



Marico Limited
Q1 FY22 Earnings Conference Call

July 30, 2021

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CHIEF EXECUTIVE OFFICER, MARICO LIMITED
MR. PAWAN AGRAWAL – CHIEF FINANCIAL OFFICER,
MARICO LIMITED**



*Marico Limited
July 30, 2021*

Moderator: Ladies and gentlemen, good day and welcome to the Marico Limited Q1 FY22 Earnings Conference Call.

We have with us the senior management of Marico represented by Mr. Saugata Gupta - MD and CEO, and Mr. Pawan Agrawal - CFO. As a reminder, all participants' 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. 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 a question, please directly reach out to the Marico's Investor Relations team.

I would now like to hand the conference over to Mr. Saugata Gupta for his opening remarks. Thank you. And over to you, sir.

Saugata Gupta: Good evening to all those of you who have joined the call. I hope all of you, your friends and family are safe and healthy. While COVID positivity rates in India have moderated to pre-second wave levels, the country unfortunately, is still contending with nearly 40,000 new cases a day. I, on behalf of the entire team at Marico, would like to extend our heartfelt condolences to those who have lost their loved ones.

Marico has remained committed to the wellbeing, health, and safety of all its stakeholders. We are extremely grateful to all the frontline workers including our sales and manufacturing personnel who are braving through this crisis. We believe vaccination is the only way to defeat the virus and revive economic activity. We have successfully covered almost all our members and their families through at least the first round of the vaccination drive and have extended the same to our business associates and third-party service providers as well.

I will now take you through the quarter gone by our outlook going forward, before I leave the house open to questions. The quarter started on a good note building on from the momentum in the last quarter. Consumer sentiment was reviving and there was a significant pickup in the daily routine activities. However, this recovery was stalled by the alarming surge of COVID-19 cases in India towards the latter part of April, which unlike the first wave, reached even the rural hinterlands of India. While mobility was severely impacted in the month of May as various states deployed localized lockdowns and some of them continued even in June, the backend supply chain was much more resilient and business continuity was maintained as retail shops were

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operational for restricted hours in the day. As lockdown measures and ongoing vaccination drive helped arrest the increasing caseload, we once again witnessed improving demand trends in India from June and it continues in July. In our international businesses, we saw strong broad-based recovery in Q1 relative to the COVID impact in these markets in the base quarter, but there has been some impact of the resurgence of COVID in Bangladesh and Vietnam towards the end of the quarter.

Coming to the quarter's performance, consolidated revenue from operations grew by 31% with an underlying volume growth of 21% in domestic business and a constant currency growth of 21% of international business. We continue to see unprecedented inflation at key commodities such as edible oils, which rose sharply on a sequential basis, while crude oil prices also surged over the last few months. This is probably one of the rare quarters in the history of Marico in the last 10-12 years, where we had exceptionally high consumption costs of all the three key inputs, copra, edible vegetable oil and crude oil. Thus, gross margin remained under pressure in the quarter, but we are certain that it has bottomed out and will gradually improve on a sequential basis from Q2 and settle down in H2. The contraction in EBITDA margins in Q1 was partially reduced by operating leverage benefits. Having said that, ASP was up 27% and we continue to invest behind our core brands and new launches in foods. EBITDA grew by 3% on a like to like and PAT by 8%. Reported PAT was down due to an exceptional gain in the base.

The India business delivered 25% revenue growth with an underlying volume growth of 21%. As we had alluded to in the last quarter, we have corrected the historical skew between Q4 and Q1 which impacted the Q1 volume growth by at least 2% to 3%. Growth in core portfolio also witnessed some impact due to the relatively higher caseload and extended lockdown restrictions in the south and west especially Maharashtra, which are our core markets. More than 90% of the portfolio gained market share on a MAT basis. Although the pandemic reached rural hinterland, rural continued to remain resilient and ahead of urban on a two-year CAGR basis and exceeded pre-COVID monthly run rates despite a slowdown in May. With a normal monsoon focused and continued government stimulus, we expect this trend to sustain. The innate resilience in our operations reflected in the healthy growth of traditional trade in another exemplary quarter for e-commerce. Modern trade posted a modest growth despite a low base because of issues on attracting footfalls because of all the restrictions and some closures. CSD recovered sequentially and on a year-on-year basis.

Parachute Coconut Oil had a healthy quarter with 12% volume growth and market share gain of 80 bps on a MAT basis. This was despite extended lock downs in core markets of South and West. Copra price was down 13% sequential in Q1, and with supply outlook improving, prices are expected to remain range bound in the near term. For the full year, we expect it to be flat to

marginally higher versus last year. The brand continues to see its equity strengthening in the core and non-core markets while actively driving the loose to branded conversion. We expect to grow volumes in the range of 5-7% this year in line with our medium-term aspirations.

In the Saffola franchise, comprising edible oil and foods, we delivered 24% volume growth and 60% value growth year-on-year. With strong consumer trust and its association with health, the brand has effectively expanded its total addressable market, on the back of a visible rise in consciousness towards eating right and the importance of building one's immunity. Saffola edible oil grew in low double-digits even on a strong base of 16%. Edible oil prices rose sequentially before showing signs of cooling off towards the end of the quarter, but it is going in a zigzag way. For example, it has again increased a little bit in the last couple of weeks. We expect prices to be volatile in the short term with a medium-term downward bias. However, it will be imperative that we judiciously balance competitiveness and profitability of the franchise once prices begin to correct. Saffola Foods more than doubled with the oats franchise growing by 59% and the recent launches gaining positive traction. Saffola Honey has reached a double-digit market share in key modern trade chains and consolidated its share in ecommerce above 25%. We also now seeing a sequential scale up in GT and have launched 100-gram trial pack to expand distribution and aid trials. We are positive that the brand will clock around Rs. 100 crores this year in revenues. Saffola Mealmaker Soya chunks had a good start in GT in West Bengal and was extended to the rest of East and parts of North last month. It already has an all-India presence in MT and E-com, and has picked up a share of ~14% in modern trade. Saffola Oodles has also taken off well across channels. The brand is scaling up well in GT and MT although the entire launch got delayed a bit because of COVID. It is right now among the top five best seller in pasta and noodles category on Amazon. So, we will continue to invest behind brand building, distribution in GT and build on the healthy start in MT and Ecom. Saffola Chyawanamrut has not performed as expected. We will be revamping the mix and rejuvenating the brand over the course of this year and we are determined to stay put and get sizable market share in the segment over the next 2-3 years.

Value added hair oils grew 34% in volume terms on a weak base. Our portfolio has led volume growth in the category over the last year has gained the highest share compared to peers on a MAT basis. All major brands in the franchise grew 20% plus. We aim to sustain this double digit growth momentum over the medium term by maintaining a stronghold at the bottom of the pyramid and the mid segments through right pricing, distribution push and brand building, while investing to make inroads into the premium segments through innovation.

The premium personal care portfolio has recovered on a YoY basis but has not attained pre COVID levels. Livon Serums have led from the front and now has some exciting new look while

Male Grooming has still some way to go. We are optimistic that discretionary consumptions will recover over the next one year and we should be tracking growth over pre COVID levels soon.

Moving to international. Bangladesh ended just shy of double-digit constant currency growth on a YoY basis on a strong base of 10%. The non-coconut oil portfolio continues to drive the diversification journey. The baby care and shampoo ranges, along with the core hair oils portfolio, are tracking well. We will closely monitor the COVID graph and its impact on overall macros and, like in India, our formidable franchise which is 90% essential, strong systems and distribution reach would get us through the challenges posed by the pandemic. The Southeast Asia business grew 16% in constant currency terms on a low base. The HPC category in Vietnam have recovered on a year-on-year basis, but still has been slow, while the foods business has been trending healthy. There has been a sudden surge in COVID cases in Vietnam as well over the last four to five weeks. Given our portfolio is more discretionary, we expect business to be muted in the near term, but the medium-term drivers remain intact. MENA has performed well on a weak base, but we remain cautiously optimistic about the growth outlook. We will continue to invest in our brands and go to market initiatives as well as drive aggressive cost management to keep moving on efficiently. South Africa has also come back well, on a low base, driven by the healthcare portfolio. Unfortunately, there has been some political unrest in the country in July, so we are cautious about the near-term outlook of that business but remain positive on the core franchise of ethnic hair care and health care over the medium term. New country development and exports business continues to do well for us.

In India, while there are apprehensions of a third COVID wave, we are equipped to tackle any disruption in the business environment that may arise from the same. In the international markets, there has been a resurgence of COVID-19 in emerging nations of Asia, Africa, and Southeast Asia. However, except in Vietnam, our exposure to affected markets is not material.

Our strategic priorities going forward will remain consistent. Our foremost priority is to maintain the strong momentum in our core portfolio while driving premiumization over the medium term. Secondly, we have a very exciting opportunity in foods, immunity and nutrition in India, where Saffola has a veritable right to win. We have internalized a choice making and operating model in foods that works, and we will be aggressive in our bid to reach the Rs. 500 cr. mark this year, which we are pretty confident about, and build a Rs. 850-1000 cr. portfolio by FY24.

Number three, we are making steady progress in our go to market efforts in urban and rural. In urban we are expanding our reach in the chemists and cosmetic channel. Chemist channel has gaining salience during the pandemic, while cosmetics will now recover. In rural, we continue to enhance our rural direct reach by expanding our stockist network by another 20% to 25% over

the next couple of years. In addition, there is a renewed thrust on automation and analytics in the entire sales and supply chains network.

Number four, we continue to make investments towards enhancing our digital capabilities to stay ahead of the curve. We also aim to accelerate our digital transformation journey by building a portfolio of three to five digital brands, either organically or inorganically, with a combined turnover of Rs. 450-500 cr. by FY24. Beardo is tracking in line with internal aspirations and should end the year at a run rate in net realization terms of Rs. 100 crores. The recent strategic investment in digital first ayurvedic beauty brand, Just Herbs, presents a great opportunity to have a trusted 'naturals' all-round beauty play with a growing presence on digital platforms. We will continue to add to this portfolio both organically and inorganically.

Next, while discretionary personal care currently contributes less than 5% of our domestic business, we are looking forward to rejuvenating our play in this space and building these categories into growth engines of the future. We believe Livon and Set Wet franchises have legs to grow sustainably as consumer sentiments normalizes.

Lastly, our vigorous efforts towards managing costs and building a simpler and more efficient structure have been playing dividends. We will continue to drive this approach sustainably as the ongoing crisis has only reinforced the value of agility and nimbleness.

As long as we keep getting these fundamentals right, we should be able to tide over transient headwinds and deliver 8-10% volume growth in India, in the balance three quarters, along sustained market share gains and double-digit constant currency growth in international business over the medium term, while inching our operating margins above the threshold of 19%.

I would like to close my comments by sending a vote of thanks to all our Marico members and associates for exhibiting tremendous resilience and grit through these challenging times. We hope that the world is moving closer to overcoming the pandemic and we remain optimistic about the future as always.

Thank you for your patient listening and we will now take your questions

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question was on this ambition of Rs. 450 crores to Rs. 500 crores in digital first brands by 2024. If you could just talk about what is your current portfolio other than Beardo in this area what is the runway that you currently have here and incrementally the gap between your current run rate and this would it largely be personal care, or do you have you know other categories in mind also in the space?

Saugata Gupta: So, currently we have Beardo and we have just acquired Just Herbs. If you look at digital brands that have a momentum of growth, they actually grow 50% to 100% every year. We also have two internal brands, which we will start investing in towards the second half of the year, which is Pure Sense and Coco Soul. We are also open to looking at foods. We have prototyped ImmuniVeda, which is among the immunity-led brands. The way to look at it is that obviously everything will not succeed, but through a mix of organic and inorganic, we must have three brands which will hit Rs. 100 crores by FY24 or FY25. Looking at the track record of Beardo, we believe some will cross Rs. 100 crores and some may not. So, it will be a portfolio of five or six brands, or maybe at least four or five brands, which should add up to a Rs. 450 crores to Rs. 500 crores. Beardo has given us a confidence of having an operating model of running digital brands independently of the mother ship. With three to four brands, there will also be significant synergies, whether it is with the tech stack or CRM or logistics and we will then have a common playbook across brands and an operating model. The other interesting thing is that Marico is an attractive strategic partner, given the success of Beardo. I am sure, like Just Herbs, any startup player would grow with us. Also, we believe that this is one space that will provide the balance on margins, while food will give you scale. These, after some time, will not give the scale of foods, but will give you far higher gross and EBITDA margin. Beardo is also in a position to start delivering profit by Q3 or Q4 this year itself.

Arnab Mitra: My second question was on VAHO and Parachute. You see both of these, even if I adjust for that 2%, 3% adjustment that you have done now that the 1Q is not very big compared to what it used to be in the past. We have been seemed to have flat volumes versus 1Q FY20 or in fact Vaho is probably slightly lower than 1Q 20. So, is it something that concerns you? Or do you just see this as a may impact and you know, the run rates in June, July are giving you confidence that you will be able to let us say do a double-digit growth in volumes in Vaho in the next three quarters given that this quarter was more like a flat on a two-year CAGR?

Saugata Gupta: If you look up to FY19-20, there is a huge skew in Q1. Secondly, there has been an impact in May as well. Now, if you take Q2, Q3 and Q4 of FY21, and compare the run rate vs Q1FY22 run rate, there is a double-digit growth in both VAHO and PCNO. So, I believe that is a better way to look at it because that gives us a trend that if we extrapolate the trend, and we continue

with this run rate, we can deliver 5% to 7% in Parachute and double digit growth in VAHO for the balance three quarters.

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

Abneesh Roy: My first question is on Saffola edible oil. So, one is if you could give us the value growth? Second is if I see one year back, the non-premium edible oil competitors would be Rs. 80 per liter now it is Rs. 160, Rs. 170. While if I see optically now, Saffola is also pretty close to that number. So, you must have added a lot of new customers, I understand 450 gains this gain in market share in the super premium. But any sense on how much new customers you would have added in the last two, three quarters? And when deflation happens, because we always see inflation and then deflation in this category, how would you retain those new customers any sense you can give on that?

Saugata Gupta: We have given you a combined growth of our Saffola franchise because we are looking at a Saffola franchise in totality. If we look at the growth of Saffola Oils, around 50-60% has been through penetration increase and around 40% is because of existing consumers consuming more. The absolute incremental outlay per litre has stayed constant at Rs. 50-60 even when the current price per ltr of Saffola is Rs. 215. So therefore, outlay per litre has not changed significantly, while in percentage terms, it might have changed. But when consumers, for instance, buy on average three to four liters and a heavy consumer would buy five liters, whether in the pre inflation and the post inflation, they will see that the incremental outlay to buy Saffola has not decreased substantially. As the deflation starts, we have to manage both the volumes and the profitability because we will also need to regain some of the profitability. But we believe that at the end of the day, as long as the absolute incremental outlay stays constant, there is not going to be significant erosion in the consumer base.

Abneesh Roy: My second question is again on digital startup? So, one is, is there any ability to do some of those stuff in your existing business in a big way you discussed some of that, but other are there big learnings? Second, any sense you could give us on current gross margin EBITDA margin for Beardo? And from a three-year, four-year perspective if you discuss the marketing plan and any physical distribution plan for Beardo especially?

Saugata Gupta: One of the biggest learnings is that digital brands need to work independently, in a far more startup kind of environment, which we have tried to recreate. That is why even today, Beardo operates out of Ahmedabad and even some of our digital brands, what we call engine 2, stay separate from our core business in terms of people, processes, etc. Having said that, there are a lot of learnings in terms of digital capability in our core brands, and especially brands which

have a significant share of digital. In fact, we have a process to internally measure our digital capability and the digital health of our brands. Therefore, this cross learning helps, and at the same time, as I mentioned, there could be synergies as well. Now, we would like to first grow Beardo to its full potential in both D2C and e-commerce. Before COVID hit, there was the salon channel for Beardo and there could be an opportunity in modern trade. But we would not like these brands to get into a mass GT. Having said that, there could be a potential in premium cosmetic outlets for brands like Just Herbs. So that is the broad thinking.

Abneesh Roy: And any sense of gross and EBITDA margins?

Saugata Gupta: No, we would not like to get into those details.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: My first question is also about the digital brands that you have been talking about. If you could just give me some idea as to what is the route to market for this within digital? I mean, is it going to be I mean, of course, it will be a combination of everything. But if you can give some idea as to how much of it will be direct to customer, how much of it will be through marketplace, aggregators, etcetera. And whether the mix that you have today is what you are targeting in the future also the same mix? Or will it change towards one or the other channel?

Saugata Gupta: Well, we will have to let the market evolve. Unlike my core, I do not have a definitive three-year plan for startup brands. In fact, to give you an example, I just review these businesses once in a quarter because we want them to work like entrepreneurs and work independently. Having said that, right now Beardo broadly, if I look at the total ecom business it will be around 50:50 D2C and marketplace, but that again, depends on the brand, there could be brands, which are more marketplace, more D2C, there is no fixed formula of it. There is also unit economics. There could be certain brands that are almost exclusive and do far better in one than the other. So, there is no fixed formula. As long as the unit economics in a channel works, that is the way to go about it.

Percy Panthaki: Sure. And would you be able to give an idea as to what is the total size of these four brands as of FY21? Or rather exit FY21?

Saugata Gupta: No, all I can say is that Beardo is going to hit an exit run rate of Rs. 100 crores. We have two aspirations one, can we have at least three brands hitting Rs. 100 crores and using the portfolio

can we go into Rs. 450-500 crores. But by the end of this year definitely, we will give you a fair idea of where we have reached broadly.

Percy Panthaki: Sure. But like currently, apart from Beardo, the other three brands are sort of very small, would that be a fair assessment?

Saugata Gupta: Just Herbs is moderate. The others are small.

Percy Panthaki: Any information that you can share on the Just Herbs acquisition?

Saugata Gupta: All I can say is that this is a brand which is well poised and is positioned as a mass premium ayurvedic brand in the area of clean beauty. And we believe that there are enough synergies in terms of digital capability. It has a good product score in some of the marketplaces. And I believe that just like Beardo, it will be a mutually beneficial relationship, and the promoter will continue to be involved in the business over a definitive period.

Percy Panthaki: Sure. Second question is on Saffola edible oil. You have done decent volume growth there despite fairly high price increase. So just wanted to understand what has changed their versus earlier where earlier the growth was a little volatile and a little below what it was today, is it just the pandemic that people are sort of shifting consumption from out of home to in home, which has led to this growth and once the out of home consumption picks up on a higher base, the growth will revert to normal mid to high single digit volume growth? Is that how we should look at it?

Saugata Gupta: So, Q3 and Q4 last year was also normal, with a lot of people going out and everybody eating out and Saffola continued to deliver double digit. That is why I gave you the breakup of 60:40. 60% of the incremental growth has happened because of increase in penetration and 35% to 40% of the increment volumes has happened because of existing consumers consuming more or increasing share of requirement in the existing household. If you look at the history, and the reason I am talking about it is that in FY17 to FY20, it is seen as inconsistent. But if you take out the GST quarter and the demonetisation quarter, actually the CAGR of Saffola is around 7.5%. So, it was not that bad. It was just that it was a little volatile, I would say. So, that has increased to double digits now. Having said that, once the deflation cycle starts, we want to retain a little bit of our margins. We will be happy with high single digit growth as a base case.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

- Avi Mehta:** My question was on the RPI for Saffola, that you were kind of is it fair to kind of what I took away is that you would look at it from constant currency basis as an absolute rupees, rather than a percentage basis as the deflation cycle or whenever the deflation cyclic kicks in?
- Saugata Gupta:** So, it is a factor. But having said that, what happens during inflation, that factor goes down and during deflation, the factor goes up. Having said that, just like Parachute, we try to keep the absolute outlay within a band, for example, per liter, it could vary between Rs. 50 to Rs. 60 per liter. But you are right, that during the inflation, the factor goes down. While during deflation, that factor goes up a little, but the outlay is within a band. And it is not a very wide band since that is the outlay.
- Avi Mehta:** Okay, so the difference percentage divergence also between would also kind of change effectively dependent on where there is a deflationary inflationary cycle that is how it is?
- Saugata Gupta:** Yes, because if it is pure deflation, I might not keep that the gap at Rs. 60. That gap maybe Rs. 40-45.
- Avi Mehta:** No, I was trying to link it up with the three-brand strategy that you have kind of evolved, which is the Active and you know, is that, are those gaps also something that you are kind of when you talk about RPI, this was just the entry level that you were talking about?
- Saugata Gupta:** So, there is a pricing strategy, but all our focus is actually towards growing Gold and Total variants. Active and Tasty variants are their entry point. But, in terms of investment focus and driving growth, a significant portion of the growth is actually happening in Total and Gold. These are our focus areas, because these are the ones that give you higher realization and higher margins. Active and Tasty variants are offerings so that people who want to get into the brand have an entry point, but these are the brands we do not invest behind.
- Avi Mehta:** On the digital brands, I just had a small question. You did kind of alluded to Coco Soul being one of the brands that would be digital. Could you kind of share so in that experience, is the playbook very different because my understanding was that Coco Soul is largely an MT driven brand or E-com and MT driven brand and not necessarily D2C?
- Saugata Gupta:** So okay, let me just give you a perspective. Coco Soul was originally prototyped as a virgin coconut oil brand in MT. Now VCNO is being considered as an exotic ingredient in the West, just how Yoga and turmeric latte have become a fad. It is like anything that comes back from the West. We are prototyping a VCNO-based personal care range on Nykaa. So, Coco Soul started as one thing but has evolved into another.

Avi Mehta: So, let me rephrase it. You argued that the playbook would be very similar. I understand with personal care. But do you think that the playbook for digital brands differs a lot between foods and non-foods? As you know, I was essentially looking at Honey, I know it is not exactly the same, but that if you could kind of give from that perspective, what are the kinds of brands that you are looking when you look for acquisition or what kind of brands would you kind of consider? Is this only like a honey or you are looking for something really different? If you could help us understand this better? That is all from my side.

Saugata Gupta: In the Honey category, modern trade and E-Com contributes to 40%, like Saffola Oils, but we also sell substantial amount in GT. So, the two different ways of looking at it is that if you want to create a digital brand, personal care unit economics works far better simply because you need an average order value or RSP, the selling price, of at least \$8 to \$9, which is Rs. 500 to Rs. 600. Usually, personal care is high GM and high ACOS. Food brands, if they operate only digitally, can be successful only if there is a very, very high margin. So, food brands usually are much better off if they go into brick and mortar and definitely go into specialty food and modern trade outlets. Personal care, you can actually survive in a D2C plus marketplace model.

Avi Mehta: Okay, so would it be fair to read them given we have been kind of looking at this from a profitability lens as well, that your focus would be largely on the personal care segment when you say digital rights, is that or?

Saugata Gupta: On digital, yes. You are absolutely right.

Moderator: Thank you. The next question is from the line of Nitin Jain from Fair View. Please go ahead.

Nitin Jain: So, I have just one question. So, traditionally, we have seen that in the D2C market, while the margins are strong, scalability is always an issue. So, how is the company looking at addressing scalability in all the D2C brands that it is acquiring?

Saugata Gupta: But if you look at some of the successful big brands, they have been able to scale up. Obviously, one of the reasons, we are there as a strategic is to offer the next level of distribution, which is modern trade. In the case of foods, it is specialty food outlets. In the case of personal care, it is chemist and cosmetics. And some brands can also move into salons. So obviously, that is the route to scalability. But as I said, our aspiration right now is to cross Rs. 100 crores. For example, Beardo has today 90% on digital, and it is slated to cross the Rs. 100 crore mark. And yes, the Rs. 100 crores to Rs. 500 crores journey may require moving into brick and mortar.

Moderator: Thank you. The next question is from the line of Harit from Investec. Please go ahead.

- Harit:** I just had two questions. You know, you mentioned you typically mentioned the margin band in the previous quarter, saying that it should be the, you know, in the 19-20% band probably at the lower end, you know, given that you have had such an inflationary quarter and yet managed, you know, 19% operating margin for the business. I mean, you know, is there a possibility of upside given you know, your business recovers back sequentially, especially on the inflation side?
- Saugata Gupta:** I will tell you reason because ultimately it is not just the actual price but also in consumption terms. So, if you look at edible oil, it is still volatile. It went down but it has again gone up. Things will gradually settle down in H2, and that is when we should be in a better position to manage the margins. Also, you must realize that one of the things that happened because of high inflation led growth in this quarter, we had operating leverage. The corresponding inflation in Q2 is slightly lower.
- Harit:** The second part is the international, you know, margin performance, and I am looking at more like a gross margin performance, and, you know, the impact there has not been so severe. So, that is the difference between because we also have, you know, copra prices having a large impact, as in Bangladesh is a large copra, you know, RM business for us. I just wanted to get a sense from you, is it that the only major difference between international, India is the edible oil side? And that is really the big difference on the gross margin?
- Saugata Gupta:** Two things. One is the edible oil. Second thing as you know that India does not allow import of copra. But in the international business, the copra is sourced from another market and there is a difference between the copra prices in India and copra prices internationally.
- Pawan Agrawal:** Let me add to that. While in international 50% comes from Bangladesh, in the balance 50% of geographies, we have not seen this kind of inflation.
- Saugata Gupta:** Vietnam and others is more personal care, so there is no inflation.
- Pawan Agrawal:** Also, the difference in the prices for Bangladesh and India is slightly different. So, it was not as high as we have seen in India.
- Harit:** Got it. I was just asking from the lens that while Bangladesh is 50% of revenues are much higher proportion of the EBITDA in the international level. I got the answer.
- Moderator:** Thank you. The next question is from the line of Rakesh Roy from Indsec Securities & Finance. Please go ahead. Sir, bifocals.

Rakesh Roy: Do you see any near term headwind in supply chain or demand side, especially in South India after rise in the cases?

Saugata Gupta: No, actually not. As I said that, while last year, we were caught unaware because of the lockdown. Now, our supply chain and the entire capability, in terms handling any kind of black swan scenarios, has become far more agile. The second thing is we should be able to complete vaccination of all eligible Marico members and our extended third party associates by Sep 15. Also, there are two things that we have seen from market to market. First principle is that the strong get stronger, weak gets weaker during any such disruption. The second thing is what is the nature of your portfolio. If you have a portfolio, which is more essential, then the consumption does not get impacted. And if you have strong systems and processes, the coping ability always is far higher. So, given these two contexts, we are far more confident now even when there is a COVID surge in a country like Bangladesh since both those two things play out. We have a very strong playbook right up from supply chain, distribution, go to market, managing costs, all are in place.

Rakesh Roy: Next question is, how is the demand scenario in rural India in Q1? And how do you see in future also?

Saugata Gupta: So, we have not seen any dip. Although I must say that this time what happened was there was the impact of COVID in the rural hinterland. The only other difference is that if you notice last year, rural markets in the South were completely unaffected. This time, the South markets were affected. In fact, last year, the South rural, in spite of a huge impact in other markets, were almost clocking at the standard run rates of the previous quarter. So, I would say that given that the monsoon is good, the entire Government direct benefit transfer continues to do well, vaccination rates are good and there is no major third surge, we believe that the rural consumption will continue to be reasonably buoyant.

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

Latika Chopra: Two questions from my side. The first is you mentioned about aggressive cost management targets in FY22. Any quantification you would like to do in which areas these cost saving targets are?

Saugata Gupta: So, we started the process last year where we accrued between Rs. 150 and 200 cr. We continue to do that. There are three broad areas where we have managed costs. One is of course, we continue to extensively use analytics and manage resource allocation in both sales and marketing

spends. We have done a net revenue management exercise and a cost to serve exercise, and therefore that is one big area. The other area is in the entire area of inventory and working capital, where we have made good strides. But there is still a journey to go in terms of inventory write offs, etc. We continue to operate with a far lower number of SKUs. During the last year we reduced 26% SKUs and we are ensuring that for every year, we have a far more strict protocols of adding SKUs because there is a benefit of simplification. The third area is the structural changes. Even after we get fully vaccinated, we will move into a hybrid way of working and a different operating model. And that will also ensure a structural saving of costs. So, these three and in addition to that, we have done a cost transformation exercise in some of our international markets, including Vietnam and Egypt in the last year where we continue to get accruals. And we are now doing one cost transformation exercise in Bangladesh.

Latika Chopra: I also wanted to check are these cost savings in absolute terms or as a percentage of revenue going to be more than what you achieved in FY21 or FY20? And if there is any quantification if that is possible?

Saugata Gupta: In FY21, it was a higher one because there were significant structural and some one-time savings. For example, if you look at a lot of fixed overheads that was saved in Q1. So, I would say the absolute quantum will be a tad lower because we also started a significant exercise in Vietnam and Egypt last year. So, in terms of accruals, it could be slightly low.

Latika Chopra: The second bit was on, you know, the foods portfolio, you know, you have put out a target of Rs. 850 crores. Apart from the existing new brands, you know that you have talked about, are there any plans for adding more to this portfolio over the course of next three years?

Saugata Gupta: Let me just first talk about the existing portfolio. The penetration of oats is still in single digits and therefore there is a huge opportunity to continue to drive penetration of oats and the good thing is that while we have added three more categories to the food repertoire, oats continues to grow. And the second thing is obviously Honey, where we continue to grow market share. It is a category which is also expected to grow in double digits. Once we cross the Rs. 100 crores, we will continue to drive this one. Third, soya nuggets is interesting because we believe that protein as a market, there is significant opportunity. It is a Rs. 900 crores branded market there is an unbranded market too and also the fact that there is opportunity to value add to the product. Lastly, oodles, while we are not competing at the mass end, we believe that we have a differentiated offering and given the size of the market even if I get 2-3% that will be a significant size. So, honey, noodles, and soya chunks are potential Rs. 100 crores opportunities. We have to do something about Chyawanprash. We will see that in the next couple of months. And we

believe that is going to work and maybe we will look at exploring one or two more categories. Out of these, not everything will have success. But yes, you might see a category added.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan Sambamoorthy: This is on the current incumbent premium personal care brand. Just like you stated outlook on FY24, for foods and digital first. Could you also share some outlook here? And in view of the opportunities that online is providing, could you also have a sharper growth on for the likes of Livon and Set Wet?

Saugata Gupta: Ideally, we would like Livon and Set Wet to grow 20% plus. That is the broad aspiration. Livon is just about reaching pre-COVID levels. For Set Wet, the difference is in male styling, a lot of usage happens when guys go out, when you are actually going clubbing, you are going out, you are going to college. In the case of serums, it is giving a salon finish here the impact has been less. So, while Livon serums have recovered, the styling part is yet to recover. And the first part of call is can we start getting 20% plus growth. As you know, we need to grow VAHO by 10% plus, we need to grow foods by at least 40- 50% every quarter and then maybe move to 30% over the next 3-4 years. These two brands need to grow by 20% plus and therefore that is our aspiration. Yes, there is a significant opportunity to grow in terms of ecommerce and digital, and given our new capability. The bigger growth is on penetration because whether it is Livon sachet or the Set Wet Rs. 10 packs, there is enough opportunity to drive penetration and not just grow at the top end.

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

Abneesh Roy: Yeah, two follow up questions. One of course is on the refill. So, you have good presence of modern trade in normal times for some of your brands. We have seen now one of the Indian FMCG company come out with the refill for few of their brands, it is a global company, it is an Indian subsidiary. So, do you think one this will work medium long term? And second, does it make sense for a couple of especially to do this at some stage?

Saugata Gupta: So, as we have a program on driving sustainability in packaging and reducing plastic and responsible end-use. Different organizations do it in different ways. Recently, in the CRISIL ESG Rating, we were the number one amongst all the FMCG companies. Therefore, we will continue to have a strong program in terms of packaging and responsible use.

Abneesh Roy: And on the New Product Funnel, will there be acceleration going ahead? You already have a lot of innovations in the basket currently and good growth potential there. But if we could discuss across the Indian portfolio or the international in terms of pipeline, is there going to be a lot of new products going ahead in the next one-year time frame?

Saugata Gupta: We want to do few things well. We do not believe in launching 30 things and trying to add to the revenue because someday it catches up with you. I believe the few fundamental things we are currently doing is as follows. In India, we have done a significant work on expanding the total addressable market in Saffola. We have shown that it is a much better route to grow than trying to do you know numerous small things and trying to grow. While that might show aggression and agility, but this is a far more long-term sustainable way of growth. As far as Bangladesh is concerned, we have now experimented and we have proven that Parachute Advanced has a route to grow the total addressable market. We are doing well in shampoos and baby care. We also have another focus area of creating a portfolio of digital brands. To me these are the thrust areas. The other one where you can see some action is value added hair oils, we are far higher share in the base end, and not much in the top end in things like hair fall, etc. That is one more area that could be seeing innovation.

Abneesh Roy: Last question was both, so we have seen extremely good performance of value-added masala oats and 94% market share. So, my question is within oats, how is the flow between the plain to masala oats? So, in case masala oats now gaining share every year and would you see that continuing because plain oats also clearly penetration is quite low, so any comments on that?

Saugata Gupta: So, initially we focused all our energies behind driving masala oats because it was value added. Our job is actually to drive penetration and not market share. Market share is incidental. Having said that today, an equal growth that comes from plain oats. We believe that as food habits are changing, and this is an opportunity for plain oats to grow. But having said that, if you were to ask me plain oats the opportunity will be a mixture of market share and penetration. Indians like savory food. We have been able to move masala oats from breakfast to in-between meals, where the total market size is far higher than breakfast. So, it is a two-pronged strategy. We have to single-handedly drive penetration of masala oats. And how does it get a higher share of plate or share of wallet amongst all categories that exists in healthy in-between meals offerings.

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

Kunal Vora: On International, you mentioned that there are certain headwinds in markets like Bangladesh, Vietnam, and your base going forward also is high compared to 1Q. Would double digit growth, which is the medium-term target, be difficult to achieve for the rest of the year?

Saugata Gupta:

Actually, Q2 and Q3 has a single digit base. So, let me just address it differently. First of all, our biggest contributor is Bangladesh, and I told you about Bangladesh it has an Indian model where 90% of the categories we sell are essential and day to day items. Number two, we have actually even more strong brands and strong distribution in Bangladesh. So, while there is a COVID surge, we believe that given all the learnings of India, we have the wherewithal to replicate that model in place, and to deliver double digit growth, which we are talking about. The second thing is in Southeast Asia, fortunately, our entire exposure is only Vietnam. We do not have businesses in Malaysia and Indonesia. In fact, Indonesia is far more affected than Vietnam. As far as Vietnam is concerned, we believe that things should get under control. It is a country where there is significant amount of government control and during lockdowns, there is huge amount of discipline and consciousness amongst citizens. And of course, vaccinations have started. So, we believe that these kinds of surges are a four-to-six-week phenomena. Having said that, obviously, there could be an impact in this quarter because a lot of our portfolio is discretionary. Male shampooing or male styling is a little more discretionary than the portfolio in Bangladesh. As regards to South Africa is concerned, yes, there was some unrest. Things are normalizing, and we think we should get back on track given the fact that the business has momentum. Middle East is also chugging along with double-digit growth. So, if you add everything all together, for the balance year, we are fairly confident of double digit growth.

Kunal Vora:

Sure. Okay, second and last question about your pricing strategy going forward. Assuming RM price cools off like you have seen for copra to an extent, which are the segments in which you will be open to reverse the price hikes? Like it looks like in case of edible oil price hikes like price cut is a possibility. While Parachute it might not be. So just your thoughts on what can we expect in pricing going forward?

Saugata Gupta:

Copra will be range bound. So, I do not see any pricing action happening as far as Parachute is concerned. For Saffola, the edible oil prices are going in a zigzag manner. It went down for a couple of weeks and then gone up. We do not price it like a commodity so we cannot do price changes every week or something. But as soon as we see a trajectory going and directionally certain that this will go down, we will have to take price cuts.

Moderator:

Thank you. We take the last question from the line of Tejash Shah from Spark Capital.

Tejash Shah:

So, my question pertains to D2C brands that was discussed at length today. So, and the question is based on assumption that perhaps D2C brands have a higher share of millennials, or they are largely driven by millennial consumers. So Saugata, just wanted to understand what is the problem that D2C brands are able to solve for millennials in terms of is it that the channel is of preference there? Or is it the brand resonates more with the millennial consumers, or they are

genuinely solving problems which perhaps incumbents or established brands are not able to solve?

Saugata Gupta:

It is a combination. There are certain brands which cater to the untapped or unmet need. When we look at some of the brands, there are two or three routes. One is an unmet need. Second is they have been able to make a hero ingredient stand out using content marketing, using very strong digital marketing capabilities. If you look globally, there is a brand called Innisfree, which started off with a Jeju volcanic ash, it is a product. Similarly, there is virgin coconut oil in the US, I gave you an example of a simple Haldi Milk which has come back as a turmeric latte. In India, you have seen examples of two ingredients which have suddenly become heroes, thanks to great digital and social media marketing, which is onion oil or apple cider vinegar. Even aloe vera or if you look at some of the categories or products, which are successful in the West, or in the case of styling in North Asia, Korea and Japan, which have been very successful. Also, activated charcoal, who would have known that activated charcoal will suddenly become a rage. Also some of the brands stand for something, for example, it could be clean beauty, it could be stands for “Free from”, it could be sustainability. A lot of millennials believe in that. That is how these brands develop. It is an inspiration for a lot of personal care D2C brands. There are two brands, which I personally admire, like Glossier and Drunk Elephant. These are US brands, and they are real fantastic cases of digital marketing. So, the capabilities are there. They think differently, the kind of people who work on those teams are completely different. They are not the traditional professionals who run large companies. So, it is a different model. These are different kind of people with different processes. So, that is why we are deliberately keeping them completely different. We do not want to Mariconize that business.

Tejash Shah:

But do you also see this as some fatigue of old brands, because let us say if we would have done any of this innovation with our existing set of brands, is the acceptability from millennials or young consumers goes down versus some of the new age catchy names like will do almost the same thing, which perhaps we could have done in our labs, but the acceptability part because the way they present themselves, digital marketing, they relate to young consumers better, is that the limiting factor because what you just spoke about Marico as a company can also do it on its own lab and R&D platforms?

Saugata Gupta:

There are two different business models. Our company's FMCG are geared to a certain business which has scale. As I said, in Marico, we are looking at simplicity like reducing SKUs. They work on a different velocity of innovation, for example, the velocity of innovation, if it is a cycle time of eight to nine months in traditional FMCG company, they have a 30-to-60-day cycle, they have a risk appetite, because the value at risk is far lower. So, the velocity of experimentation is different. It is too difficult for both of business models to coexist in an existing company, because

ultimately, you have to be best in class in one business model. And that is why Rs. 50 crores opportunity for a Rs. 10,000 crores company might not be attractive. When it is done by the core because that in terms of share of mind and share of time of the management will get the 30th position versus for people with no escape button for them that is everything. Their focus and their approach is different. And let me tell you there is enough studies to show this concept that these two operating models cannot coexist within an existing organization.

Moderator: That was the last question. I now hand the conference over to the management for closing comments.

Pawan Agrawal: Thanks a lot for listening in on the call. To conclude, we carried the momentum from last year and delivered a good Q1 performance with broad-based growth both in India and international markets. With improving demand trends across our categories, we are quite optimistic about both the near term and medium-term performance. However, the ongoing COVID situation keeps us watchful. We expect the cost pressures to ease out as we inch closer to the second half of the year, thereby releasing pressure on margins, and we would strive to deliver double digit earnings growth.

If you have any further queries, please feel free to reach out to the IR team and we will be happy to address the same. That is, it from our side. Please stay safe and take care.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Marico Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)