Marico Limited

Q1 FY2019 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Marico's Q1 FY2019 Earning Conference Call hosted by ICICI 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you Sir!

Anand Mour: Good evening, it is a pleasure to welcome you all on behalf of ICICI Securities to Q1 FY2019 Earnings Conference Call of Marico Limited. We have the management represented by Mr. Saugata Gupta, Managing Director and CEO; and Mr. Vivek Karve, Chief Financial Officer. Before we get started, I would like to remind you that the Q&A session is only for institutional investors and analysts and, therefore, if there is anybody else who is not an institutional investor or analyst, but would like to ask questions, please directly reach out to Marico's Investor Relations team. With that, I would like to hand the call over to the management for their opening comments.

Saugata Gupta: Good afternoon everyone. Let me give you a flavor of the business performance of this quarter before I get into questions. So we believe that we had a decent start to the year. Having said that, I think some of our peers have done better and so that bar has been raised and therefore we have to try harder. It is eerily similar to your days in undergrad or MBA school where you did well in your math paper only to realize that the cutoff is 95%.

However, we still have three quarters to go and we maintain our aspiration to deliver 8-10% volume growth in India, and double-digit constant currency growth in International business for the balance three quarters. This should put us on a good wicket. If we do that, there is a distinct possibility for a full year double-digit volume growth in India and a double-digit constant currency growth in the International business.

Before I get into details, let me give you a bird's eye view of the various categories and countries. Last quarter, I addressed three issues that contributed to lower growth. Out of the three of them, Parachute Rigid is no longer a problem. We are confident about delivering the medium-term growth projection of 5% to 7%. Southeast Asia, though sluggish in this quarter, is turning around as we speak in this quarter itself, and will deliver high single-digit to double-digit growth for the balance year. In the case of Saffola, while we have posted a 10% growth, we have solved half of the problem. Our promo and modern trade strategy is back on track, while we still have

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work to do on driving differentiation and communication between the variance and the urban GT channel. It will be a gradual recovery and it will take one or two quarters.

Our other franchises namely, Value-added Hair Oil and the growth drivers of Male Grooming, Foods and Premium Hair Nourishment are in a growth momentum. We are also confident of our stable business performance in other key hubs and International business.

Let me now give you a flavour of the Indian business. Rural growth is now encouraging and we believe they will continue to prop up the sector growth this year. We have continued to gain market share in over 90% of our portfolio. In both CNO and VAHO, while there is more competitive intensity, I would like to delve on its nature and impact. In CNO, there is increased competitive intensity in a few markets at the bottom of pyramid and that has not impacted our market shares of Parachute. We believe in the near term, some smaller peers are more vulnerable to this action. As regards VAHO, we will continue to focus on defending and gaining both volume and value share. Nihar Shanti Amla Badam is ranked first in volume sales amongst all sub-brands in hair oil category at the All India level, and it gained both in terms of volume share and value share.

The current competitive action is at the bottom of pyramid price points. We have already launched multiple Rs.10 packs in select markets to leverage this opportunity in the form of Parachute Jasmine, Sarson, Nihar perfumed and now Nihar Jasmine, in addition to the existing Shanti Amla. Some of them will be growth drivers and some of them will be flankers.

In addition to Aloe Vera and some more initiatives, we will simultaneously play at the premium end to garner value share. We are also quite confident that the new engines of growth, namely Male Grooming and Serums, have reached points of inflection, which means we can grow 20% plus in value terms consistently.

While we have done well on Foods, we need to profitably scale it up to INR 200 Crores by 2019-2020, so therefore we still have a job to do. We are also encouraged by our stupendous performance in Modern Trade and E-com, although there is some uncertainty in CSD.

As regards International business, we continue to aggressively diversify our Bangladesh business. Due to certain phasing issues, we could not achieve double-digit growth there. However, we will start picking up growth in the balance three quarters. Middle East and North Africa is holding steady and Southeast Asia should be back on track from this quarter. All this should lead to a double-digit constant currency growth in this business.

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Before I conclude, let me give you a view on margins. Copra is off its peak. It usually follows an 18 to 24 months alternate inflationary and deflationary cycle. However, there was some lag between consumption and market purchase. It works both ways. And therefore, while there is some positive impact on margin in Q2, most of the benefits will start flowing through from H2 where further softening is expected.

While it is very difficult to forecast crude, we believe that other input costs will be more or less steady to slightly bullish. We have driven efficiencies in our media spends last year, which have led to significant savings. Going forward, our ad spends will inch up to 10% of sales, which is equivalent to 11% in the pre-GST regime. And over that, you top up with the media efficiency that we will achieve on an annualized basis this year.

All this should lead to better margins as we move towards H2. With consumption tailwinds and execution improvements, especially in new products and new channels, we should be able to continuously improve our performance over the next few quarters.

I am also glad to inform you that we have just released our third Sustainability Report, which are focusing on six areas of sustainability. This is now available on our website.

I am most happy to answer your questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, thanks. My first question is on the healthy foods. So you said you will innovate aggressively, so if you could elaborate? Second Sir, is in terms of the vending machine, you already done 200, so what is the plan from the FY2019? How many more machines? And globally, is the oats vending machine big? If you could answer that.

Saugata Gupta: As far as the Foods business is concerned, our first destination point is to hit the INR 200 Crores mark next year. While we have grown 20-30%, given the opportunities in Foods, it is not good enough. You will see some launches. While food is tracking well; you can expect some more innovation in over the second half of the year. Coming to vending machines, the objective of it is to drive out-of-home consumption and saliency. Sometimes, merely having vending machines in places like offices and other places drives first trials and saliency for the brand. So it acts as a multiplier, although the business itself might not have critical mass at this point in time. We have 200 plus vending machines and we continue to drive it. The other interesting innovation, which we have done is the Multi-grain Crunchies, which is besides of course the new flavours in foods. The Crunchies is an addition of our Indian consumers who love the crunch in their oats. And therefore, the new innovation is basically having a crunch being given separately which they can add to the oats. So you will see continuous innovation. 23% is a decent number, but I will be much happier if we can drive 30%-plus growth in Foods because the scale opportunity is far bigger.

Abneesh Roy: So one follow-up here. So Saffola soups, you have said it has met action standards, so what does...

Saugata Gupta: We are prototyping in Mumbai and we have an 8% share amongst handlers. Therefore, we are closely observing it. We will take our call towards the season. As you know, Soups has a season, but it is as of now meeting action standards. It has just been around 4 to 5 months.

Abneesh Roy: My second question is on the investing innovation that you rolled out, that is the intense nourishment shampoo. Now my question is you earlier had Parachute body lotion. So you have tried segments where MNCs are very aggressive. So what are the learnings from there which you can use here? Because shampoo again is extremely competitive with both MNC and Indian companies? So are you really thinking this as a niche or a big opportunity?

Saugata Gupta: The way we are looking at it is we are not getting into the standalone shampoo. The innovation that we are focusing on is that there is a section of younger consumers at the very top end, who are infrequent users of hair oil. They believe in the goodness and the nourishment that oiling offers. And therefore, we are giving a modern contemporary format to premiumise the category. Shampoo is a pack, which is sold as a combo multipack to drive the regime. It is only sold in select Modern trade and E-commerce. It is essentially an E-commerce pack. In E-com, we have a differentiation in terms of the offering strategy. So, we are not aspiring to have a large-scale, standalone shampoo participation.

Abneesh Roy: And Sir last question. Dabur is getting more aggressive in Amla and Coconut Oil. They have seen the success of aggression in honey? Are you seeing on ground any big change from Dabur in these two, because you have done quite well. So is there a risk from Dabur?

Saugata Gupta: I think I have addressed this in my opening comments, in terms of the competitive intensity and how do we tackle it. We continue to target 5-7% volume growth in Parachute. We continue to gain market share in both volume and value and defend our market share as far as the Coconut Oil segment is concerned. We aim to deliver double-digit volume growth in VAHO. We have increased the intensity of our INR 10 price point participation strategy. We have this in four to five brands now. Not all are available in all markets because we are following a market-focused strategy, while we accelerate growth at the premium end also because that will take care of the value share also.

Abneesh Roy: Also there is no risk to the margin because of all these.

Saugata Gupta: So as I said, we are playing in both ends of the spectrum. You will see more action also at the premium end, while we continue to focus on the bottom of the pyramid at the INR 10 price point.

Abneesh Roy: Okay Sir. Thanks. That is all from my side.

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

Percy Panthaki: Sir, my first question is on the volume growth. While you have mentioned in your investor release that you are targeting 8% to 10% sort of volume growth, which is not too dissimilar from what we have done; we have done 12%, so 10% is not too dissimilar. But the base effect is extremely sort of dissimilar, we are now minus 8, minus 9 currently, and going ahead the base turn is extremely positive. So that would require the sequential trend in the volume to really accelerate. So what makes you think that this acceleration will happen?

Saugata Gupta: So let me address in both ways. When we do an annual plan, we have a certain phasing in mind. It is phased in a certain manner. Having said that, in the last year, Q3 and Q4 had a certain base. Q3 had a demonetization base and Q4 had a strong base. So, we are happy with the way we have phased it. And as things stand now, if the consumption tailwinds, our new products program and our renewed focus on both at the bottom of the pyramid and Modern Trade and E-commerce continue, there is enough reason to believe that we should be able to do from 8-10%.

Percy Panthaki: Understood, Sir. And when you say phasing, there are a couple of issues to it. So one is any kind of changes in pipeline inventory and second is your innovation plan, and the third is underlying consumption demand itself. So as far as the third factor is concerned, you have absolutely no control on it. The sort of underlying consumption trend is not going to change quarter-to-quarter. What you have control on is the pipeline inventories and the innovation. Now innovation, yes, I take your point if you accelerate, it will give you benefits in the rest of the year. So I just wanted clarity on the second point with the pipelines. So are we running at pipeline stock which is lower than normal and, therefore, we can see some acceleration in primary sales in the coming quarters?

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Saugata Gupta: We largely follow the replenishment model. So I do not think it is a pipeline. The way to look at it is that sometimes the growth percentage is deceptive, so you have to look at the run rate. I am talking about what is the run rate in absolute crores of rupees sales per month.

Percy Panthaki: Okay, okay. So you believe that run rate as of today is already sort of sufficient to match your full year volume growth estimates?

Saugata Gupta: With the run rate, plus add some of the synergy, the innovation that you build in, in terms of both new caps and this one, yes.

Percy Panthaki: Okay, okay. Also, together, a little more colour on the volume. I was just noticing the results of most of the FMCG companies. And I see that versus other FMCG companies, hair oils in general is not growing well. So if I look at brands like Navratna, Kesh King, Kesh Kanti, Bajaj Almond, even your VAHO portfolio-- I mean, is there a concern on overall hair oiling sort of, is there some titration in the usage? Or is there sort of an issue in new user recruitment due to which hair oiling as a habit I felt is sort of falling out of favour or something? You have caught onto that?

Saugata Gupta: No, not really. Some companies post volume growth, while some get value growth. If you look at some of the mass categories also and even do the base correction of last year, the category growth in VAHO is not significantly different. Also you must realize that in certain categories, some unlisted companies which have been showing disproportionate growth and should have been doing very well may have not done so.

Percy Panthaki: Okay, I understood that. And lastly, question on margins on a consol accounts for the full year, do you think there is a risk that Y-o-Y your EBITDA margins might be lower?

Saugata Gupta: So, there is a lag between consumption and production. If copra prices continue to soften along the cyclical pattern, we should start picking it up in the second half. But the only joker in the pack is obviously crude, which you cannot predict. If the crude is maintained at this kind of level, we have reason to believe that in the end of the year margin will start looking much better.

Percy Panthaki: So supposing, hypothetically, if you freeze your product prices as well as input cost at current levels for the rest of the year, in that case, how do you see the full-year margins on a Y-o-Y basis?

Saugata Gupta: So you should see better growth in the second half.

Percy Panthaki: Okay. On a full-year basis? I mean, is there still a risk that it will sort of dip versus FY2018?

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Saugata Gupta: I do not think, unless there is some sort of a black swan event in crude or something.

Percy Panthaki: Okay. I understood Sir. Thanks and all the best Sir. That is all from me.

Moderator: Thank you. We will take our next question from the line of Prakash Kapadia of Anived PMS. Please go ahead.

Prakash Kapadia: Thanks for taking my question. Sir on Saffola oil, when do we see structural growth? We see a year of growth then we see de-growth. Is it right to say that people who can afford healthy oil are consuming less and those who cannot afford are consuming more but not our edible oil? Is that we need to just improve or what is the longer term plan for it Sir? Now and then we see bouts of the growth and then for some reason, it wanes off?

Saugata Gupta: So, like in the last quarterly call, I had explained that there are three issues as far as Saffola is concerned which we have to handle. One is driving the differentiation; that we have to support both Gold and Active. Secondly, we spoke about our Modern trade and our promotion strategy. And yes, the third thing, you are right, that was the reason we started pushing Active and also some of the consumers are coming to Gold. These are consumers who are inclined towards Saffola but are consuming less oil. So as I said, we have tackled one part of it, which is the modern trade and our promo strategy. That is giving us some growth. The second part we are looking at and as I said that we will take some time, one or two quarters, before it gets back into a certain modest level of growth. And as I said, there are three issues, we solved one. The second one actually, we have reasonably solved. Now we have visibility as we speak here in the first week of August of this and the other which is Southeast Asia. Saffola will take this and perhaps one more quarter to solve.

Prakash Kapadia: And in terms of differentiation, does it involve new launch or a new price point or a new brand or in terms of…?

Saugata Gupta: I should not get into the strategy. But, we have to continuously differentiate. One is Saffola as a brand per se and the few variants in terms of addressing two different consumer segments, so that we get two differential sources of growth rather than cannibalistic growth.

Prakash Kapadia: I understood. That was helpful. If I look at Bangladesh, over the last two years or so, it has been around Rs.600 Crores. So is that on the backup there are more products not working and still you know the derisking of Parachute not happening? What is the outlook for Bangladesh?

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Saugata Gupta: Certainly, Bangladesh in the last year posted 13% constant currency growth. And this year, also it is poised to deliver the double-digit constant currency growth. In any emerging market, as long as we deliver 2x GDP growth, we are baselining well. As far as Bangladesh is concerned, we must realize that the diversification is doing reasonably well because we have moved from 90% in the past to almost 70% by the end of this year. The balance part of the portfolio is growing at 40%. Obviously, when you have a significant dependency on one category in a saturated category, it needs more time to push it. But, once Parachute gets into the 60s, that itself should begin a virtuous cycle of growth. So there is reason to believe that we should be able to deliver continuously a constant currency growth of 15% in Bangladesh over the next three to five years.

Prakash Kapadia: In terms of Parachute we were targeting 70% by the end of this year from the dominance of 90%. So that 30-odd percent, are we seeing some concentration? Or there are across the range of products, which will get us to 30%?

Saugata Gupta: No, no. We are already at 30%, so 90% was a few years ago. So we have been reducing the number by every 7-8% every year.

Prakash Kapadia: But over a period of time that has definitely come down...

Saugata Gupta: Yes, it is value-added hair oil, male grooming, and we participate, to an extent, in skincare. So it is almost the India portfolio except that the competitive position in some of the categories is perhaps different. And therefore, we have been able to accelerate that growth higher. And that part of the portfolio on average has been growing 30% to 40% in the last three years.

Prakash Kapadia: Ad spend, you did mention about they being in the range of around 10% for this year. So I mean, if I look at the current quarter, it is muted in terms of absolute terms. So is it right to infer a muted product launch or new launch for the balance of the year?

Saugata Gupta: No, no. You have to take it like-to-like, because from the next quarter, it will be lapped up GST to GST base. So this 8% is actually 9-9.5% because of that GST base. From July, it will be like-to-like. So, you have to see it from that point of view. And as also I mentioned, we have got a very aggressive program which we started last year in terms of both media efficiency and in terms of sales spend efficiency, which should give another 8-10% of additional positive impact.

Prakash Kapadia: Understood. Thank you. All the best. I will come back if I have more.

Saugata Gupta: Thank you.

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

Vivek Maheshwari: Hi, good evening everyone. My first question again is on gross margins. I mean, if I look at your first quarter number, it is almost the 42.3% was the lowest in literally 11 years that I have history of 44 quarters, let us say. One, what was the reason that - is it that absolute price of copra itself or coconut oil itself is becoming a hindrance? Number one. Number two, Saugata, when you say second half there will be an improvement in margins, is it also underpinned on further correction? I know copra is already down, let us say from 130 peak to 110. Are you also building savings so when you say second half margins will improve? Or are you taking the current number and that is why you are confident on second half margin improvement? So first part is essentially absolute pricing, and the second is the second half outlook what you just mentioned?

Saugata Gupta: So even if you make the same absolute gross margin per tonne or per KL, because of the denominator effect, the percentage looks different. So when we look at a price premium in Parachute, we try to maintain in terms of absolute rupees per tonne or KL as opposed to percentage. So, this is the highest ever price of copra in that time period, which you are talking about. Having said that, that is why we have been looking at how to reduce our dependence on Parachute. Towards the second part of the question, the extent of margin improvement in the second half will be a factor of A plus B. When I say, there will be margin improvement, I am taking into account, A, as per current pricing but the extent will depend on if there is a softening. And if you look at the cyclical trends, usually when the softening starts, it continues further. Given that we have a reasonable forecasting system, based on that, there will be further softening. Even if there is no further softening, say because of some black swan, still there is an improvement in margins.

Vivek Maheshwari: So if there is no softening, do you think that the price hike could be the way forward, which is why that confidence?

Saugata Gupta: We will take it as it is. In my scenario building, no more softening is a black swan right now and not a likely probable factor.

Vivek Maheshwari: Okay, okay. Sorry if it is a naïve question. But let us say 130 to 110, what drives a sudden decline in copra? Is it just the crop and therefore, you say that it is a typical cycle of 18-24 months? I mean what drives this deflation? Or what will drive the deflation? Is it just the supply and therefore the crop?

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Saugata Gupta: To give you a very macro level answer, it is a combination of supply-demand imbalance at each time because what happens as you know is that, as prices go up, alternate demands reduce. Therefore, at the same supply, demand starts reducing. It is also a function of the outlook on the crop and the situation on monsoon and everything. So that is the cycle that follows. And if you notice, most of the crops, whether it is coconut, palm and other edible oils, all follow that same kind of cycle.

Vivek Maheshwari: Okay, okay, sure. And second is on the VAHO, when I look at volume growth versus value growth, there is a minus 3% points from a realization perspective. What exactly would that be? Is it just a GST thing? Or is there anything that I need to know?

Saugata Gupta: To pass on the GST benefits, we took a 4-5% price drop in first week of July. The difference is 3% because we have been able to premiumise a bit.

Vivek Maheshwari: Sorry. Where did you drop the price, which portfolio?

Saugata Gupta: On all brands, we passed on the GST benefits as of 1st July last year.

Vivek Maheshwari: Okay, sure. And last, but I know it was asked again, but in shampoos. I mean Saugata, you mentioned I think a while back or a couple of years back, maybe the plan will be to launch more, which you are doing but scalable launches. I see shampoos, you have forayed into under three different brands. I know all these are the smaller one, e-commerce and all. Why the reluctance to then get into the mainstream shampoo market if you are trying it any which way through three different brands?

Saugata Gupta: In E-Commerce and Modern Trade, they need a fulfillment of a range of portfolio. And so, for even a hair fall brand, I can have a hair fall shampoo, hypothetically. That does not mean you are participating in a mainstream shampoo. E-commerce and modern trade gives you an opportunity today, especially in the premium niche segment to experiment. And there is a difference between a big bet play and a fringe play with experimentation. Even in Set Wet Studio X, what we have done is we have actually cross pollinated our immensely successful brand, which is basically X-Men in Vietnam. So there is even more for us to play in premium niche as opposed to mainstream. For a mainstream play, the ask is different from actually playing in the premium niche.

Moderator: Thank you. We will take the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

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Nillai Shah: Thank you Sir. My first question is going to pricing model which was established a couple of years ago. And you had said that the pricing, which you will take now as an almost automated process as one of the components of that was maintaining the gross margin in a band. If I were to take this as rough cut calculation of the CNO gross margins, it is definitely outside of that band which we were operating on. Why is there this change? I understand the competitive dynamics out there and I understand the copra prices have gone up quite dramatically. But why has there been a change when you stopped taking price increases to protect that band?

Saugata Gupta: The band in terms of rupees per tonne or rupees per KL and not percentage. Therefore, in terms of the absolute gross margin or absolute rupees per tonne, we are not making a change. Number two is the last price increase which we could have taken, which is in Q4 of this year or end of quarter four. By that time, we had a fair idea that there would be a softening of copra prices. So yes, we might have not taken the last 5-6% price increase as per the pricing model, but we did it with our eyes open simply because we knew that if we have to take it, we have to take another price drop maybe in three to four months. This gives us enough time for price stabilization over another maybe from 4-5 months period before we even think of a price drop.

Nillai Shah: Got it. Sir does that mean then that Marico has gained market share in the CNO portfolio?

Saugata Gupta: Yes, we have gained market share.

Nillai Shah: Even what is the unorganized players, sorry the loose players?

Saugata Gupta: Since we get an annualized number, we do not get a view of the loose players. But I would assumed that in this kind of high premium, it is unlikely we would have got a significant loose to branded conversion.

Nillai Shah: So given that your gross margins or your gross profit or at an absolute basis is now at multi year lows, would not the unorganized sector be worse off given that you would have better efficiency in sourcing at this time.

Saugata Gupta: You also have to look at the absolute price point of Parachute. So it is not only the premium, but also the absolute price point. So you have to look at that also.

Nillai Shah: So why has the loose segment not taken up the pricing given that they would also be facing the same issues in terms of lower gross margins even on absolute basis?

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Saugata Gupta: So most of the unorganized players look at absolute the take-home. They do not look at margins unfortunately for us. As long as they are taking a particular absolute amount of rupees home, they are not bothered about percentages. They do not have too many CAs also working with them.

Nillai Shah: The second question is from this 8% to 10% volume growth that you are expecting in domestic business. So clearly, there are three big opportunities there. One is Saffola, which you are expecting to be double-digit; VAHO, which you are again expecting to be double-digit; and 5% to 7% for CNO. That is still a big portion of the business. Yes, there are other product segments, such as food for instance. But those are still very small. So if you have to get to the upper end of this guidance, what really needs to fire in the next, let us say, two to three years? Your horizon too is going to be a long time away, and even some of the other portfolio is still very small in contrast to where CNO is at this point in time. So what is really required? How do you plan to bridge this gap to the upper end of the 8% to 10% band?

Saugata Gupta: So, two things. The critical part is actually VAHO not doing just 10% but doing mid-teens. The aspiration of Value-Added Hair Oil is to do mid-teens volume growth. And the rest of the portfolio has to grow at 20% plus. This is something which happens once it starts getting critical mass, contributing to 10% plus, and then to 15%. So, the moment that 15% of the portfolio grows at 20% plus, that itself takes care of this 10% volume growth. So, the two critical components of it is that on an annualized basis, VAHO grows mid-teens and the rest of the portfolio actually grows at around 20% plus, which will take us to actually 10% and 10% plus, even if Saffola is in high-single digits.

Nillai Shah: Got it. That is very clear. So on the VAHO bit to add. How do you see the elasticity in that particular segment to volumes, I mean, for pricing? So how do you gauge that? Do you think that there is an opportunity to accelerate volume growth by probably using pricing as one lever?

Saugata Gupta: Yes. At the same time, as a market leader, we do not want to just decrease the average profit pool of the category. So therefore, we want to do both. And I think there are examples of those who have shown that they can grow at the very top end of the category even at price tag Rs.300 to Rs. 400 and grow the category. Just concentrating on putting all your bets on a Rs.10 price point is perhaps not a sustainable profitable strategy. It might give you just somevolume share at some end. But so we have to do both and therefore, in our KPIs, we are chasing both volume share gain as well as the proportionate, if not higher, value share gain. So, that is the the crux of it for the next three to five years -- today, we have Aloe. Can we have two more initiatives in the premium segment, which can drive us to value share gain?

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Moderator: Thank you. Next question is from the line of Mehul Desai from IDFC Securities. Please go ahead.

Harit Kapoor: Harit from IDFC. Just two questions. Firstly, on the Rs. 10 price point category, you know you have launched products there as well in line with the competition. Just wanted to understand a little more about this, do you expect this to be a price point that can really drive market share for the overall Value-Added Hair Oil category as a whole or blow this category up even further? And the second thing to that is, at this price point, is it margin dilutive to the portfolio or is it inline with your overall VAHO margins?

Saugata Gupta: So if you notice, a significant portion of the North India uses mustard in loose form. There are also a lot of local players/price warriors who are unbranded. We believe in a post-GST scenario, long-term organized players will consolidate market share. Number two, the recent initiatives of the government and the green shoots we have in rural consumption will drive rural growth. So therefore, for organized players, like we are participating in the Rs. 10 price point and across, which is a far more broad-based strategy, where some are growth drivers and some are flankers, some are offensive, some are defensive, this will help us to grow in market share. Then, if your entire growth is coming from your Rs.10 packs, yes, it is margin dilutive. And therefore, we are focusing on both that and also the mid-packs and the large packs. So, 35% of our growth should come from our large packs and 65% of the growth can come from small packs, then that is not margin dilutive.

Harit Kapoor: Very clear, Sir, very clear. Just a second question was on your overall guidance that you had kind of - or overall target that you had mentioned in your press, in your information update. If you look at your comments in this call, you seem very confident on growth for the balance nine months as well. Yet, if you kind of look at Q4 versus Q1, your FY2019 target of 15% plus is now more like 13% to 15%. In an environment where volume growth, you are still expecting to be good and you are seeing price increases as well on the VAHO side, are you being a little bit more conservative in your expectation of 13% to 15%?

Saugata Gupta: 13-15% is for the medium term. I do not think we have given for this year. This year, it will be more 15% plus. So the reason we have given that guidance of 13-15% for the medium term, which includes next year, is that suppose there is a significant correction in copra, there could be some price drops in the next year. So, that 13% to 15% is a medium-term guidance and not for this year, just to clarify.

Harit Kapoor: Got it Sir. Very clear. Thank you very much.

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Moderator: Thank you. We will take the next question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Hi Sir. What is the annual run rate of Saffola foods at the exit of the Q1?

Saugata Gupta: So it should be in the region closer towards INR 150 cr.

Vipul Shah: 150 cr?

Saugata Gupta: That is right.

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

Prasad Deshmukh: Saugata, you mentioned that male grooming and serum, you are expecting over 20% plus value growth, and you are confident about it because this is at an inflection point. Just wanted to understand what has given this confidence in terms of, I mean, whatever is happening on the ground?

Saugata Gupta: Okay. So there are 2-3 things. If you look at both these categories, they are low penetration categories. Now there are two kinds of accelerators or catalysts for this growth. Fortunately for us, they are playing together so you have a double tailwind. At the bottom of the pyramid, the Rs. 10 price point in gels, the Rs.49 deo, which again there are three players in that Rs.49 to Rs. 60 price point. And the Rs. 3 sachet in serums is driving the bottom of the pyramid. When inflection happens here in India, that is based on affordability and availability. The second part, which is happening at the premium end, which is aided by our strong presence and our differentiated portfolio strategy in Modern Trade and E-commerce, which is driving that. So Set Wet Studio X, which we are doing and also some of the new launches, which we have done recently, we have launched Livon variants - Hair Colour Protect, which we are just launching now. So we are also basically expanding the range. And what is happening, given the Internet penetration, the resurgence of modern trade and the significant growth in e-commerce, there is a business model using digital marketing of playing in digital brands. And mind you, when I am talking of these numbers, I am not adding Beardo to the numbers. And Beardo is another one which is tracking very well. So that gives us the confidence. If you ask me this year, we should definitely grow much more than 20%, from the way these are tracking.

Prasad Deshmukh: Okay. And second question, this is about the part that you published in the investor update under Reach. So if I look at your 1Q FY2017, FY2018 and FY2019 numbers, it mentions that 7.54

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packs per month FY2017 Q1, 3.34 packs per months in FY2018 Q1, 15.5 Crores packs in FY2019 Q1. So the number of packs has gone up, like it is more than doubled in FY2018. And it is more or less same in FY2019. However, if I look at your volume growth it was minus 9 in FY2018 and in the same quarter, 12% this quarter. Not understanding how this is working.

Saugata Gupta: Can we take it off-line? It is unlikely we would have doubled that. It could be a typo. So we will get back to you on this. We have definitely not doubled the number of packs. I mean it is obviously a typo then.

Moderator: Thank you. We will take the next question from the line of Aditya Sheth from Investec Capital. Please go ahead.

Aditya Sheth: Hi Sir. Thank you very much for taking my questions. So Sir, can you help us understand the improvements in Vietnam business? And what were the areas you focused on to drive the change? And how sustainable are your changes?

Saugata Gupta: There are two things. In shampoos, we took a ~50% price increase on sachets and we brought it down so they get stability. The second, our much broader participation strategy in terms of other areas of male grooming and third, there are issues on execution on GTM. Most of them have got corrected as we have started tracking in June, July and getting into August. Most of the issues are internal and nothing to do with external macro conditions of the market.

Aditya Sheth: Okay. Is it a possibility for you to make us understand more about this GTM changes, which were done in the Vietnamese market?

Saugata Gupta: It is the sales capability, IT- isation and the ability to sell range and reduce our dependability on wholesale to drive retail.

Aditya Sheth: Okay, so sorry if this is a naive question. But is it, so we have appointed the distributor over there and he sells the products in Vietnam? Is that...

Saugata Gupta: No, we have our own distribution system.

Aditya Sheth: Okay. And my last question is on the VAHO category. Sir are you leading the price hike? Or the competitor took a price hike and we followed it?

Saugata Gupta: We have given a weighted average price increase. There are certain things which we have done on certain packs. As you know, there has been a significant increase in input costs in both packaging and raw materials. So, we have ensured that without compromising on our LUP strategy, we have taken some of the price increases.

Aditya Sheth: Okay. But this was followed or not followed? I mean...

Saugata Gupta: Yes. Some players have taken some price increases a month or two months ago.

Aditya Sheth: Okay. All right. Thank you very much.

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

Kunal Vora: Yes, thanks for the opportunity Sir. I wanted to understand how is the pricing in India compared to international market for coconut oil like say, Indonesia compared to India? And is there arbitrage? And if coconut price remains, copra price remains high in India, is there like a possibility of import? I understood you do not import, at the same time, is there a possibility? And whether unorganized might be doing like, say smuggling or if anything is possible?

Saugata Gupta: Import of copra is not allowed, unless you are exporting the product. I do not know about what others are doing, but I do not think it is happening. And that is the reason why there is a sharp volatility.

Kunal Vora: Sure. But is there a particular difference in the price between India and Indonesia?

Saugata Gupta: Again, it varies. At this point, yes.

Kunal Vora: Okay. And again, during these times, do you think the adulteration might be increasing from the unorganized to remain competitive in terms of profitability?

Saugata Gupta: Hypothetically, when adulteration increases, that will also balance the supply and demand. And therefore, your price comes down.

Kunal Vora: Sure Sir. And lastly, when coconut oil prices increases, do you see customers, is there possible that the possibility of customer move away to some kind of Value-Added Hair Oil? Is that into play or the customer is very sticky in terms of what kind of oil they use?

Saugata Gupta: So customers move between loose coconut oil to branded coconut oil and vice versa.

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Kunal Vora: Okay, but not to VAHO? If copra price becomes almost comparable to the coconut oil is comparable to VAHO in terms of pricing, even then customers does not move to VAHO?

Saugata Gupta: As I said, we are aware of only the loose to branded coconut oil movement.

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

Moderator: Thank you. We will take the next question. It is from the line of Sunil Ratwani from Artifice. Please go ahead.

Sunil Ratwani: We were just discussing about the significant tractions on the period of digital and the online space. Can we just have an idea how much business they are doing? How much they closed in the last year?

Saugata Gupta: No, we cannot give you that figure. But all I can tell you, it is tracking well. And perhaps, unlike some of the other players in this segment, we are building to last and not building to sell, we are also looking at a profitable growth over the next two to three years.

Sunil Ratwani: And how much we earn today is 45% and what is the structure of the one in online company is?

Vivek Karve: We will own it at some stage, it may be difficult for us to disclose it on this call.

Sunil Ratwani: Any structure that will grant you to two years, three times timeframe…

Vivek Karve: As I said, this is not publicly disclosed information, so we may not be able to share. But yes, there is a path to ownership.

Sunil Ratwani: Fine now. And the other sports app, the app regards to the fitness and all. If you could just owning a stake would lead to any revenue to us or it could just as in the promotion of the products? And what was the objective of owning a stake into it?

Saugata Gupta: It promotes a regimen amongst people who are extremely health-conscious. So that gives us access to that set of consumers. Secondly, we have some aspiration to participate in a nutraceuticals category. We are wetting our feet with the Nutri-Shake. So, this gives us a platform to actually participate and get some revenues as far as the nutraceuticals is concerned. But thirdly, it is a very minimal kind of investment. It gives us a much greater opportunity to learn digital marketing and get us digitally savvy, which will not be possible if these are incubated internally within the organization.

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Sunil Ratwani: Fine. The new products which you talk about, the Nutri-Shake and all. So are we in the process of launching the same?

Saugata Gupta: We already have Nutri-Shake available in E-Commerce.

Sunil Rawtani: No. Any other related products in the phase of…?

Saugata Gupta: Yes. We should see some being launched. We have just launched Virgin Coconut Oil. In Q3 and Q4, we should be seeing some more.

Sunil Rawtani: Fine Sir. Thank you.

Moderator: Thank you. We will take the next question from the line Aditya Sheth from Investec Capital. Please go ahead.

Aditya Sheth: Hi Sir. I had just a follow-up on the GTM changes. Do we have other targets, geographies identified for GTM changes?

Saugata Gupta: We have completed Bangladesh and are on the verge of completing Vietnam by the next two quarters. As of now, this is fair because our market structure in the Middle East and North Africa is slightly different. And basically, as far as South Africa is concerned, it is significantly Modern Trade. Bangladesh and Vietnam are still on a journey in terms of complete IT-isation. In fact, India is also on the second wave of IT-isation among other things. So I would think this is what it is for the next two years.

Aditya Sheth: Okay. I just want to know more on this, what was the reasons that you come across to do this GTM changes? Any two or three reasons you could share with us?

Saugata Gupta: So there are two-three broad areas. One, in certain markets, if you are selling leadership brands, when you start selling challenger brands, you need to start doing far more direct retailing. Therefore, one could be wholesale to retail. The other could be actually the use of technology. The third could be also where you keep on driving spend efficiencies and then, as you expand, check which ones to contract. For example, one of the things we are doing in India, in some of the markets is frequency of servicing. Certain categories or certain categories of outlets, you can actually do fortnightly. So it is a continuous cycle.

Aditya Sheth: Okay. All right. This is very helpful. Thank you very much.

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Saugata Gupta: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for their closing comments.

Vivek Karve: I would like to thank all who participated in this call. As Saugata said in the beginning, we had a decent quarter, and we are looking forward to balance three quarters of the current year. So thank you, and have a good evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities, we conclude today's conference. Thank you all for joining us, you may disconnect your lines now.

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