



Marico Limited  
Q1 FY25 Earnings Conference Call  
**August 05, 2024**

**MANAGEMENT: MR. SAUGATA GUPTA – MD & CEO, MARICO LIMITED**  
**MR. PAWAN AGRAWAL – CFO, MARICO LIMITED**



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Marico Limited Q1 FY25 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 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 this conference call, please signal an operator by pressing “\*” and then “0” on your touch-tone 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 anybody else who is not an individual investor or analyst but would like to ask questions, please directly reach out to Marico's Investor Relations team.

I now hand the conference over to Mr. Saugata Gupta for his “Opening Comments”. Thank you, and over to you, sir.

**Saugata Gupta:** Good evening to all those who have joined the Call, and hope everyone is doing well. I would like to start with a narrative on the operating environment during the quarter gone by, after which I will touch upon our performance and strategic objectives going forward.

During the quarter, the sector continued to witness gradual improvement in demand trends with rural growth ahead of urban. Pricing growth, however, turned flattish on a Y-o-Y basis while both HPC and Foods witnessed an uptick; the pick-up in HPC has been more pronounced over the last six months. Premium segments continued to outpace mass segments and alternate channels continued to gain salience vis-a-vis general trade. We expect volume trends to sustain the improving trajectory, aided by stable retail inflation, a healthily progressing monsoon season, and the government's budgetary allocation towards boosting the rural economy. That being said, elevated food inflation and spatial distribution of rainfall will be key factors to be monitored.

Moving on to our performance, the sequential uptick in domestic volume growth was led by a steady trend across a majority of our portfolios, and partially reflected by the healthy trends in offtake growth across key portfolios. More than 90% of the business either gained or sustained market share and penetration on a MAT basis. However, the improving trajectory in the core portfolios would have been more discernible if not for the impact of ongoing stock adjustments

implemented to support GT distributor ROIs and conscious holdback of inputs in wholesale and B2B channels in particular markets to prioritize direct-reach expansion through Project SETU. The latter initiative ensured ease of direct selling-in of a range through the outlets instead of those retailers where we are expanding distribution, picking up stocks from wholesalers or B2B. Domestic revenue growth moved up in high single-digits along expected lines given the price hike in the coconut oil portfolio, which absorbed the residual base impact of price drops in Saffola oil. Pricing growth is likely to pick up through the year with Saffola oil price drops moving into the base completely from Q2 and mild inflation expected in some commodities in Q2, particularly copra, which will further aid domestic revenue growth through the course of the year. We launched Phase-1 of Project SETU in 6 states comprising a mix of stronghold and opportunity markets. The initial results have been very promising with direct coverage expansion in urban and rural markets. These new outlets have responded well to the core and new portfolios. During the course of this year, we will scale up Phase-1 markets as well as expand into some more states. In addition, to enhance direct reach and weighted distribution, we expect Project SETU to drive market share gains across categories in urban and rural markets as well as enhance assortment levels in urban stores, thereby enabling diversification and premiumization in the domestic business.

Delving into domestic business, which I will touch upon the key trends in each of our categories, Parachute which has witnessed strong 8% growth in volume offtakes during the quarter, which was reflective of the consistent market share and penetration gains witnessed by the brand. The reported volume growth, however, was impacted by the aforesaid stock adjustments in GT and in wholesale and B2B. The brand maintained its premiums and logged in 100 bps gain in market share during the quarter. Flanker brands, including Nihar Coconut Oil and Oil of Malabar, which compete with regional and some deep-discounted national players, grew in mid-teens. Consequently, volume market share of the composite coconut oil portfolio, including flanker brands, reached its highest-ever level at circa 64% on a MAT basis. We expect a pickup in Parachute through the rest of the year in view of the visibly encouraging trends in market share penetration and offtakes. The pricing growth on account of actions taken so far will flow through entirely from Q2 and we could take possibly another round of price hikes in case of any further rise in copra prices during the course of the next second half of the year. Gradual escalation in copra prices is positive for the brand as it affords us the opportunity to strategically leverage the brand's pricing power and procurement system advantages thereby gaining volume traction and market share.

Saffola edible oil delivered mid-single-digit volume growth as stability prevailed in both input and consumer pricing. As the pricing base entirely catches up from Q2, revenue growth will track in line with volume growth. Offtakes for the brand has also remained healthy. Master brand advertising in Saffola initiated last year has been a positive step towards leveraging the equity of the master brand and enabling far more efficient brand-building investments.

Value-added hair oils have been sluggish amidst competitive headwinds in the bottom of the pyramid segment. Volume declined in low single-digits, partly impacted by the aforesaid GT distributor stock adjustment and limiting wholesale and B2B in SETU launch markets. In fact, secondary sales and offtake grew in low single-digits. While competitive intensity remained high, we have gained 50 bps volume share and 60 bps value share in Q1. Brands such as Aloe and Jasmine, which play in the mid and premium segments grew well ahead of the category. We will expand our participation in this segment of the category. Getting value-added hair oils back to healthy growth is a key priority for us and we expect to make some headway this year through concerted action initiated in the bottom of the pyramid segment of the portfolio, and a gradual improving rural consumption sentiment in mass BPC categories and SETU-aided volume growth.

Foods had a robust quarter and registered 37% growth with core Oats portfolio growing at 20% plus. We kept up the innovation velocity with the launch of Saffola Muesli with a differentiated flavor format aiming to leverage the brand's equity in the breakfast segment. The Plix plant-based nutrition portfolio and True Elements have also scaled up well. We expect to surpass our internal expectation which we had set at the start of the year. We are able to expect a structural shift in our foods gross margin last year and expect profitability to inch up as we scale over the medium term.

Premium Personal Care sustained its healthy growth trajectory led by the digital first brands. We expect the digital first brands to exit FY '25 at a Rs. 550-600 crores run rate this year and striving to achieve double-digit EBITDA margin by FY '27. Beardo will hit double-digit EBITDA margin this year. Just Herbs is tracking well ahead of the Rs. 1 billion ARR mark while the traction in Plix Personal Care portfolio has been encouraging. Both Plix and Just Herbs have been scaling with minimal cash burn. We believe Beardo and Plix have the potential to scale up to Rs. 500 crores ARR each in 3 to 4 years' time given the expanse and growing TAM of their portfolios. The collaboration with Kaya will enable us to advance our play in science-backed personal care. We are currently working towards a smooth transition and now have exclusive rights to scale up Kaya's range of efficacy-based personal care products outside of its clinics.

We believe this is a Rs. 100 crores revenue opportunity over the next 4 years. And we'll add another growth lever to our digital first business, thereby further activating the portfolio diversification agenda of the India business. And as you know, Kaya is a known brand and also it has high gross margins.

Our portfolio diversification objective has led to a marked shift in our revenue construct and reduction in the commodity linkage of margin and revenue growth. We will sustain the aggression to drive 20-25% CAGR in these portfolios and expect the composite share of foods and premium personal care portfolio to cross 25% by FY '27, accompanied by a visible improvement in their profitability.

Moving to international business, we have maintained a double digit consistent constant currency growth trajectory. The Bangladesh business has held firm in a challenging environment on the back of its broad-based portfolio and robust fundamentals. However, we remain watchful of the current on-ground situation. In Vietnam, we witnessed some signs of a recovery in HPC demand and expect gradual improvement ahead. Myanmar has been under geopolitical turmoil and the business may remain subdued this year. We continue to ramp up in MENA through the expansion of the hair oils portfolio in Egypt and the Gulf region and witnessed healthy traction in the hair care and health care portfolios in South Africa. The export business has scaled to \$25 million and continued its healthy run. The broad-basing of the business has not only strengthened the growth prospects of the business but has also added margin upside potential in the medium term and also consistently reducing the concentration risk in Bangladesh business over the last three to four years.

To sum up, we continue to gun for a double-digit consolidated revenue growth this year by driving outperformance vis-a-vis category and market share gains in the domestic core portfolios, accelerated growths in the foods and the premium care portfolio, and healthy momentum in International business, which will be supplemented by a favorable pricing cycle in key domestic portfolios. While key commodities are exhibiting mild upward bias, we are confident that we'll be able to maneuver margins through pricing, driving a more favorable mix and ongoing cost optimization initiatives to hold operating margin at FY '24 levels this year.

Last but not the least, we have always viewed our entire business operations through the lens of sustainability, and our Sustainability 2.0 framework has been seeing encouraging progress across each of the eight broad-based themes. We have detailed the same in our FY24 Integrated Annual Report, which was released last month, and I hope it will make for good reading. We

firmly believe in creating shared value for all will aid us in driving sustainable all around and superior growth in the longer term.

With that, I will now close my comments. Thank you for patiently listening, and we will now take all your questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

**Abneesh Roy:** My first question is on the foods business. So, very strong growth here. Wanted to understand if there is any one-off this quarter? And between the two new businesses or True Elements and Plix, would you expect FY25 higher growth in Plix? And in True Elements, if you could specify, in a very hyper competitive and a lot of similar kind of brands, how True Elements is now able to differentiate and thereby grow strongly?

**Saugata Gupta:** So, firstly, just to give you a flavor, as you know, last year, we took a pause in our foods business primarily to get the margin correction and also to get the entire supply chain and the sales system because as you know that our entire forecasting, replenishment model and our supply chain was not geared to handling low-shelf-life products. At the same time, we had an 800 bps correction in our margin. And also, this year, we are only focusing on a few things, investing behind only things like oats, honey, soya, and now, of course, breakfast cereals and snacking, which we are actually planning to expand with a launch of a Rs. 10 snacking products, which is crunchies. So, if I look at it, the organic growth is still high teens with oats doing 20%. Obviously, the growth in Plix and True Elements is slightly higher because of a lower base and Plix significantly driving multiple nutraceutical platforms.

As far as True Elements differentiation is concerned, I think it starts with the brand name True and 'free-from'. It operates at a slightly higher RPI. It is slightly more, I would say, the business that comes from OT versus GT compared to other food brands. And some of the new things which we're experimenting on and as I realize one thing is that if you have to scale in foods, one of the things we have to do is to ensure some price points to drive growth. At the same time, Indianize some of the flavors and offerings which True Elements has started doing. Having said that, the other thing you must realize the digital brands enjoy is, while they independently drive their destiny in terms of driving brand preference and sales, the significant expertise of procurement, supply chain, cost management and manufacturing processes of Marico, which gives them a certain advantage in terms of cost structure and pricing.

**Abneesh Roy:** My second question is on your international business. You have diversified away from Bangladesh, which is a good strategy in the current context. Another FMCG company said that past few weeks in Bangladesh has been quite challenging, which is understandable. My specific question is, how are your EBITDA margins in Bangladesh versus say the consol margins or say the standalone margins? And second is, how serious is the impact till now? Some color if you could give either in terms of manufacturing or in terms of demand and distribution, how big is the impact till now? I understand these are daily consumption, so this will come back. But till now how is the demand in Bangladesh?

**Saugata Gupta:** I think firstly this strategy of reducing dependence on a single country, expanding the full potential of MENA and South Africa or Southeast Asia started four years ago and nothing to do with the current context, and it is a gradual process which we have been doing. And within Bangladesh also, we have been reducing our dependence on coconut oil and driving and successfully significant diversification of our portfolio into shampoo, baby and all. See, I don't want to comment on the country. So, all I can tell you is that there have been significant black swan events in the past across our countries, across our portfolio, whether it's COVID, whether it's Ukraine, post-Ukraine inflation. What happens in moments of adversity, the strong gets stronger and the weak gets weaker. So, therefore as I said that we have a very strong business, strong fundamentals, we have been in that country for 20 years. So, we have weathered different storms, so it's okay. I mean this is all I can say at this stage.

**Abneesh Roy:** I will follow-up on that later. Last quick question on value-added hair oil. Other companies in that space are also facing the same issue, demand is low there. I wanted to understand when rural recovery is there, and of course, it's in the initial phase, in this category, where is the customer going? Because in a lot of your other categories, or maybe for other companies also, rural demand seems to be reviving and good benefit. But here, clearly, all companies are facing similar issues. So, why isn't the customer in the rural reviving here also? And do you think he will come back once the rural demand picks up pace further?

**Saugata Gupta:** Let me just give you a color to this. I don't see any way the category is behaving differently from other mass HPC categories. The thing that has happened in this category is perhaps because of certain competitive actions. All the action has happened in the bottom of pyramid, where because of pricing and what I call BTL driven growth, the average value growth of the category has come down, okay? So, in terms of sheer consumption in ML has not come down other than because in the case of the small packs, which are the price point packs of Rs. 10 and Rs. 20, there has been significant inflation. Now this anniversarization of this inflation will happen somewhere

during the year. So, today, our volume growth, if I adjust with the one which is the SETU led and the other stock correction, it's still in the positive territory. And if I compared to the other HPC categories, it is still in low single-digits. So, you have to look at offtake growth. Our offtake growth is around still 3%. So, I am not very concerned. And the second thing, specifically what we are doing is, instead of going down the rat hole of just competing on below the line spends and pricing at the bottom of pyramid, we are focusing on our investments to drive now that the demand situation is improving, especially rural. So, we are seeing some green shoots in brands like Aloe and Jasmine. We need to participate slightly more stronger in things like hair fall. And we are chasing value growth in hair oils and we are chasing value share in hair oils. We have seen the first turnaround where we have started gaining value share in hair oils. So, I believe towards the back half of the year, we should see positive growth in both value and also the value share gain which we continue to have.

**Abneesh Roy:**

And one follow-up on that. The BTL being higher, is it due to any specific reason that it has picked up by those competitors and those would be all regional players essentially, right, bunch of regional players?

**Saugata Gupta:**

No, I am talking about national players who have gone into zero BTL and high BTL driven strategy, which is not necessarily the best strategy long term.

**Moderator:**

Thank you. The next question comes from the line of Percy with IIFL. Please go ahead.

**Percy Panthaki:**

My question is on the foods business. So, while Saffola Oats is doing very well, we had launched a few other brands also. Can you give us some idea on how they're progressing, the honey, the noodles, the soya chunks, etc, where you see greatest potential, where you see that there is a little bit of a struggle? And in terms of further categories within foods, would you want to enter in the near-term? Or do you think you would want to consolidate the current categories that you have entered first?

**Saugata Gupta:**

Firstly, I think our endeavor is to grow food and as I said, the diversified part of the business at 20% to 25% profitably, because we don't want to do for higher growth at the expense of profit. So, 20% to 25% is the first destination, which includes, obviously, brands like Plix and True Elements, and we are exceeding that outcome, okay? And I think this is a great development. Secondly, if I take all food into account, organic, it's still in high-teens. Now, coming to individual, this one, let me just give you a flavor without getting into too much detail is that honey category last season has not been the best and it's just not us, but some of the bigger



players, I'm sure, has experienced the same thing. Now, coming to soya, again, soya is doing well, and I think honey and soya are the ones which have scaled up. The only thing we are mindful of soya is that, in terms of margin, it is not the higher margin compared to others. And therefore, we are not aggressively growing soya until we get, what I call, an innovation kind of a solve, just like we have done in oats, because had we just sold plain oats, that would not have made significant margin, masala oats obviously makes better margin than plain oats. So, we are searching for a solve there. Having said that, I think we are going to aggressively participate in breakfast. You will see some more launches in this space also of masala oats space. And the other thing which we are now doing is for the first time we are prototyping a little bit of snacking in GT, as we had done only MT and e-com and quick-commerce. The other interesting thing is that we believe that our food journey has a significant upside potential in quick-commerce. As you know, quick-commerce as a channel is growing significantly and food as an impulse category is a natural play there. We haven't played that much in quick-commerce in foods, but now we are going to play aggressively as far as quick-commerce is concerned. And as you know that quick-commerce in this country, this next 2, 3 years, it's going to be on a very-very good traction. So, overall, all I can say is that we are fairly confident of maintaining that 20-25% growth rate in food while sustainably improving profitability. And this will come both from organic and digital brands mixture or what I call the more this one brands.

**Percy Panthaki:**

Just another question on your growth construct. So, if I basically look at your personal care, digital brands put together plus foods, all this put together is approximately 20% of your domestic top-line. And if this portfolio grows at about 20%, you should get about 4% kind of growth, which would be largely volume led from this itself, right? So, I mean, how do we look at growth going ahead? So, is it fair to say that let's say, you would be targeting for India, 7% to 8% volume growth, out of which half of it would come from this 20% portfolio, which is growing very fast and remaining half of it would come from the 80%, which is more mature. And if this understanding is correct, then this quarter what really happened for us to fall short of that number?

**Saugata Gupta:**

So, I think two things you have to see. It does not come to 4% actually. So, two things. One is if you take the stock correction which we have done and I'm not even talking of the SETU correction because that's a secondary term. The primary stock correction at the distributor, you can add 2% to the overall. So, if you add that growth, any case this growth would have been around 6%. Also, the number from new businesses is not 4%, it would have been around 2-3%. But having said that, going forward, we expect volume growth to definitely improve over the next corresponding quarters.

**Pawan Agrawal:** And also, just to add, Percy, for example, Plix we are not including in the volume growth because it is not in the base yet. So, to that extent, Plix contribution has not gone into the volume growth. Now it comes into the base from next quarter, then, of course, we'll add Plix in volume growth.

**Percy Panthaki:** And last question on margins. We are already at 23% plus this quarter. Are we sort of now maxed out in terms of margins at a consol level or do you see more growth drivers? Because do you fear at some point the margin sort of become too attractive for competition or something like that? I mean, how are you thinking about this whole piece?

**Saugata Gupta:** So, in oats which we have, we never do supernormal profit. We certainly ensure that there is no disruption model in place. Having said that, I think you are right. This year, I don't think we will have any further margin expansion. Having said that, there are structural ways to improve margin long-term because food and digital as we talked about in the next 3 years, digital will get into a double-digit EBITDA, food is consistently and in fact we have a proven model in the case of oats, where oats deliver an EBITDA which is fairly decent. And also, the fact that some of the other international businesses with scale like Middle East and South East Asia, it's actually by the inching up of the margin in the future. But this year, I think, we should be able to maintain margins, that's the best-case scenario given the fact that we already peaked last year and the fact that there is some mild inflation, etc. I think the focus is to ensure that how do we get into a double-digit revenue growth and aggressively drive the diversification agenda, which will also require some A&P.

**Pawan Agrawal:** And just to clarify, Percy, when we say hold margins, we are saying we will hold margins as compared to FY '24. Of course, in Q1FY25, we have delivered higher margins because we had some strategic position gains in copra and vegetable oils. So, going ahead for this year, gross margins might moderate a bit because we expect certain inflation in some of the key commodities. But we are definitely committed to hold the gross margins at the levels of FY '24 and similarly at operating margin level, we would hold operating margin in FY '24.

**Moderator:** The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

**Vivek Maheshwari:** A few questions. First, Saugata and Pawan, on VAHO. Again, there are different reasons in different years, and you have tried your best, you have explained in the past as well, and the bigger thing is you are also gaining market share, right? What is wrong with this category? Is there a possibility this is more like a structural issue, consumers not using hair oil? I just don't know. And at the value level, is there some market share loss? So, at an overall level you are

gaining, but at the value level, is there some market share loss? I just want to understand what exactly is going wrong here.

**Saugata Gupta:**

No. I will tell you what has happened. Obviously, the bottom end is where we have lost share because beyond the point, it doesn't make sense to forego profitability. And therefore, that some share loss has happened at the bottom of the pyramid. Let me just tell you, the issue that has happened is post 2020 and especially after 2022, Ukraine, this one, there has been a downgradation that has happened because of 2 or 3 reasons. One, consumers downgraded from the premium part of the category to slightly this one. This was a combination of 3 things. One, I think far more attractive pricing and heightened competitive activity at the bottom end. Second, that had happened is shrinkflation. And so, if you look at it, this perhaps is a category where a significant portion of the sale, especially at the bottom of pyramid is in Rs. 10 and Rs. 20. And in order to protect the Rs. 10 and Rs. 20 pricing, people, competitors and us, we have taken significant ml-age drops. Now, one of the things we realize, and this is true in other HPC categories also, is that when you take an ml-age drop or a grammage drop to maintain price point, there are a lot of people, especially in rural and in the urban bottom of pyramid, they buy a certain frequency with a given outlay. So, therefore, they titrated the usage. This anniversarization of that is happening sometime during this quarter, as we speak sometime in August, September. So, we believe that in terms of both the volume or the consumption and given that we are seeing signs in the rural to etch up, I think the category will show higher growth. As far as we are concerned, however, I think what we have taken a stance is that, yes, we are okay to forego some share at the bottom of pyramid, but we need to invest far more rather than following some other players who have just knocked off BTL to drive this one, which is not good for long-term category growth. Because at the end of the day, I can be happy by saying my SOV is maintained, but the category will not grow if there is no investment in BTL. And therefore, we will start investing in BTL into converting that money into volume growth. So, we have seen some green shoots in other brands like Aloe and Jasmine. As I said, we need to aggressively grow. So, therefore, going forward, at least a second time, we need to accelerate the value growth of that part of the portfolio because we will lose at the bottom of the portfolio.

**Vivek Maheshwari:**

And the other question is, Saugata, I mean, if I recall correctly, I don't know which year, but I think a decade back or so, you tried Muesli at that time. I think Kaya distribution also Marico did at some point of time. What do you think will be different this time compared to, let's say, the previous attempts?

**Saugata Gupta:**

First, let me speak on Muesli. At the end of the day, as you know, even in Olympics Games, some people failed in Tokyo, succeeded in Paris. So, therefore, you might fail, but that doesn't mean we'll stop doing it. I think, first of all, we have got our food business model including distribution, supply chain right. When we tried Muesli some years ago, I don't think it was an issue on the product. I think we had a good product, this time we have a superior product, but we were not the best-in-class in doing food distribution, getting our business model. So, therefore, we are far more confident of doing food right now. Also, Muesli as a category has grown leaps and bounds. Today, if you see, it is one of the highest growing categories, it has overtaken Corn Flakes as a category. So, therefore, Saffola by participation and also the fact I think our capability, operation capability as far as OT is concerned is much better today. Our chances of success will be better. And I think after one tough failure we don't give up. In fact, if you look at it, we have tried a lot in food and we finally succeeded in food.

Now coming to Kaya, Kaya this time is different. Last time what happened was, we did a sub-brand called Kaya Youth O2. Kaya continued to sell in other channels. This time it is a deal where Marico has exclusive rights to sell, Kaya will stop selling in other channels. Kaya will only sell in their clinics. For all other channels, which is e-commerce, modern trade, D2C and beauty GT, Marico has got exclusive right to sell. Earlier there were 2 brands and we were competing, so it didn't help. Also, I think our digital capability compared to 2019 when we did Kaya Youth O2, and now is far superior to do that. And I believe that this, and therefore, given our digital marketing capability and other capability of our digital business, today, we stand a far better chance, a much more cleaner arrangement this time. It's not a sub-brand or a pret line while Kaya continues to sell, it's exclusive. So, all existing relationships which Kaya had is taken over by Marico in terms of the e-commerce sales and modern trade. Kaya was actually virtually only e-commerce, but we are now going to get into modern trade and some of the beauty outlets over the next 3 to 4 months. So, we'll start the process sometime in September.

**Vivek Maheshwari:**

And just a couple of follow-ups on that. So, on Kaya side, when you are going to take that over, so what will be the existing revenues that will straightaway come to you, Saugata?

**Saugata Gupta:**

We don't want to get into that. All I can say is it's a Rs. 100 crores potential in 4 years. So, just to give you another perspective, Kaya is a known brand. It has got existing consumers. Just Herbs is a Rs. 100 crore brand. If we can do Just Herbs a Rs. 100 crore brand, there's no reason why Kaya shouldn't be Rs. 100 crore brand.

**Vivek Maheshwari:** The reason of asking, Saugata, this question was because the press release also says 4 to 5 years Rs. 100 crores, and I thought if it is selling by the existing team, you could have reached there way faster than that, unless I am missing something.

**Pawan Agrawal:** So, currently the scale is quite miniscule, Vivek, and that's where our strength will come in and we will be able to grow the brand to Rs. 100 crores in the next 4 to 5 years. So, currently the scale is not very large.

**Saugata Gupta:** I think we would be able to give a far better sense after doing it for 1 or 2 years. Digital business, we have surpassed our own aspirations and our targets. I am sure we should be able to do that in Kaya. I will be a happy man.

**Vivek Maheshwari:** And yes, point taken, you have done quite well on the digital side. Lastly, on the acquisition bit, inorganic bit that you have mentioned, and you have also articulated your confidence on the food side, whether it's on the margin or on the overall business, when you think about inorganic now, will it be more skewed towards foods then? Anyways you have done quite a bit on the PC side.

**Saugata Gupta:** I think at the end of the day we look for opportunities which make strategic sense. I think as far as the digital is concerned, we looked at several adjacencies which make the market attractive, but we didn't organically have a right to win. I think Kaya was the last space which was vacant, which was what I call science-based skin care, which was vacant. We would have loved to otherwise acquire one of those brands, therefore, but anyway, now we have the opportunity to sell Kaya. See, foods business I think needs scale. I think one of the learnings so far is that, I mean hypothetically, there are 2 routes on food. You take a regional brand doing very well, scale it up nationally, or take this one already a scaled business. I don't think digital or digital-first, unless it's a nutraceutical because we already have Plix. I don't think a niche food brand makes sense to us given the scale of our current foods business.

**Vivek Maheshwari:** So, in conclusion, your point is you want to build scale further or let's say the thought process is more around margins in case of foods or build scale? Sorry, I missed that part.

**Saugata Gupta:** No. I think organically we have to continue to build scale. What I meant was that, if you want to do inorganic, it makes sense to get a little scaled opportunity rather than doing this founder driven brand on foods because it doesn't provide scale.

**Moderator:** The next question comes from the line of Harit Kapoor from Investec. Please go ahead.

**Harit Kapoor:** I had 3 questions; I will say it out. One was on the exercise on SETU as well as some destocking at the wholesaler's level or some channel management. Just wanted to know, how long does this take where your offtakes and your primary start to kind of match each other? That's the first question.

**Saugata Gupta:** So, I think I would say a couple of quarters, because SETU is a continuing project. Let me just give you a perspective on why we are doing this. See, normally when you do direct distribution, you get to sell range. Having said that, obviously through wholesale and B2B channels, the core brands, it could be Parachute in the South or Shanti Amla in the North, I mean, they anyway have indirect distribution. But if I have to get a portfolio and get critical mass, it is very, very important that, I ensure that when the direct distributor goes to them, the pricing is attractive and the retailers don't say that, okay, I'm getting it in wholesale or B2B at a far cheaper price. So, this process will take a couple of quarters. Regarding the GT primary stock correction, I think it again may be 1 or 2 quarters again. And you must realize that, and this is just not for us, it is for everybody, if you look at today the growth of quick-commerce that is happening, the channel that is getting impacted according to me is the urban GT because the entire quick-commerce growth is happening mostly in the top 8 cities. And therefore, it is imperative upon us to ensure that we protect the margins and protect the ROI of the distribution system so that there is this one. So, having said that, I think what will also happen is as we expand SETU, especially opening up food or say cosmetic or chemist outlets, which throughout our diversified portfolio, there's an opportunity to actually sell a bigger range and at a higher realization, because these are especially both food and especially personal care, like, things like Livon and others, which are at a higher realization, their turnover increases. I think the biggest thing is, irrespective of whatever growth, they have a fixed cost increase that happens in cities, like say 8% to 10% every year. So, how do I able to give that 8% to 10% turnover so that they maintain the ROI?

**Harit Kapoor:** Very clear. Second thing was on the 3-year phase plan for SETU, 1 million going to 1.5 million direct reach. I just wanted to get a sense about how does this reduce the wholesale mix from your channel sales from what currently to how much does it go down to?

**Saugata Gupta:** It's very difficult, but I will tell you what are the 2, 3 things that happen when you increase direct distribution. Firstly, it increases range, because what happens is the wholesaler or the B2B usually handles high-velocity leader brands, they don't have that assortment, okay? The second thing in urban SETU we'll be able to also drive the diversification portfolio because we are opening up some of them. So, I will give you an example of it. If you go to Bengaluru or you go to Coimbatore or Kerala, you will see bakery outlets. Now bakery outlets, we never used to

service those bakery outlets. But today, if I have a critical mass of food, which is basically some snacking, some oats, some plain oats because plain oats is a big thing in the south, you can get into those outlets. We might open some chemist outlets because with hair fall and like we have just started in 1 or 2 markets, trying to take Plix into GT, for example. So, what will happen is that we will open these set of outlets which will give growth. Automatically, as I alluded to earlier, is that obviously when my distributor opens a new outlet that person has to sell Parachute and our Shanti Amla also. And therefore, we want to make that sale process reasonably attractive that that guy doesn't have to reach. So, these outlets which we're opening it's nothing, no Marico stock is available, some Marico stock is available sporadically. So, it's very difficult to say how much wholesale will reduce, but I think consciously what we are doing is that we are not disproportionately incentivizing wholesale or B2B but encouraging a direct sale. And I believe having a far more direct sale is a source of competitive advantage. And, yes, we will open 500,000 outlets. At the same time, we will also look at some outlets which are non-profitable to serve and close it down because they can be anyway serviced if they're only stocking, say only Parachute small packs. We are most happy if they pick it up from wholesale. There's no point trying to service those outlets.

**Harit Kapoor:**

And last question is on the generally industry question. You mentioned in your presentation as well as your opening remarks that the pickup in industry has been seen more in HPC over foods. Do you look at this more as a base thing that HPC has been weak last year and looking before that as well? Or anything else to read into this industry trend? because that's something we've been seeing across the board the last quarter, quarter and a half.

**Saugata Gupta:**

I think the combination of both. One is this. The other one is, if you look at it, last year's FMCG growth was driven entirely by urban and obviously the packaged food is primarily urban, while HPC had a little more rural SKU. Now that rural is recovering, maybe that's one of the other reasons. So, the combination of a base and the way urban and rural is performing. Having said that, I must say that at the premium end urban continues to grow. I mean, we are seeing significant, like for example, if you see the growth in our digital brands. And if I look at the food companies, our food growth surpasses all the food companies' growth.

**Moderator:**

The next question comes from the line of Mihir P. Shah from Nomura. Please go ahead.

**Mihir Shah:**

Firstly, on Parachute, does Parachute need further price hikes? Last quarter, you had mentioned that there is a possibility of another round. Is that done? Or there is another round in the offering? Also, when one looks at the offtake volumes, it's much stronger than expected. I mean, I heard

you mentioning that it will take a couple of quarters for this stock adjustment in GT to coincide with the primary sale. But given that the offtake is so strong, should one expect high single digit growth going forward? Or especially, you have taken the price hikes. And also, if you can triangulate how the competitive intensity is playing out. I heard that the flanker brands are growing in mid-teens, but other competition is talking something different. Can you talk a bit on these 3 aspects, please?

**Saugata Gupta:**

So, let me first address the parachute growth. I think, as far as we have taken around 6% price hikes in Parachute. If there is further copra inflation in the back half of the year, we might take a little bit. But we expect a marginal inflation in copra, we will take that price hike. And as I said that, we like this marginal commodity price increase because of our procurement and position building, it actually helps us. So, it's good for us in relative terms. Now, coming to the Parachute volume growth. Yes, you are right. While we will continue to take some adjustments in both to facilitate SETU and some of the distributor ROIs. Because we see at the end of the day, I don't want the distributor ROI to suffer because of our supply chain and working capital because that's okay. It's not offtake. The offtake primary growth gap will remain a little bit. Having said that, we expect parachute volume growth to increase gradually as we move in the quarter 2 to quarter 4. And yes, you can expect mid-single-digit volume growth definitely coming in. I don't know after that what happens in the second half of the year. Regarding the third question, see, if you look at the overall, both Parachute is gaining market share. And overall, Marico CNO has gained market share. So, it's not that Parachute has got impacted. The so-called competitive activity has happened in certain markets, which are not Parachute markets. These are some markets in the North maybe, but I would assume what is happening is that, some of the smaller players or some unbranded, I mean, they may be suffering a lot. But I think it could be a little bit because of some of the competitive activity, there could be consolidation of market share amongst the larger players, but I don't think it affects Marico and Parachute per se. Both, as I said, the flanker brands and Parachute continues to gain share.

**Mihir Shah:**

Secondly, on Saffola, it seems the pricing led growth going forward in second, third quarter will be closer to low to mid-teens. Do you see any pricing action here that you may need to take to ensure the volume growth trajectory is maintained? Or do you think that there's no need for further pricing action and the volume will still hold to mid or single-digit growth?

**Saugata Gupta:**

So, just to clarify, what we meant is that the pricing will come flat. So, the anniversarization of the price drops will come. So, therefore, going forward sometime during this quarter, volume growth and revenue growth is going to be the similar.



- Moderator:** The next question is from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** I just wanted to revisit this Bangladesh thing. Could you help us understand how should we look at the performance from a near-term perspective? Does it impact the portfolio diversification pace in any manner? And I just wanted to kind of better understand how should we incorporate this bit in?
- Saugata Gupta:** I think it's too premature to comment on it. And I think as I only said that, if you look at India, Bangladesh, Egypt, everywhere, all the countries we have gone through volatility. And as I said that we always believe the strong gets stronger and the weak gets weaker in these kinds of situations. But I think let's revisit it after we see this quarter going by. Yes.
- Avi Mehta:** So, would it be fair, Saugata, to say that, from our perspective of how we look at the business, this is something that should not significantly change the broader growth trajectory, even from an annual perspective.
- Saugata Gupta:** From a long-term basis nothing is going to change. I think long-term basis, nothing is going to change.
- Avi Mehta:** And second is on the Kaya business, Saugata. While I understand the sales number, could you give us a sense on how the profitability would be shared between the 2 entities.
- Saugata Gupta:** There's no profitability sharing, it's just a model in which we pay a royalty towards Kaya for the brand. That's it.
- Avi Mehta:** So, we will be paying the royalty, and everything accrues to us. Any rate that is available in the public domain that you could share?
- Pawan Agrawal:** We won't be sharing the royalty rate publicly, but it's on standard terms. So, it's not a very significant amount, and therefore a large part of the profitability will be accruing to Marico.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Indus Capital Advisors. Please go ahead.

**Karthik Chellappa:** I have 2 questions. The first is on the value-added hair oil portfolio. If the premium and the mid-segment is actually doing better than the bottom of the pyramid segment, could you give us some color on how that impacts the margin profile of the value-added hair oil business?

**Saugata Gupta:** So, let me just give you a full color. But as far as the category is concerned, the bottom of the pyramid maybe growing a bit more than maybe the mid or the premium part of the category, okay. So, if you look at players who participate in hair fall or some of the other premium players there, and I'm not talking of a quarter number, you have to look at from a 2-year, 3-year perspective, okay. So, what exactly happened is that as Ukraine happened and the shrinkflation happened, the category suffered in because of shrinkflation consumption and the category suffered in the face of downgradation from the top end to the bottom end, okay? As far as Marico is concerned, what we are saying is that we are okay to lose some share at the bottom end and there it is not so profitable, but I would rather invest at the medium and the top end and grow value share there, okay, because they make much more profitable rather than getting into the mugs game, which we have been perhaps doing and trying to just fight at the bottom of the pyramid.

**Pawan Agrawal:** And technically to answer your question, Karthik, yes, if my mid and premium is doing better and bottom of pyramid has declined, so weighted average gross margin for the quarter will definitely go up. But as Saugata said, we are anyways focusing more in terms of how do we drive value share and value growth, so we'll continue to have that strategy. But, yes, the weighted average gross margin would have gone up.

**Karthik Chellappa:** My next question is for one of the drivers of medium-term margins, I think Saugata earlier mentioned that the Middle East and South Africa also will start to see an improvement in their margin profile. Could you give us some color on relative to the international margins, how far is Middle East and South Africa today?

**Saugata Gupta:** No, I think Middle East, as I said that Middle East, there is a significant pool available for top-line and market share, which we are doing, and Middle East is a profitable market, okay? As far as South Africa is concerned, we have also improved the profitability. What I alluded to saying is that, the structural profitability creeping up long-term is these markets with scale continue to improve on profitability.

**Karthik Chellappa:** And we can assume that currently these two geographies are probably tracking below your international margins, right, obviously?



*Marico Limited  
August 05, 2024*

**Pawan Agrawal:** So, it is definitely lower at this stage. But as Saugata had alluded earlier in the call that, these are the structural levers that we see which can improve the margins further as we go ahead. Because these businesses are growing at a very fast pace, we are getting scale, and the scale advantages will kick in. So, it has improved from the past, but we still see there is a potential of improvement going ahead as well.

**Saugata Gupta:** So, structurally in Middle East, CPG companies make high operating margins, but that will only happen through scale.

**Moderator:** Thank you. Ladies and gentlemen, we will take that as a last question. I would now like to hand the conference over to the management for closing comments. Over to you, gentlemen.

**Pawan Agrawal:** Thanks for listening on the call. To conclude, FY25 has started well with some green shoots in domestic demand trends, robust performance of foods and digital-first brands, and the International business maintaining its momentum. We expect to sustain an improving trend in domestic revenue growth on the back of a gradual uptick in domestic volumes, supplemented by pricing growth picking up as commodity prices may see mild inflation in H2. We expect the continual broad-basing of the international business to hold us in good stead. In addition to driving our strategic priorities of aggressive portfolio diversification in India and overseas, and strengthening our GTM through Project SETU, we continue to strive towards achieving our target to deliver double-digit revenue growth and hold on to operating margins in FY25.

So, that's it from our side. If you have any further queries, please feel free to reach out to our IR team, and they'll be happy to address. Thank you. And have a great evening.

**Moderator:** Thank you. On behalf of Marico Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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(This document has been edited to improve readability)