastly on demand, the last three years, if I see the average volume growth CAGR our volume growth is around 6% for India. Now the range of 8% to 10% and of course it has trended down below the last few quarters given GST or given demonetisation or whatever, so this 8% to 10% range is it something, which is you are expecting on improvement in the economy and then hence expecting this number or is it something, which is more internal to you?
- Saugata Gupta:** Let us look at it this way. In the last six quarters, we have hit 8% to 10% in three of them. If you take out the demonetisation and GST and I think Q2 of last year we have hit our numbers, so these numbers of base eight we have hit, if you look at it and I think if the food inflation is down and if the monsoon this year is good and there is no more black swan events there is no reason why it should not happen in the second half of the year.
- Sanjay Singh:** In second half of the year then you have a very low base, but if you look at FY2019 also you think that this is possible if let us economy is more or less status quo let us not then also it is possible or do you think you need some economic tailwinds for that to happen?
- Saugata Gupta:** I think we have reasonable amount of economic tailwinds but yes more is always welcome, but I wanted to correct one perception our second half base is not very low because Q4 we delivered a 10% plus growth, yes demonetisation low base is there, but in Q4 our base is high. When I am talking, I am talking H2 growth of 8% to 10%.
- Sanjay Singh:** Thank you and all the best. Thanks.
- Moderator:** Thank you. We will take the next question from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.
- Rahul Maheshwari:** Good evening. I have two questions. First of all in your press release you have given the Nihar Natural Sarson Kesh Tel, Sir can you throw some data points or commentary that how big is this market and next three years what is the milestone and the margins and as you have given it is a 7% share, so can you give some highlights on that?

- Saugata Gupta:** I think we believe it is a big market in the north and some parts of east.
- Rahul Maheshwari:** How big it is in market size?
- Saugata Gupta:** It is too difficult right now to say that because especially it is very deep rural. Some people use mustard for multifarious use, so it is very difficult. But it is a sizeable market and we believe that it is a market where already there is a player who is the leader. We think there is an opportunity to grow the market together and I said this market is going to be big in terms of upgradation. We have just started wetting our feet.
- Rahul Maheshwari:** So any milestone going forward three years?
- Saugata Gupta:** I think I gave a flavor of it that we will be able to give a much clearer picture of it by the next quarter and I think we will definitely talk about some of the new products. We will have a fair idea of some of the new products by the next quarter. All I can say is when I mentioned green shoots this is one of them and I think the potential for the total market for this value added mustard is going to be high over the medium term.
- Rahul Maheshwari:** Any competitive in branded kind of thing because major of the market is lose form?
- Saugata Gupta:** I think there is a Dabur Sarson Amla that is the lead brand here.
- Rahul Maheshwari:** Okay and second thing as we have consistently found MENA region across for the entire FMCG industry Sir can you throw what is going wrong over there in terms of macros as you are telling that you would get back the growth, so what would be your strategy or it is the other way around that next for one to two quarters also still there would be a sluggish environment over there?
- Saugata Gupta:** Let me just bifurcate MENA. There is Middle East and there is Egypt and there are two different kinds of situation there. So in the Middle East what has happened, obviously, is the low oil prices, which has led to sluggishness in the economy and sluggishness of demand. Having said that, I think it is far more pronounced in markets like Saudi Arabia versus say UAE because I think the dependence on oil is far more in Saudi Arabia and this is going to continue if oil prices continue to be down; however, having said that the reason we are saying that you will get some constant currency growth, as it has reasonably bottomed out in our belief.

Rahul Maheshwari: So going forward you expect at least Middle East not the Egypt part to be going forward it would be in a positive zone?

Saugata Gupta: I am saying that it has bottomed out. The worst is over given the situation and economic growth if the thing is not buoyant, the decline will be arrested. That is all we can say now for the second half. As far as Egypt is concerned, what has happened is Egypt last year, there has been a significant devaluation to the extent of 90%. There is an inflation of around 30% upwards and therefore what is happening is things like electricity and fuel are becoming expensive and so people down trade. They do not go for premium brands. They are down trading all across and we participate in male grooming; it is not necessarily a very essential kind of a category in the FMCG repertoire. There also, the devaluation started sometime in October, so the base realization will happen by that time. We have reacted to input costs increases because everything is imported. A lot of our raw material prices increased, so you will start getting constant currency growth and the anniversarization of the devaluation will happen in the second half, so again the worst is over in both the cases. In fact, the currency has stabilized and is in fact has appreciated a bit in the last two to three months, so what we are saying is that all that happened in the second half of the last year, you will start seeing some growth in the second half due to base correction but one will not get a big growth. Having said that, the MENA region is only 3% of our total turnover. Is it going to significantly shift the needle, either way, the answer is no.

Rahul Maheshwari: Just one thing, I wanted to ask again that the international component, which is there currently standing 23% contribution to topline would that remain three or four years down the line it would remain in the same range or you are expecting that to move to something 30% kind of thing?

Saugata Gupta: Ours is an “And” strategy and as I would reinforce we do not have any targets for India and international in terms of share of business. Each one has its own growth target and so therefore by that logic I think the proportion of international business is unlikely to go up. I have a firm belief that we need to focus on all the markets where we are already present, there is enough headroom for growth rather than getting into much more, being adventurous and getting into other new territories. Acquisition is going to be a top up and not a replacement for existing growth and there could be opportunities for neat bolt-on or tuck-ins, which are available, which we can do, which will be done at no incremental extra cost or management bandwidth, so I do not see any significant change in the proportion and I think we are very, very lucky to have a home market, which will be an invest-to-grow market and in terms of my team’s energy and my energy is towards existing markets in South Asia where we are very strongly placed and if we

can improve our organic volume growth rate and our innovation track record in India and Bangladesh, we will have done a good job.

Rahul Maheshwari: Just last question if I may ask that as compared to ayurvedic if we go for Patanjali or Kesh King or Indulekha of HUL just now in your press release said about the Parachute Advanced and you are getting a milestone of Rs.100 Crores, so what kind of growth and what kind of competition or product range or innovation are you bringing in the next one year?

Saugata Gupta: We already have a product. In the south it is doing very well. It has got a 30% market share in the anti-hair fall in the south. We want to focus on getting that growth there and we also have a product for rest of India, so I think there are opportunities to grow in this segment. This is a category, which I believe while being competitive, I think as long as the product efficacy is there and there is a strong brand, we have enough opportunities to grow.

Rahul Maheshwari: Thank you so much.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank Of America. Please go ahead.

Prasad Deshmukh: Good evening. First question you said July has been near normal, so which are the channels that we are picking up slack that is there in wholesale and CSD?

Saugata Gupta: I think let me just reinforce, current trends indicate Q2 will be near normal. I do not want to get into a specific July performance, which we should not do. All I can say is that there are still some transition pangs in some sections of the country in wholesale, some in stockist, and definitely in CSD. Most of the other areas, it is near normal and I think even in wholesale places like south and west is far more back to normal state than compared to others and this is a similar trend you noticed during the post demonetisation also.

Prasad Deshmukh: How much is organized cash and carry as a percentage of your sales?

Saugata Gupta: We will not get into so much granular details, modern trade including B2B and B2C is 10%.

Prasad Deshmukh: Secondly in the volume growth that you have spoken about 8% to 10% how much of this would be driven by low packs?

- Saugata Gupta:** I think we have given a medium term aspiration for each of the product categories and I think we will be trying to achieve those targets. I talked to you about 5% to 7% for Parachute, 10% plus for value added hair oils, and 10% for Saffola. I think we should maintain those. I may not want to get into individual granularity mode.
- Prasad Deshmukh:** I will just rephrase that question, so going ahead given there are so many uncertainties at least in the near term is there any change in the strategy or the medium term strategy that you had of focusing on low unit packs, so that you could capture rural market?
- Saugata Gupta:** No. I do not think as I concluded that no change in the strategy; however, there would be obviously some modification in our distribution and our channel strategy given that we expect some structural changes in the medium term over the channels that definitely we have to, as I said, that we have to seize the advantage because we have to compete within certain categories with less organized players and who have larger wholesale dependence. We have to capitalize on that so that is the only thing that changes, I do not see change in portfolio. I would rather say there could be certain changes in our distribution strategy in terms of direct distribution versus indirect and other aspects.
- Prasad Deshmukh:** All right. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.
- Krishnan S:** In your information update you related new country development and exports and specifically you mentioned Sri Lanka, Nepal, and Bhutan, what brands do you sell here and what sort of sustainable numbers in terms of growth do you see here?
- Saugata Gupta:** Let me give you a flavor instead of getting into granularity of the numbers, but if you look at it I think one of the things we realized that instead of going to far flung places, which are eight hours or 10 hours journey, there are enough markets within our sub-continent like Nepal or Sri Lanka where we are hardly present and we were under indexed compared to a lot of FMCG companies in the categories in which we operate in. One of the reasons was that it was handled out of international territory but as we synergized, it is now handled out of India. Just to give a perspective we have similar kind of portfolio in Nepal. Again, however, having said that in certain countries given the kind of population, there could be a skew. In Nepal, we sell more of value-added hair oil, male grooming and serum. In Sri Lanka again, it will be a little more of the

premium portfolio. We are severely under indexed in both the countries compared to some of our peer set companies and therefore there are far more low hanging fruits and as I said it does not sound exotic as few countries like in South East Asia or Africa, but I think to us the incremental effort to upside ratio is fairly significant and we would like to do it. We started the journey just last year. We have put dedicated team with senior persons with no escape buttons to drive these markets, I think we see much more magic happening and therefore we started the Nepal journey. We have just about started in Sri Lanka and I believe it will give good growth, and the proof of the pudding is Bangladesh and Myanmar. Myanmar we believe is reasonably early and we should be having a \$10 million business by next year, so I think there is enough opportunity rather than chasing some markets in far flung areas of Africa or South East Asia.

Krishnan S: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Abhijit Kundu from Antique Limited. Please go ahead.

Abhijit Kundu: My question was on it could be similar to what people have asked earlier but I wanted to understand from you that of these three categories like Parachute, Saffola and value-added hair oils, which of these three categories ideally would see a stability in growth earlier in the sense Saffola ideally should followed by Parachute. Why I am asking this questions is that my view is that with stability in Parachute you would also take a price hike, which would be needed, so what would be the timeframe you said that July you have not really seen any significant uptrend, but things are getting back to normal. One question is south and west how much would be that of your total turnover and which would be the two categories, which would stabilize early as compared to others because I believe value-added hair oil should be the last to stabilize because it has go to high component of wholesale trade?

Saugata Gupta: I think you are directionally absolutely right. I would say Saffola, Parachute is more likely to stabilize before value-added hair oils, which also has a east and north component, which is also slightly more rural, so it is in that order, I would not like to get into individual region wise sales, but we have south and west that are much more bigger for us than north and east.

Abhijit Kundu: Okay and in that case I mean the stability in Parachute also should be quicker I mean and also the price hike, which is much needed there.



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- Saugata Gupta:** I cannot tell that as we have not taken any call on pricing. For us, stability of volume is much more important than pricing, but yes you are right the non-CSD part of Parachute and Saffola seems to definitely stabilize.
- Abhijit Kundu:** Parachute the component that would be coming from CSD, would it be in the same range of 7% or would it be higher?
- Saugata Gupta:** It is not really higher.
- Abhijit Kundu:** That is all from my side. Thanks.
- Moderator:** Thank you. We will take the next question from the line of Anubhav Sahu from MoneyControl. Please go ahead.
- Anubhav Sahu:** Sir, my question is with respect to market size and market share of Marico. One, you mentioned in your press release that market size of the coconut oil is around 4300 Crores, while last year the figure was around 4900 Crores, so one is about why this delta and what was the change in assumption by the research agencies. Secondly Sir, I wanted to understand the breakup of sales on coconut portfolio. So you mentioned 25% of fiscal year 2017 sales from the Parachute Reigid bottles, so that comes to around 1500 Crores. And if you take the top down approach from the market size perspective, so you hold 58% share in the market of coconut oil, which comes around 2500 Crores. So, I wanted to understand the delta 1000 Crores would be attributed to Nihar and pouch packs? So that was my second question.
- Saugata Gupta:** Three things, I think I strongly believe that we are reasonably transparent and consistent in all our communications, so we will not get into individual granularity. I will give you an overall flavor. The number which I will give is the consumer prices number and not net realization, you must realize that Nielsen gives you what is at retail price and not at realization, you have to discount that. Number two is that as you know that there were a deflation in copra last year and we took prices down and therefore that 4900 has become 4300 and thirdly yes Parachute rigid and there are some other components that add up, so all I can assure that we continue to be consistent with numbers, we do not play between value or volume depending on convenience and if you look at all our commentary in the last 16 quarters it has been on the same parameter, so there is nothing to be concerned about.

- Anubhav Sahu:** Okay Sir. I wanted your view on regarding the competitive intensity like I mean as far the coconut oil space is concerned what is the pecking order according to after Marico, Marico of course is the leader, now is it still Dabur according to you or if Patanjali probably be, data which we are getting from the market research firms is on the other way around they are quoting Patanjali on quite a lower number, but they are also not taking the account their own store sales data, so what would be like your view on that?
- Saugata Gupta:** I know my market shares or my aspiration will be to continue to maintain and increase my market share. I do not want to comment on who is 2, 3, 4, what the market says, I think I would rather look at we are 58 and how do we keep on gaining market share at 50-100 basis points every year.
- Anubhav Sahu:** Sir follow up question was on your pricing strategy. Since March, you have not increased prices and that seems like you see I go by the commentary you made last quarter also, you want it to use that opportunity to give market share so the way the number you are now reporting probably it seems to have played the way you are wanted. So what would be trigger for you to increase price in the near future, I mean what you wait for from the competitor's point of view changing their prices or I mean what would be the trigger point for you to actually because as mentioned they have no substantial surge in the copra prices and it could possibly remain elevated in the near future?
- Saugata Gupta:** See I believe in focus. Our first focus is to get volumes and get business back on track, pricing is the last thing on my mind as long as we deliver the threshold level of margins.
- Moderator:** Thank you. As there are no further questions, I would now hand the conference over to management for their closing comments.
- Vivek Karve:** Thank you all for attending this call. As Saugata said we had bit of a disappointing quarter, but we are looking forward to a much better year, much better quarters going ahead. Thank you. Good evening to all of you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes today's conference. Thank you for joining us. You may now disconnect your line. Thank you.

(This document has been edited for readability purpose.)