Marico Limited
Q2FY18 Earnings Conference Call

October 31, 2017

MANAGEMENT:	**MR. SAUGATA GUPTA - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, MARICO LIMITED** **MR. VIVEK KARVE - CHIEF FINANCIAL OFFICER, MARICO LIMITED**
MODERATOR:	**MR. KRISHNAN SAMBAMOORTHY – MOTILAL OSWAL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Marico Limited's Q2FY18 Earnings Conference Call hosted by Motilal Oswal Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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, this conference is being recorded.

I now hand the conference over to Mr. Krishnan Sambamoorthy from Motilal Oswal Securities Limited. Thank you and over to you, sir!

Krishnan Sambamoorthy: Good Evening, all. We have with us, Mr. Saugata Gupta-- MD and CEO; and Mr. Vivek Karve - CFO of Marico Limited.

Just before we get started, I would like to remind you that the call and the Q&A Session is only for institutional investors and analysts and therefore, if there is anybody else who is not an institutional investor or analyst but would like to ask questions, please get in touch directly with the Marico IR team.

With that, I like to hand over the call to the management for their opening comments.

Saugata Gupta: Good Evening, everybody, and Welcome to the Call.

Before I start taking questions, would like to give you a flavor of the last quarter. Overall, we had a near-normal performance in India, a subdued performance in international geographies other than Bangladesh. There is a significant recovery in the Indian business, although there are pockets of concern in wholesale, specifically in the East, and CSD.

We continue to believe that we are in a position to deliver 8-10% volume growth in the India business and double digit constant currency growth in the international business in the second-half.

There will be a positive bias for volume growth and market share gains over short-term margins and we expect operating margins in the second-half to be definitely around the threshold of 17% plus. The onset of GST has led to some short-term pain but there will be significant positives over the long-term. We foresee some restructuring of the business and market competitiveness in addition to long-term consumption increases in certain categories and efficiency of operations.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

As far as the wholesale business is concerned, there will be a gradual reset which will lead to two opportunities. The wholesalers will now deal with fewer, but leader brands, with even lower stockholdings and their overall contributions will come down. This will be advantageous for strong players with leadership position and having the ability to drive incremental rural and small-town distribution to compensate for any shortfall in wholesale.

As regards market competitiveness, GST compliance will provide level playing fields for organized players, especially in categories with a large number of locals that are unorganized. This provides an opportunity for such players to mop up market share.

Consumption increases in categories where the players have actually passed down the benefit of GST is bound to go up and efficiency of operations in a post-GST scenario over a 12-month period will lead to both top-line and bottom-line benefits for the sector.

Before providing with a flavor of the India performance, let me tell you about the GST treatment in our quarterly earnings results.

Overall, the GST rate structure including the input tax credits have generally been neutral to positive for Marico product categories. Our endeavor has been to pass on the benefit at a category level to the consumers. While doing so, we have also considered the credit of input taxes which was not available in the earlier tax regime.

Even though the output tax rates have increased for Hair Oils and remain equal for Edible Oils, in order to pass on the benefits of input tax credits, we have reduced prices by circa 5% in Hair Oils and circa 3.5% in Saffola.

However, in Parachute Coconut Oil, the hyper-inflation in commodity outweighed the rate benefit significantly. In spite of 85% increase in copra prices, we did not take up the prices throughout the second quarter. If we were to adjust for the difference in taxes and price cuts undertaken to pass on the benefits of input tax credits, our turnover growth would have been higher by approximately 2.5-3%.

As credit of input taxes is now available under the GST, the cost ratios of the current quarter are not comparable with that of the second quarter last year. Therefore, to enable a better comparison, we have shared the like-to-like advertising spends in our information update.

During the quarter, the Parachute Rigids portfolio delivered a very healthy volume and value growth of 12% and 26% respectively. The 14% difference between volume and value growth

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

of Parachute Rigid portfolio has three components. First is the about 9% inflation, as we took a price increase around March 2017 and in the third week of July in Q2 last year. Second is a 3.5% input tax benefit and lastly, 1.5% is mix because of the lower promotion in high input cost market conditions versus last year. The current market conditions will continue to add good growth to Parachute in volume terms and lead to potentially higher market share gains since we have taken a disproportionately lower price increase.

We hope for a decent performance in Hair Oils on the back of some of the new initiatives like Parachute Advanced Aloe Vera and Value added Mustard Hair Oil showing good sequential growth and continuing to perform well.

We also believe that rural growth will improve in H2 from the combination of good monsoons, higher MSPs, and Direct Benefit Transfer, which continue to percolate to the last mile. This will also aid our Value-Added Hair Oil growth journey.

Saffola has been slightly disappointing and we are taking steps to move the growth towards 10% in the second-half. Some of this has happened because of CSD and a poorly executed pricing transition wherein we had multiple priced inventory in the market.

Food is showing good traction. One can expect more innovation in the segment in the coming quarter. We are also very excited about our Vending Machine business, accelerating our trials and brand franchise. We now have 100+ machines and we should be able to ramp this up faster in the months to come.

We also expect improved performance in Male Grooming in the second-half since a lot of the Rs.10 **Gels** LUPs are distributed through wholesalers and I believe the wholesale recovery is mostly done.

We are very excited about the growth journey in E-commerce and the progress of our digital journey and this will definitely contribute towards our long-term growth. Incidentally, we have crossed the 1% mark in E-commerce on an exit basis in this quarter.

In the international business, the Bangladesh diversification journey is fairly on course and the investment in capability is paying off. The Middle East and North African business is expected to resume growth in H2 because of base correction, although the medium-term prospects are lukewarm.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

In Vietnam, the category growths have been slower than expected. Further, we have had a severe executional issue in Vietnam with respect to a sachet price increase which was aborted when it did not work.. This has set back the business for some time to come. We also need to double up on our GTM and Sales IT journey in Vietnam since this has become a choke point for further growth. The ISOPLUS acquisition integration in South Africa is progressing well.

To conclude, I want to reassure that the consumption situation will continue to improve in India and we need to use the post-GST era as an opportunity as well as embrace the new Digital Marico. While our innovation performance continues to show a positive trajectory, we need to accelerate that trend. Bangladesh business is on a stronger wicket and now needs to accelerate. We have to get the Vietnam business back on track over the next six months and all this should contribute to a double-digit constant currency growth in international business.

I will be happy to take questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the Parachute business. Are you seeing increased competition from the national hair oil companies that is first sub segment of that question? Second is, sir only 10% price hike against 84% inflation. Is that linked to my first question that because national hair oil companies are getting more aggressive in coconut, is that the reason? Third is, have you seen any restocking in Q2 because everyone knew that price hike is coming? So, has that led to restocking and that is why volume growth has been very strong?

Saugata Gupta: So, let me answer the question. I do not think 80% is a point-to-point copra price increase. That is not necessarily the hit in consumption terms and as I said, we ensure that we follow a pricing model where we believe that we can maximize volume growth and market share gains. Just to give a perspective, Parachute has gained 1.2% market share and we did not see anybody gaining significant market share either in P3M or 12 months at our expense. However, we are noticing another interesting trend. The squeezing out of the tail has started to happen, perhaps due to a combination of demonetisation and GST. The smaller players have actually lost around 1.9-2% share . . On pricing, we believe that as long as we stick to a threshold margin level, this is a good opportunity, given the fact that players with a strong direct distribution stand to gain versus unorganized players, we can accelerate the mopping up of market share in some of our stronger markets.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Abneesh Roy: Sir, that is quite useful. My question was more from a future outlook perspective. Nielsen market share may not necessarily give the true picture. Sir, is it true that at the Rs. 10 and those kind of LUP's the Hair Oil margins are now far better than earlier say two years - three years back so that is why it now makes sense for players to be more aggressive including your competitors. And second, sir again, is the pricing now done taking the current scenario? I am not saying further raw material goes up then obviously pricing will be needed. But are you taking a calibrated price hike based on the current 84% inflation which you have given in your note that there is a 84% inflation.

Saugata Gupta: Let me clarify. The 84% copra price inflation does not necessarily mean that we need to have 84% translated into our inflation. As you know, irrespective of market shares going up and down, we continue to believe in the Nielsen numbers and we do not selectively look at Nielsen numbers only. So just to give you a perspective, the Coconut Oil market as per Nielsen is showing a growth of around 15% to 16% and the Value-added Hair Oil market as per Nielsen is also showing a growth of 10%. If you take our growth numbers and look at our market share gains and extrapolate, the numbers are similar. So I do not understand why you are saying that the Nielsen numbers are not right, as they seem to be in line. As regards to your second question on the Rs. 10 price point pack, the LUP price strategy for any player is to drive penetration and conversions. So, I do not think there has been a reset in the profitability of any price point pack now versus five years ago.

Abneesh Roy: No sir, because GST versus two years back has the margins improved in the Rs. 10 pack because the GST

Saugata Gupta: People have passed on the value. If you look at our Hair Oils, we have taken a price drop or in the case of price point packs, we are at times giving more value to the consumer. As far as we are concerned, we believe that providing value to the consumer is much more important than making more margins. So, if the market leader starts doing that, I do not think there is an opportunity for somebody else to start making more margins in a certain pack.

Abneesh Roy: Sir, my second question is on Saffola. So, in Saffola, CSD I wanted to understand, other companies are saying that there is some kind of a quota system now because smart card is there, the canteen is able to track how much consumption is happening. So, does it structurally impact Saffola consumption because it is slightly discretionary there was a big price difference between CSD and the market rate? So, wanted to understand, do you see that part of consumption getting impacted and how much was CSD in Saffola in FY 2017?

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: The so-called leakages in CSD happen much more in durables, high-value Personal Care or a very bulky product like a Saffola 5 ltr can. Yes, CSD has done two things; one is the one-time stock correction and other is a limit on outlay, but if you look at our CSD number, Saffola has got much more impacted while the other products did not get impacted as much. A lot of what you are hearing of CSD will come back to normal by Q4. Now as far as retail is concerned, ultimately it all adds up whether you are selling it in retail or in CSD. I do not think that the discount in an Edible Oil is that high compared to some of the other products like high value personal care, durables, luggage, liquor and cars. Those are far more substantial.

Moderator: Thank you. We have our next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Sir, in following up with the previous question on Saffola 3% growth on the back of 9% decline last quarter apart from slowdown in the CSD orders is there any other demand slow down, is there any other thing which we need to worry about? Now, you are the market leader and you were pretty much driving the overall segment. So, has the lower A&P spend and I am just guessing because the overall A&P spend has come down. So has the lower A&P spend in this category slowing down the category overall or is there any other reason on the demand side?

Saugata Gupta: No, I do not think in terms of off-takes, we have had any significant impact. I will tell you what happened. As you know that we passed on the benefits to the consumer and took a price drop but because of a huge sale drop and a loss of sale in June, we had a situation of having two price stocks in the market. So, we had the old higher price stocks in the market and the lower price stocks in the market and that created the problem. We obviously get access to modern trade scanner data and there has not been a significant decline in that. As regards the A&P, you have to look at A&P from adjusted basis which we have given separately as there is no significant decrease of A&P on Saffola definitely and in other brands.

Amit Sinha: So in that respect, I mean the latest trend for example, the September, October numbers would have given you a better perspective of the overall demand scenario and hence, you are confident about the medium-term growth, right?

Saugata Gupta: Yes, that is right. I would think it will be better. The Saffola growth in the second-half will be definitely better.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Amit Sinha: Sure, sir. Secondly, on the overall Hair Oil space, do you see any down trading trend visible towards the lower price products? And in that context, some of your premium products in VAHO done?

Saugata Gupta: Our premium products are doing well, so I do not know if down trading is happening because the value and volume growth in the category is similar. So, I do not understand where you have picked up the down trading from. It could be for a certain company. But as far as we are concerned, we are driving premiumization and we want to drive growth both at the bottom end and at the top end. So our Aloe Vera is trending well. VAMO is also sequentially trending well; it is at the bottom end of the pyramid. Obviously, a lot of our Shanti Amla growth in the past has been from the Rs. 10 price point. While we have a significant market share from the Rs. 10 and Rs. 20 packs, we believe that a significant percent of our growth in the future could happen from the larger packs. Also, in modern trade and E-Commerce, the category is under-indexed and there are enough opportunities of premiumisation. Every quarter, we present the same set of data. If downtrading would have happened, there would have been huge gap between volume share and value share, which we have not noticed at this point in time.

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

Nillai Shah: In context of the Y-o-Y soft base and even the sequentially soft base, how are you viewing this volume growth number for both CNO and VAHO? Because if I look at your stack basis on a two-year CAGR basis, the volumes are still very-very sluggish, so how are you looking at this internally? Is this matching your expectations that you had at the start of the quarter?

Saugata Gupta: No. If you recall, I had said that we wanted to go back to a near normal. Is it the full normal? The answer is no. I would still put it as an average plus performance and therefore, you are right, that as far as H1 is concerned, the numbers do not look really great. Two things would have happened. One is I do not think GST would have impacted consumption except in certain cases where the wholesale has continuously not been able to supply the last mile, deep rural, where the product is not going to be available. So, definitely non-availability would have led to some kind of a shortfall there in terms of consumption in the short-term. Having said that, the other thing that has been a permanent reset is the average STR, say in the wholesale, I would think that the first hit that happened was during demonetisation which never fully recovered and it is still the lower STR. In the case of retail, the average STR has come down. If I have to take the STR of April versus September, I think September STRs are still lower. So I do not think the STRs have recovered yet.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Nillai Shah: Okay. And you expect this to happen over the course of the next month or so?

Saugata Gupta: Some of the retail STR will happen but in wholesale, I think there will be a permanent reset. As I said, there are two structural changes that are going to happen in wholesale. They are going to play with a smaller repertoire of brands. So, stronger and bigger companies, and leader brands will have an opportunity. Number two, their contribution will keep on slowly coming down and maybe it will be replaced by two-three components, one is direct distribution in retail and the second one is some could even go to B2B.

Nillai Shah: Understood, sir. The second question is on slightly longer-term margin trends, your point on the second-half margins being around 17% plus is well taken. But thereafter, after this being a reset year for margins, would you expect the margins over the longer-term to keep trending up on a Y-o-Y basis or would you rather believe that the margins will hold these levels and what will drive growth going forward is going to be more top-line?

Saugata Gupta: Two things. One is there are two sources of margin improvement. Our bias will continue to be for driving double-digit volume growth and double-digit constant currency growth in the international business. Now long-term inflation which has been 4% to 5% could come down to 3% maybe because of the current situation. Also, scale and efficiency drive margins. Has our entity performance improved to its full potential? The answer is no. I think we need continuous investment behind innovation. I am very confident that we have a very strong cost program embedded in the culture of the organization which can look at margins creeping up. But as I said, for me, if I have to put weightage on what is a good performance, will put 75% weightage on volume growth and market share, and maybe the balance 25% on margin improvement.

Moderator: Thank you. We have our next question from the line of Prasad Deshmukh from Bank Of America. Please go ahead.

Prasad Deshmukh: Yes, sir, two questions. Firstly, in terms of recovery in wholesale, are you seeing any distinct difference between how the wholesale is coming back in rural versus in urban?

Saugata Gupta: So, there are regional pockets of differences, there are differences with respect to levels of compliance in every place. Therefore, the North and especially in the East, we see that the resistance to be compliant is the highest and therefore, some people are actually even changing business models. However, what we have seen is that it is always relative to your competitive position. So, for example, in South especially where Parachute is a strong brand, there is no issue and wholesale has come back fully. So, I think your wholesale performance is a function of the region and your relative competitive position. In India, while there are execution challenges in GST, there are also mindset and change management issues with respect to compliance. It will take some time. The best way to tackle this is that while we continue to maximize and capitalize on wholesale where we have a strong leadership position, in certain other places, we improve our direct reach in rural. But, there are also secondary wholesale which we have to tap. If large wholesalers in urban which were feeding rural, do not do it, we have to tap the secondary wholesaler and this will get accentuated when the E-way Bill comes in April. Because then this flow of goods from urban to rural with non-compliance will completely stop or at least significantly stop.

Prasad Deshmukh: Okay. Second question, what steps would you be taking to revive growth in the international business in say next three quarters - four quarters?

Saugata Gupta: Okay. So, let me just take one region at a time. In Bangladesh, we are back on track, we have invested behind capability, we have invested behind GTM and the integration of the Bangladesh business to India is paying rich dividends in terms of much more rapid cross pollination of processes, capability and brands. So I do not see a problem as long as the macro-economic situation in Bangladesh continues to be good and Bangladesh should be able to deliver good growth. As far as Southeast Asian business is concerned, let me tell you what exactly happened. So, we are leader in Male Shampoos and a significant portion, like in any emerging market, is of sachets. Following one of the multinational brands which took a price increase and as we had not taken a price increase in six or seven years, we took a 50% price increase with some ml-age increase. We thought we would be able to pull it off considering the fact that it had not happened in seven years. So to explain using an analogy, an increase from 1,000 to 1,500 dong is like Rs. 1 to Rs. 1.50. However, it did not work. Now, unlike in India, there is no MRP mentioned and so when we rolled back the prices, we found that retail actually continued to sell at a higher price. For retail, selling at even 20% lower from a 50% higher price made much more business sense. In addition to that, of course, the category has not been growing. So, to get this sorted out, we are now slashing the price and communicating the pricing on television ads. So this process of clean up will take 3-5 months. Having said that, other thing we realized during this process is that, to drive significant incremental growth, we have to do the GTM transformation exercise and the IT in sales like we have done in Bangladesh. We are executing that, and by the exit of this year, things should be back to normal and we should get good growth again from quarter one next year. I would think that we will be able to arrest any decline in the second-half of the year. In Middle East and North Africa, once the base correction will happen, we will start getting constant currency growth and once the depreciation base gets corrected, you will start getting INR growth in the second-half of the year.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Prasad Deshmukh: Sure. So just one very small question, you mentioned in your comments that post GST it offers a very good opportunity to gain share from smaller players who probably are getting squeezed out. Assuming that this is mostly prevalent in rural market, do we see a very strong pick-up for you in rural if there is a revival in demand?

Saugata Gupta: So we are seeing the first signs mostly in the Parachute strong markets. So, as I said, this opportunity will come only when you are in a strong competitive position.

Moderator: Thank you. We have our next question from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: So first question coming back to Saffola. As a category Saugata, what is your view on the category as a whole? Basically, are you seeing this as increasingly getting fragmented and more and more players are coming in? Now Patanjali has also jumped the wagon and they want to do all kinds Edible Oils apparently healthy again. So, do see this category would face obviously a higher growth but also large fragmentation happening and also price curve the way it is shaping up is MRP does not matter and the perception of value gets created based on how much it is discounted and how much premium it was carrying earlier. How are your thoughts about this category as a whole and how do you want to play this market?

Saugata Gupta: You are right to an extent. The competitive intensity in the category is increasing and therefore it is incumbent that we continue to innovate, and one of the things we have decided to do for Saffola is to focus on the top 10 markets and add Modern Trade to drive that growth. The pricing has been handled by our strategy of having an entry pricing for Active, slightly more premium for Gold and very top end for Total and in some of the markets Tasty operates as Active. I think the confusion in the consumer's mind was which variant was for what and if you look at the new Saffola packaging, it suggests the different TGs for each of the variants. Having said that, I completely agree with you that there is increased fragmentation. Saffola has to continuously innovate and have sharper positioning given the differentiation, because a lot of people are trying to occupy that slot. So, in order to grow, the consumer trend is a tailwind, that people want to stay fit and have a healthy lifestyle, but the challenge for Saffola, which has remained, and I have said this before, is that the kind of consumers we attract actually use less amount of oil in the household on an average, as opposed to some of the other brands. So, that is perhaps the only challenge for Saffola.

Amit Sachdeva: Okay, got it. As you perhaps hinted as well that when you look at different brands of Saffola for example, now consumer perhaps find it difficult to know that which is super premium, which is not and there is maybe over communication around various sub-brands within Saffola

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

oil, maybe like you have different similar other products which are household kitchen products like they are platinum, there is a Gold, there is a silver and there is some staple there is a clear cut communication which is going out versus somebody has to really look at which Saffola ingredient is special or something like that. Is it like things have become a bit too complex from a positioning point of view and that perhaps creates as you launch premium as well, it becomes more communicative challenge in some sense. I do not know how to read this.

Saugata Gupta: Yes. So, there are two routes. I would completely resonate with you, but there are two routes. One is having Saffola stand for something and we are offering an entry point pricing and also as per the kind of consumer looking for a certain benefit. For example, if you look at Active versus Gold or Total, the benefits are different and laddered. Having said that, you cannot really fragment the advertising, but one of the good things about master brand advertising is that it has a rub off and halo effect on others. So, instead of the fragmentation of that differentiation, would rather do it at the point of sale because a significant portion of Saffola sales actually happen through modern trade and open format standalone stores, where the consumer has the opportunity to look at it and make that choice.

Amit Sachdeva: Sure. That is very helpful, sir. The second one, thinking about Vietnam because obviously this has been a particular peculiar situation that the price hike was taken and there is a situation like that. But in general, also the market has been a bit patchy in terms of performance. What lesson you have learned from especially a market such as Vietnam or any other market which perhaps are very difficult to manage once you have sort of taken them over and more of a post-merger management challenge or anything else that as you come across? It looks like this market has been some trouble or the other. It is growing fast, but has fallen off a cliff now. Maybe the competition is too intense there and it is difficult circumstances are totally different.

Saugata Gupta: Actually, funnily, we have not lost market share in shampoos. Actually, we have gained a little market share. So what has happened is not a question of competitive intensity, but the average category growth has not been good, and in fact, as a leader, we have not played that category. But if you ask me, the biggest learnings in all our international markets is to proactively invest behind capability and wherever we have invested behind capability, our sales marketing capability processes like GTM, we have got results. We have a very empowered and independent culture. In post-integrated markets, how you ensure that some of the non-negotiables are replicated, independent of what market and what is stated there. So that has been the learning and we will get there. Vietnam continues to be a profitable 14% - 15% EBITDA market. I do not think it has fallen off a cliff. There is some bit of turbulence and we will fly along after this.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

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

Vivek Maheshwari: Two questions. First, I am not sure, if I am clear on this input price versus the product price hike that you have taken in Parachute. If I look at what you have given in the release on coconut oil or copra, the exit which is September is itself 10% higher than the quarter average. Are your price hikes sufficient because it does not look like on the face of it that you have passed on all the impact, could you please help on this?

Saugata Gupta: Yes, we have not passed on all impact. But, the way we have to see it is that we have taken a call that we want to maximize volume growth and market share gains. You also have to look at both relative pricing and absolute pricing. While it is not sufficient, but as long as the overall threshold level of margin is satisfied, we are okay. The other reason is that you know copra is cyclical and, therefore, there has historically been an 18 month inflation and deflation cycle. We do not want to take a disproportionate price increase at the fag end of an inflation cycle, which then forces us to take multiple price drops. So, I think we are okay with it in terms of a short-term margin level, because as things stand now, perhaps the peak is more or less being reached and then the next cycle, the monsoon trends and one more factor is the Northeast monsoon in the South, which has also started up very well. Our current sense is that it will start softening towards April, so, by the end of that cycle. I do not think it would have made sense to take higher than proportionate price increases and then take multiple price drops as you know we are much better in managing price increases than price drops.

Vivek Maheshwari: Sorry. Saugata but between now and April there is a lot of time, right? And I mean your release also says that you expect it to firm up further exit is as I said 10% higher based on the number that you have given. Why should not you at one go take up prices because I remember five years back I think in a matter of six months you took up prices by 32%? I distinctly remember I think this was 2011 or somewhere there. Why should not you do it now? Is there any reason why you are not doing that?

Saugata Gupta: I think you must realize that we are just coming over an extremely volatile environment of disruption in terms of demonetisation and GST. We want to ensure that it is just not a price premium but the absolute pricing has also gone up. And we think that if we want to maximize volume growth and market share, this is the right kind of price and we do not want to take multiple price hikes or multiple price drops. So, that is the current thinking. We are committed to the threshold level of margin. As long as the threshold level of margin is satisfied, we would like to maximize volume growth. The second thing, which I also alluded to in my opening comments, is a window of opportunity where the situation is far more unsettled for some of the

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

smaller players, in terms of mopping up market share. So, we are already seeing green shoots in the last 2-3 months as there is shrinkage in market share of the tail end - the unorganized players or the locals.

Vivek Maheshwari: Okay. Second, can you just comment on some of the launches that you had done in the past, let us say, Saffola Aura, the Blended Olive Oil or say breakfast under Muesli, any updates on those initiatives?

Saugata Gupta: Saffola Aura is restricted to modern trade. We have a decent market share in Modern Trade. It is not a big initiative. Muesli, the breakfast multigrain is not doing well. However, the other products which I mentioned, which is VAMO, the Value-Added Mustard Oil, and the Aloe Vera, are tracking very well, and we believe it will add to the long-term goal.

Moderator: Thank you. We have our next question from the line of Abhijeet Kundu from Antique Stock Broking Limited. Please go ahead.

Abhijeet Kundu: My question firstly was on just to take a view on what could be the reported growth in international operations in the second-half. So Bangladesh, you have grown in terms of sales growth and volume growth as well. What would have been the reported growth there? I mean so just to get a view that whether we would be back in growth terms or see better growth rates in INR terms during second-half?

Saugata Gupta: Second-half of this year, we are talking about projected second-half growth?

Abhijeet Kundu: Right.

Saugata Gupta: Yes. So, one of the things that will happen is that the depreciation of Egyptian currency would have neutralized by Q4. So, the constant currency and the INR growth will be almost converging.

Abhijeet Kundu: This would be by Q4?

Saugata Gupta: We do not have significant exposure to Africa or some other countries, where there has been significant depreciation. The Vietnam currency is more or less stable, Bangladesh is more of less stable and the Middle East is pegged to the dollar and is stable. So, Egyptian Pound, which is the only one which has depreciated, will go back. So, there will be convergence of the constant currency growth and the reported INR growth by Q4.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Abhijeet Kundu: Okay. And my second question was on in case of Saffola what would be the share of modern trade for you? I mean how much would modern trade contribute? And going ahead over the next 2 years to 3 years you said that you want to increase you want to focus on the top 10 cities and modern trade? so where do you want to take this to in primarily?

Saugata Gupta: Currently, it is around 25% Modern Trade and our definition of Modern Trade is organized modern trade. There is the standalone Modern Trade that comes under General Trade. But we believe that this might go up. At the same time, we have enough opportunity to grow in the top 8-10 towns. Our reach is not exactly at full potential. So, that is something we need to work on.

Abhijeet Kundu: Okay. And in case of the wholesale traders in larger cities, they have got impacted. Has somewhere Saffola been impacted by that or it has got no impact at all?

Saugata Gupta: Marginal, in select markets maybe, in Mumbai and Delhi. Especially in the South, Modern Trade is strong. Also in the South, there is the standalone Modern Trade which does not get counted in our component of reach. When I give Modern Trade figures, these are for national organized retail chains. Saffola actually is a very retail brand, it is hardly wholesale.

Abhijeet Kundu: Okay. So destocking is complete, we can say that in case of Saffola and going ahead it would be on a clean slate?

Saugata Gupta: Correct. So, we have to get the CSD back on track and CSD is significant in Saffola again. But as far as others are concerned, I do not think we have a destocking issue in Saffola.

Abhijeet Kundu: No, you said that there was confusion with two prices and hence, some amount of….

Saugata Gupta: Yes. So, now the reduced price stock is more or less in the market.

Abhijeet Kundu: So from now on we can expect that the 8% to 9% kind of growth that you were looking for…

Saugata Gupta: Retail will definitely happen. We have to wait and watch on the CSD, whether that happens in quarter three or quarter four. In retail, I do not see much of a problem.

Abhijeet Kundu: So retail, you can go with the target?

Saugata Gupta: Yes, retail and modern trade, the non-CSD portion, I do not see a problem in the second-half. On the CSD, we have to wait and watch. While I do not think it is a very gloomy situation as such, but we have to see when it reaches near normalcy.

Moderator: Thank you. We have our next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Saugata, two questions on the Parachute pricing here. One, on the pricing model which you actually follow and is this an aberration from the pricing model? It is pretty much in line with that, what is happening now. Secondly, one conceptual question is that you got close to 60% share in the Parachute brand in the organized Coconut Oil. It is a relatively, I would say, finite market size compared to let us say some of the staple categories. Correct me if I am wrong, so just wondering that why would prioritize volumes over profits even if it is for a day?

Saugata Gupta: Okay. So, there are two things, one is our rural market share is 43%, so there is headroom for growth. Total Parachute market share is 51%. I think the number that you are talking about, which is 59%, is CNO which includes Nihar and Oil of Malabar. So, the way we look at it is very simple. We have been gaining market share at about 50 bps per year and when I am talking about squeezing out, it can happen even in the unbranded and not necessarily in the local. I see that saturation point can happen, as we have modeled it in Bangladesh, at 80-80. In India, you can say even if it comes at 75-75, that is another seven to nine years if we accelerate that. As you know that currently our dependence on Parachute is 36, in another five years it will be 28. If we accelerate that and it can create enough resources for actually accelerating new products launches. If I sacrifice a little bit of margin I might get disproportionate volume on market share gains. So I would say we have not tested out but this is a hypothesis that you have a 5% to 7% growth band, however, with a certain pricing you can actually do the 7% rather than the 5%.

Manoj Menon: Okay, I will take this offline actually.

Moderator: Thank you, sir. We have our next question from the line of Sunita Sachdev from UBS. Please go ahead.

Sunita Sachdev: My question is actually a continuation from Manoj's question. I just wanted to dig deeper into your Parachute strategy. What part of the business that you expect a higher growth volume growth opportunity? Is it simply low unit packs driving growth in rural or would that strategy also include higher unit packs and which geographies specifically are you looking at for these unbranded gains?

Saugata Gupta: So, it has to be obviously in Parachute strong markets. As you know, there are two kinds of gains. One is relative availability, because we believe that in a compliant or a semi-compliant scenario and the fact that wholesale also is going to stock only a few brands and leader brands,

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

you have that availability advantage. So it is usually in Parachute strong markets. Secondly, in a lot of households, there is the share of requirement because they are dual households. You can perhaps get gains there. So, the opportunity multiplies, but having said that, the opportunity to mop up share will be actually in some of the strong Coconut Oil markets, where our relative market share is still not that high. Obviously, this kind of a strategy will not work where our market share is 80% or 90%.

Sunita Sachdev: So you obviously are talking about a very sharp go-to market strategy in specific markets?

Saugata Gupta: No, not really. It will happen wherever that opportunity exists. So, I am not going to give you a kind of a detailed strategy, but I think for a market leader, it's an opportunity that exists. Also, for all organized players in the sector, distribution will be a big driver of growth, especially rural distribution.

Moderator: Thank you. We have our next question from the line of Krishnan Sambamoorthy from Motilal Oswal Securities Limited. Please go ahead.

Krishnan Sambamoorthy: Yes, while you are discussing on the opportunity on the rural side, I also see the e-commerce only coconut oil brand. What is the strategy here and what is the thought process, how do you see the growth going forward?

Saugata Gupta: The way we look at e-commerce is completely different. Our focus is on creating a differentiated portfolio for e-commerce. We believe that there are enough opportunities in sectors like Male Grooming, in all premium offerings. So, I would rather drive that focus on premiumization in e-commerce rather than fighting a game of core market brands. That is what our strategy is going to be. We have touched 1% plus and we believe there is enough opportunity to reach 2%. One of the biggest highlights from our Beardo investment is that we are learning a lot in terms of E-commerce and digital marketing and how they are approaching it. And you will soon see a far more differentiated portfolio that is tailored for a specialty channels like e-commerce. For example, we have launched yesterday, the Meal Replacement Shake that will be available mostly in E-commerce and specialty modern trade channels like chemists to start off with. So, these are the kind of things you will see, which is a completely differentiated portfolio, slightly premium, driving in e-commerce.

Krishnan Sambamoorthy: Saugata, thanks for that. My question was more regarding the Parachute Naturals Virgin Coconut Oil. It is not a category that one would think at least as a lay person that tends to offer an opportunity for huge premiumization. What is the thought process there?

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: Virgin Coconut Oil is a big fad in the western market. In India, it's not a great fad but is known as a niche product here. So, it will be an opportunity we will capitalize but do I see it as a big opportunity, the answer is no. Having said that, I think there is enough literature, enough positive tailwinds for Virgin Coconut Oil per se and its usage in certain product categories. Therefore, it is an opportunity and we will leverage that.

Moderator: Thank you, sir. We have our next question from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.

Prakash Kapadia: Saffola, over a period of time, despite seeing market share increase volume and value growth has been slightly volatile and lower than what we would have expected. So is the newer customer addition the biggest issue or some of the initiatives which we had planned in terms of the regional pricing, smaller packs and expanding the market, that has not been up to the mark? And secondly, on modern trade, what is the contribution to overall domestic business and going forward how do we see that shaping up?

Saugata Gupta: Modern Trade contribution is 10-11%. As of now, we are maybe under-indexed in some categories and over-indexed in some categories. As regards Saffola, I think you are completely right, in terms of the fact that if you look at the Saffola growth given that it is a tailwind category, based on health; our growth strategy is suboptimal compared to what the opportunity is in Saffola. It has been a combination of two-three things. One is the average outlay or the drive to premiumization, for if you see a household using 5 liters of oil, the incremental premium we have to pay is significant. The other issue that we have been facing, which I mentioned earlier during the call, is the kind of people who are adopting Saffola are far more pro-health and actually use far less oil for a household compared to a regular one. Therefore, we are attracting consumers who use less oil. These are the kind of consumers, if you look at today's lifestyle, that eat out, are actually not cooking seven days a week, 14 meals, and therefore, their average consumption is further going down. To me, that is the problem. Lastly, we were losing at the top end, there was some leakage towards olives. While Aura has started, is it big enough? The answer is no. So, as I said, we have a problem in Saffola in terms of the growth although it might go back into the 9-10%. The growth is a bit below our potential and so is our distribution reach and it is something we are tackling and I believe that the new restage which we have done with the four variants with the new communication and the positioning, along with our renewed focus on modern trade, we should be able to get back.

Prakash Kapadia: Understood, that was helpful. And the outlook on modern trade continues to be buoyant and you would expect that to continue. It has been a good growth for us in that channel.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: We believe that modern trade and general trade will co-exist so I do not think it is an "or" strategy for us. Having said that, our current insight is that there is a far bigger revolution that is going to happen in general trade in terms of modernization, and if there is GST compliance, obviously computerization, automation and moving from closed format to open format. So, there is a huge potential for revolution and long-term disruption in General Trade modernizing, thereby giving Modern Trade a run for their money.

Moderator: Thank you. We have our next question from the line of Mehul Desai from IDFC Securities. Please go ahead.

Harit: This is Harit from IDFC. Just one question on the A&P spends part, so if you look at the last five quarters you have seen a Y-o-Y dip in A&P spend. Now I know you have mentioned in your release that you are going to look through take it up to 11% to 12% but in the near-term if the full inflation impact is not being passed on in Coconut Oil is there a room then to invest significantly behind new launches as well as go back to 11% and 12%?

Saugata Gupta: No, I would rather look at the threshold level of margins. I do not think we will compromise A&P spends for not taking the Parachute pricing. We will not do that trade off. Also, in the near-term, it will be more 10-11% than 11-12%. Having said that, we have also put in place, as I spoke last time, Project EDGE, which was for the effectiveness of the sales spend, we have also recently done a huge project on effectiveness on marketing spend. So, that is also going to drive all the efficiencies in the marketing spend. But let me assure you that under no circumstances, we will do a trade-off between lower A&P spends to just support Parachute pricing. We will continue to invest behind the innovations. Another thing that we are doing perhaps better compared to the past is a far more focused investment, for example, for some of our premium brands; we significantly invest behind Digital as opposed to wasting money behind mass advertising. So, I do not see that happening and actually A&P spends might increase by 100 basis points in the near-term.

Moderator: Thank you. We have our next question from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Sir, my question is on Male Grooming and the premium hair and nourishment segment. Both the segments have seen a decline during the quarter. So what is the near-term outlook on this segment? Should we expect these segments to take some time to revive in terms of growth or we should expect a better second-half?

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: I think you can expect a better second half. As far as the Male Grooming is concerned, I think a significant portion of our growth in the last two years has been through the Rs.10 price point which was wholesale driven. As I said, during the transition period to the post-GST, wholesale was dealing with more of the essentials categories and not necessarily the discretionary categories. The offtakes do not show any trend of decline in quarter two. So we believe that we will get back to at least 15% growth in both these categories. As far as Premium Hair Nourishment is concerned, the Livon Serum is doing well. There was some stress in the Livon Hair Gain but the Serum continues to do well. So as far as the second half is concerned, we are well-positioned to deliver at least a 15% growth in that portfolio.

Kaustubh Pawaskar: And sir, in the deodorant space in male grooming, is competition which is creating an issue for you? Basically, we have seen intensifying competition from some of the large players in this particular space. So even that is also hurting you or it is just related to the category?

Saugata Gupta: As far as deodorants are concerned, we have not yet focused our investment behind that component. So our entire focus has been growing the styling category where we are market leaders and the penetration is low and the serum category where we are market leaders and the penetration is low. So, deodorants is not something on which we are focusing on right now.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you, sir!

Vivek Karve: Good Evening once, again. We have had a satisfactory quarter for the India and Bangladesh businesses and we have also proactively passed on the net benefit arising from GST to consumers by lowering retail prices during the quarter. The profitability margins also continue to remain healthy during the quarter. We feel confident of 8-10% volume growth in India and double-digit constant currency growth in International in the second-half of the current fiscal. So, I would like to thank you all, our investors and analysts, for attending today's call. Good night.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Motilal Oswal Securities Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability)

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com