



Marico Limited
Q2 FY 2019 Earnings Conference Call

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**MANAGEMENT: MR. SAUGATA GUPTA -- MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER, MARICO LIMITED
MR. VIVEK KARVE -- CHIEF FINANCIAL OFFICER,
MARICO LIMITED**

MODERATOR: MR. MANOJ MENON - ICICI SECURITIES

Moderator: Ladies and Gentlemen, Good Day and Welcome to Marico Limited Q2 FY 2019 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you and over to you, Sir!

Manoj Menon: Good Evening, It is a pleasure to welcome you all for the Q2 FY 2019 Earnings Conference Call of Marico Limited.

We have the senior management of the company represented by Mr. Saugata Gupta, MD and CEO and Mr. Vivek Karve -- Chief Financial Officer.

Before we get started, I would like to remind you that the Q&A session is only for the institutional investors and analysts and therefore, if there is anybody else who is not an institutional investor or an analyst but would still like to ask questions or seek clarifications, please directly reach out to Marico’s Investor Relations team.

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

Saugata Gupta: Good evening and welcome to the Conference Call. I will just spend a couple of minutes to give you a flavor of the last quarter. We had a decent quarter although we were slightly short of our volume growth aspirations in the India business.

However, there were some significant positive outcomes in this quarter. In the India business, robust Parachute volume growth of 8%; improvement in Saffola; continued traction in Male Grooming; Premium Hair Care and Foods along with a very strong innovation pipeline, appears positive.

In Hair Oils, we had muted growth largely because of CSD. We are aspiring to push the Value-added Hair Oil volume growth to double-digits in the second-half.

In the International business, we now believe that we have a steady growth momentum across key markets, with Vietnam finally getting back on track and Bangladesh & MENA continuing to show a predictable pattern of double-digit growth.

Unless there are any macro headwinds, we continue to aspire for 8-10% volume growth in Indian business and a double-digit constant currency growth in the International business for this financial year.

Let me now delve a little deep into the India business. We continue to do well in rural, modern trade and E-com, but we have to improve our performance in urban general trade and CSD, which have been relative underperformers.

In the face of continued competitive intensity in price point packs in certain markets, we have continued to gain marginal share in Coconut Oil and held market share in Value Added Hair Oils. While we will continue to defend our market share at the lowest price points, we will simultaneously aggressively invest behind premium initiatives like Aloe Vera, Hair & Care and others to drive value share gain in the coming quarters.

We are excited about our new product pipeline, like Nihar Extra Care Hair Fall Control Oil; Parachute Advanced Coconut Crème Oil; True Roots, which is a very revolutionary product, and some of the extensions in Set Wet and Livon. The offerings are much differentiated and we now believe that if we execute them well in the marketplace, we have critical mass in terms of a premium portfolio to aggressively drive premiumization in the next 2-3 years. This will also be aided by our focus on E-commerce and Modern trade in the medium-term. While there has been a partial solve for Saffola, we still have to get it back to double-digit growth and this will take some time.

We are also preparing a stronger pipeline for Foods in the coming quarters besides increasing our portfolio in digital brands. Across the organization, there is a renewed focus on agility and OTIF execution, which is On Time and Full, which should aid growth in the coming quarters. With copra prices coming down, we will definitely invest a part of the gains into incremental advertising spend, while balancing margin gains and volume protection in any pricing actions in the coming quarters. As regards to International business, we are now at a point of getting into a steady momentum in all our key markets. We continue to diversify aggressively in Bangladesh, while we have building blocks in place in Vietnam/Southeast Asia. We have now delivered 4 straight quarters of steady double-digit growth in MENA. We are confident of

delivering, therefore, double-digit constant currency growth in the coming quarters given the significant improvement in the organic growth capability across these markets.

To conclude, we expect a steady and improving performance over the next few quarters with an increasingly better innovation track record. While there will be benefits in copra, we do have input cost pressures in the rest of the portfolio, and therefore, there will be only a partial impact on margin. Since, we would like to deploy a part of the gain towards increase the A&P, and maybe some towards pricing. The consumption scenario is currently stable, but we have to watch out for any macro trends like inflation and any impact of the sluggish September monsoon that could impact the rural growth agenda in some of our categories. Having said that, we believe now we have the building blocks in place which we have to execute to ensure a good performance in the balance year.

Thank you for listening. I would now like to welcome any questions.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: So, just on the VAHO portfolio, so normally one would expect that CSD is seeing a bit of a problem general trade growth possibly picks it up. But is there a timing issue between the 2 which is why the net effect is negative? And do you expect this to be a Y-o-Y feature going ahead also? Or do you think that from here on, the CSD decline kind of it was like a one-off which is not going to continue on a year-on-year basis from here on?

Saugata Gupta: CSD continues to have some stock correction which they are doing and certain new patterns of ordering. Having said that, we believe that in the second-half of the year we should clock a better performance and as far as Value Added Hair Oils is concerned, with the plans and building blocks that are in place, we should be in a position to deliver double-digit growth.

Arnab Mitra: Okay. So, do you expect that whatever is getting slipped in CSD ultimately, normally does come back in GT? And would that be the reason why you would think that you can get from the 5% to a double-digit number?

Saugata Gupta: I do not think it is only CSD because there are other building blocks in place in terms of the premiumization agenda in Hair Oils and the strategy in INR 10 packs. For CSD, just to give you a perspective, in H1, there is a just a minor decline. But, we believe that we should be able

to improve. Yes, there could be stock out or some other issues, but we are trying to get some of these things sorted and we believe, while CSD might not give you healthy growth in the second-half, it should definitely get back into the positive growth in the second-half.

Arnab Mitra:

Sure. Second question was on Parachute. So, you got a very good growth this quarter though the base was also quite high. But typically, now that the copra prices have come down this is normally a time when there is a bit of pressure from the loose market. So, do you see that as a worry going into 2H that there is that I mean, do you still have confidence of that 5% to 7% volume growth in the second-half? Or that could be under some pressure as the loose prices have come down?

Saugata Gupta:

Historically, there were 3 deflation periods - 2010, 2013, 2016. If you look at the 2016 numbers, we managed the deflation much better than based on all our learnings from 2010 and 2013 where we perhaps took some late calls in pricing or promotions passed on to the consumer. So, based on the learnings, we are better prepared and also, I believe that given the brand equity and distribution advantages, there is no reason why we should not be able to deliver 5-7% volume growth. Yes, we have to take certain actions in giving back the value to the consumer proactively.

Arnab Mitra:

Right. Just one last question from my side. So, on the copra cycle, now do you have any further, any stronger conviction on the fact that the cycle is now reversing based on whatever information you would have on the ground?

Saugata Gupta:

Yes, the deflation cycle has started. Now the question is that we have to see the slope of that cycle. In the last 2 months, we see that cycle definitely taking shape. It is normally 18-24 months either way so we are perhaps in the first 2-3 months of that cycle, the extent of which we will have to wait and watch in the season. We will get a much better view towards March - April. We will ensure that pricing or other actions are smooth rather than taking multiple actions.

Moderator:

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

Vivek Maheshwari:

First, on Saffola, 2 things from Saffola. First, this quarter 5%, what would be the impact of CSD you have called out for VAHO? But is not for CSD, Saffola or rather for Saffola CSD a decent part of the revenue, is that understanding correct?

- Saugata Gupta:** Yes, it is. The impact of Saffola was neither negative nor positive. So, the reason we have called out is that the impact on Hair Oils were the highest. But on Saffola, the impact was less.
- Vivek Maheshwari:** Okay. So, if you make an adjustment for CSD, you are saying 5% would not move dramatically here and there, is that correct?
- Saugata Gupta:** No. It would not move dramatically here and there. So, we called out for Hair Oils because the movement was a little more dramatic.
- Vivek Maheshwari:** Okay. And on CSD Saugata, is it that CSD the department itself is procuring less? Or is there a shift due to some other player? What exactly is the issue?
- Saugata Gupta:** There is a stock correction and the way the ordering is happening between local and central. So, they have introduced smart cards and other things, so it is a combination of that. So, as I said, I believe that we are now in a position to say that we should be able to stabilize that business now.
- Vivek Maheshwari:** Okay. And Saffola, last quarter, while you reported 10% growth you indicated that there is still a job at hand. Where do you think, when do we get to a double-digit growth in Saffola in volume terms? How many more quarters you think before we see that number?
- Saugata Gupta:** So, it will take time. I am not going to give you a specific number of quarters. But, it is still a WIP. We are doing a long-term solve and as I said that we have done a couple of things. We have solved this in some of the channels, but in 1 or 2 variants, we still have to solve for this. You must realize we are trying to do this while keeping margins intact. Given the pricing table has also gone up, we have taken some price increases in some of the variants and the 1-ltr pack. We have to try to balance margins and volume growth. So, we do not want to do a short-term fix but we want to do one that is driving volume growth while not diluting margins. We do not believe in getting growth and market share by diluting margins. And, therefore, we have to be a little patient about it.
- Vivek Maheshwari:** Okay, sure. Second, on Parachute, you mentioned that about the price changes. So, any urgency to change the product pricing now? And when you say that you would not do it in piecemeal manner but perhaps probably do at one-shot. Is there a risk of being late? Or possible delay in taking down prices which may impact the competitive position?

Saugata Gupta: Consumer value can be passed on in different ways. So, the question is how you pass on that consumer value. When I said that we would like to do a smooth transition, I meant that we need to have a visibility of what is the kind of deflationary cycle this is. Having said that, let me tell you, we would be proactive. We now know through our offtake-pricing model, there is always a delay in impact and we shall not wait for that impact to materialize. We would take a reasonably proactive call on it.

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

Prasad Deshmukh: A couple of questions. Firstly, your Press Release talks about something called predictive analytics. Could you just explain as to what you are doing in this and what impact can this have, other than improving mix?

Saugata Gupta: Yes. We have invested a lot in analytics and one of the things in this is infrastructure stability - managing attrition, our third-party associates, our distributors, our salesforce, so we are doing predictive analysis to ensure this. We believe and you also must be realizing that there is a significant transformation going on in the GT urban landscape because of certain changes in wholesale and with Modern Trade and E-commerce growing. And therefore, we now have a predictive analytics model which we are trying for ensuring stability of our system, so that there are no surprises because there is significant attrition that is happening in the sector in both distribution partners, in certain cases, the kind of third-party salesmen, your own salespeople, which is also because of the job opportunities available. So, we are trying to manage that.

Prasad Deshmukh: Got it. Second question, on the Vietnam business, just wanted to know if there are any specific reason as to why it has picked-up after say, 5 quarter - 6 quarters of weak growth?

Saugata Gupta: As we had said earlier, there were 2 tasks - one on the brand and the other on GTM. Both have been more or less sorted and we now also have an innovation pipeline. And we are very confident of delivering double-digit constant currency growth in the balance year also, unless there is macroeconomic headwind or any other surprises. So, we have solved the issues that we faced with the brand and are beginning to get market share back. We now have innovation pipeline and the biggest one is we have sorted out the go-to-market.

Prasad Deshmukh: So, basically safe to say that, last 4-5 quarters that weakness was mainly because of micro issues and not macro?

- Saugata Gupta:** So, if you look at Vietnam market, it is not that the HPC categories are growing in a major way but the growth was there. A significant portion of the issues was internal and we seem to have solved it and the organizational belief is to have a more long-term solve than short-term fixes. Sometimes these fixes take time, especially in other countries where your critical mass is not that high. So, we believe that we seem to have solved most of it and we are pretty confident of delivering double-digit constant currency growth for the balance year.
- Prasad Deshmukh:** Okay, got it. And then just last question, status quo what is the price hike that will flow-through in the second-half in your portfolio? Just flow through not that you will take it but whatever has been taken already second-half, how much should be flowing in...?
- Saugata Gupta:** So, it depends on the pricing call we take on Parachute. So, it is very difficult to now give you a number.
- Prasad Deshmukh:** As yet, as yet, that is why status quo without changing?
- Saugata Gupta:** It is difficult to talk about it because sometimes it is net realization on a promo, extra product, etc. So, it is very difficult to give a number.
- Moderator:** Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman:** Just from the CSD issue for Value Added Hair Oils again I mean, why was it more for Value Added Hair Oil let us say versus a Saffola or even a Parachute. Any specific insight into that?
- Saugata Gupta:** See, it depends on the mix. If we look at the canteen store profile, the mix and distribution, it is more towards the North and West of the country while Parachute is more towards South and West. And again, it depends on the mix between local ordering and centralized ordering. It is just that.
- Aditya Soman:** Okay. So, I mean you have mentioned that the overall CSD proportion is about 7%. But for Value Added Hair Oils, I am assuming it will be a lot higher given that almost half the growth got impacted by CSD.
- Saugata Gupta:** It is higher, simply because if we look at the footprint of the CSD Canteens and that of our Value Added Hair Oil.

- Aditya Soman:** All right. And we do not expect this to impact any of the other categories in the next couple of quarters, right?
- Saugata Gupta:** No. We should be in a position to get CSD numbers back on track in the second-half of the year. So, that should take care of it.
- Aditya Soman:** Okay. And in terms of Saffola, are we seeing some of the volume growth back again because we are also seeing some inflation in the Rice Bran. So, have some of your competitors in Rice Bran taken up prices as well?
- Saugata Gupta:** Yes. But, we have too. If you look at the volume value gap, we have also taken up our prices in the last quarter.
- Aditya Soman:** Yes. But as I can see, I mean, so for example, the Kardi oil prices have not gone up to an extent. So, I mean, what I mean to say is, is that also a mix improvement that we are seeing within our portfolio just some consumers moving up from active to total or anything of that sort?
- Saugata Gupta:** I would not say that but what I can say is that we obviously continue to do well in Modern Trade and E-commerce and usually the profile of the customer in Modern Trade and E-com would tend towards upgradation.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** Hi, this is Harit from IDFC. Just two questions. Firstly, on the A&P side, if you look at the last few quarters again the A&P spend had not been too high. And that is probably also because you had input cost pressures. Now, going forward over next 2 quarters - 3 quarters, when these pressures are lower would this give you an opportunity to significantly spend higher behind brands? And probably incrementally drive volume growth as well?
- Saugata Gupta:** So, if you look at this quarter also, sequentially we have increased our A&P and the quarter versus LY there has been a 10-11% increase in A&P. And yes, you are absolutely right. We now have a differentiated innovation pipeline that we will be happy to actually look at increasing our A&P in the near term. As I said, we would divide the gains in the copra into pricing, A&P and some to margins. We must also be cognizant of the fact that in some other

parts of the portfolio, there is also going to be some input cost pressure on account of crude and other items.

Harit Kapoor: Okay. On the Coconut Oil side, now you were comparing different periods of deflation and you were seeing 2016 you went through the deflation period better in terms of performance. Comparing probably levels of competitive intensity at that point and at this point, how do you see yourself placed in that environment versus this one going forward in this...

Saugata Gupta: So, the competitive intensity is in the bottom of pyramid part of the market, in which we have seen that Parachute Rigids has not lost share. In fact, we have continued to gain share. The fix has to be through a flanker strategy. Having said that, we do not believe in protecting market share by completely sacrificing profitability and working on a negative GM, which is not sustainable for anybody in the long term. So, if you look at how the significant portion of the market operates during deflation times, if you do not take a pricing call, people move back from branded to loose/organized to unorganized. There are certain markets where there is competitive pressure but this is not that part of the market.

Harit Kapoor: Got it. The last question was more bookkeeping oriented. If you see the first-half, your staff cost has been on the mid-single-digit range now and in fact, over the last 3 quarters. So, if you kind of see the evolution of this is we doing something specific there in terms of this thing or it is just a timing issue in terms of growth?

Saugata Gupta: At the end of the day, we should ensure that as far as all cost lines are concerned, we should put all our energies towards driving better consumer delight and value to the consumer. On all costs, we are having a cost management program. We are also running a program across the organization to drive agility and when you drive agility, which means automation, relooking at structures and way of doing business, one of the end outcomes will be to keep costs controlled.

Moderator: Thank you. The next question is from the line of Ravi Srivastava from Bay Capital. Please go ahead.

Ravi Srivastava: The question, you just mentioned about agility I just wanted to take that forward. In the update, you have mentioned about sales force, sales transformation initiatives. Can you just give us a background about what are you trying to do there with analytics with an infra question, what is this all about?

Saugata Gupta: We are investing in analytics in a lot of areas. In sales, we are looking at route optimization, smart selling, auto-replenishment in general trade and far more predictive analytics as I talked about managing stability. It could also be on sales spends and ROI. At the end of the day, if you really want to drive premiumization and modern trade and e-com, there has to be a redeployment of investments. And, therefore, with analytics and use of data, considering the fact that we have made a significant investment in our new sales IT system over the last 2-3 years, we actually have granular data of SKU wise, line-wise sales in most of our outlets which we directly service and most of our outlets in urban are geotagged. So, now if we can harvest that, we can get significant efficiencies which we can redeploy towards either rural growth or towards premiumization, chemist, cosmetic outlets or e-com and modern trade.

Ravi Srivastava: Saugata, historically you have done this initiative where you were sort of increasing the depth of presence in the urban regions, while also trying to improve the width in the rural regions. How was that spanned out over the last 2 years? Has the depth of the product or the availability shelf space had that improved with these initiatives?

Saugata Gupta: So, we have perhaps done a better job in rural than urban. We have a job to do if we have to get the premiumization agenda right in the Weighted D outlets of any premium category. Are we completely happy with it? We are not. But, now with the kind of analytics and other things which we are doing, we have to get investments for that and for getting the investment redeployment you have to drive efficiency in some other part of the business. We are now in a better position to do it. In the last 2 years, whatever we have done we could have done a better job as far as depth and range selling is concerned. We have made more progress in rural than the urban depth.

Nikunj: Hi, this is Nikunj here from Bay Capital. Just wanted to get some idea on Livon, what kind of revenues that we are clocking? And what is the market size or opportunity that we are looking there?

Saugata Gupta: So, we do not give the brand-wise revenue but all I can say is that we believe that this category is at a point of inflection. Also we have recently launched newer variants. In addition to that, there is a huge focus in Modern Trade and E-Commerce, which is the driving tailwind for the category. Both in Male Grooming and the Serum business or Premium Hair Nourishment, with the channel focus, innovation focus and also digital brands, we are extremely confident of delivering high growth over the next few quarters and in the coming years. It required some time to understand the category and get the mojo and we believe we are now at that point of inflection.

Nikunj: Onto similar lines means we have launch Saffola Soup and True Roots. So, those markets also do you see growing? Or what is the thought behind getting to products where the market itself is very small?

Saugata Gupta: We think True Roots is a revolutionary product. There is an unmet need. It is too early to talk about True Roots, because it is just being test marketed with an E-com partner right now. We believe instead of research, this is a much more interesting way to test market a product and understand consumer behavior. So, we believe it has the potential again and as I said you have to execute it right. As regard Soups, although we have a certain market share, we have still not reached the action standard for a scale-up. Hopefully, we should be able to scale it up. The soup market is actually not that small, it is significant and with healthy snacking in-between meals coming up, this market is only going to grow and with the way Modern Trade and E-commerce is driving food, we expect soup as a category to grow.

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

Amit Sinha: Sir, my question is on your VAHO segment and this segment has been one of the strongest in terms of the growth rate in the last many-many quarters. And part of the reason was the market share gain. However, basically, this quarter I understand that there might be a big impact on CSD. But generally, for the entire segment, do you see the competition getting more intense? And also wanted to understand your strategy on very-very aggressive pricing. If I compare your pricing growth versus last quarter in this quarter, it looks like I mean, the pricing growth this quarter looks like 7% compared to almost like some negative 2% to 3% last quarter. So, are we much ahead of the curve compared to our competition here in the pricing front? And your comment here on the competition? Thanks.

Saugata Gupta: In certain brands where there is a significant increase in input cost, we have taken certain pricing calls and obviously because when GST came in last year, we took a price drop. So, therefore, the last quarter negative was because of that pricing drop which we had taken on 1st July of last year. So, that is the way to see it. While I am not in a position to talk about the strategy, I can assure you that we have the building blocks in place to deliver value market share growth and double-digit volume growth over the balance half of the year. Our broad policy will be to defend at the bottom of the pyramid price point packs and drive value market share through premiumization like Aloe Vera, Hair & Care and some more innovations which have just been launched into the market.

Amit Sinha: And any commentary on the competition? Does that remain the same compared to last year?

- Saugata Gupta:** The competitive intensity has increased in the price point packs, which is the bottom of the pyramid, in select markets.
- Moderator:** Thank you. The next question is from the line of Kunal Vohra from BNP Paribas. Please go ahead.
- Kunal Vora:** Sir, the first one, on your rural growth at 24% is significantly higher than the urban level. Is it because of your product mix with Parachute being larger in rural and Saffola CSD being larger in urban? And do you see this gap between rural and urban succeeding as the rural growth outlook seems to have deteriorated slightly?
- Saugata Gupta:** So, 2 things. One is when I mentioned urban growth, it is the urban GT growth. You have to also see that most of the modern trade and e-com growth will be urban growth. So, rural growth is also because of the fact that we continue to expand distribution in rural. In most of our brands, like Shanti, Parachute, we have managed to increase distribution and reach in the last one year. In some of the brands, it has been significant. We believe that rural is one of the ways to grow because distribution is a source of competitive advantage, which is no longer an entry barrier for brands entering in e-com and modern trade. Now, yes, you are right that we are carefully watching because of the fact that the September rainfall was sluggish in some of our markets. We have to wait and watch in terms of whether it will impact rural consumption in Q4 and next year Q1 till the next monsoon.
- Kunal Vora:** Sure. The second one, on e-commerce. Like the contribution of 1%, would it be much higher in the case of premium products such as Saffola? And do you need to offer higher discounts to drive e-commerce sales or prices are the same as a modern trade or GT?
- Saugata Gupta:** So, now our E-com contribution is actually greater than 2%. If you have to succeed in e-com business you have to create portfolio which is slightly differentiated, while in the pantry set of business you continue to sell grocery-led products. And the contribution of the premium portfolio and the new products in e-commerce is significantly higher. And as a result, we have to ensure that for these channels, to drive premiumization as well as pass on some of the benefits to the consumer, you have to operate with a high GM portfolio in order to afford that.
- Kunal Vora:** Sure. Okay, gross margins, you said is high but is the discounting also higher as the price same as which you offer to modern trade or general trade or at the prices are different...

Saugata Gupta: At any point in time, we are trying to ensure that the consumer gets value. But increasingly, we are moving towards a different portfolio, different pack sizes, such that we ensure that there is no channel conflict.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: The space that has seen a lot of interesting M&A happened in the last 2 years to 3 years, have been one were to define it, the Value-Added Oils or Value Added Hair Oil from Indulekha to Kesh King including recently there was a deal of this Rajkot based company, etc. So, my question is twofold. One is, what is Marico observing as a trend there? And the launch of some of the Parachute Crème, etc. are these products in that direction from a consumer perspective? And second, is this going to be a long-term impact on the core franchise of Parachute Coconut oil where consumer starts doing much more value-added products?

Saugata Gupta: So, let me take these 2 questions differently. Firstly, there has been some M&A in the hair fall category. We believe that initially the larger players did not participate in the category and there were some entrepreneurs driven brands which brought it to a critical mass. My belief is that the M&A happened when there had been potential stagnation and the reason Marico has perhaps not participated in some of them also could be the reason that we did not see an upside beyond that. It is much better to grow organically in a category than doing an M&A unless you do it to grab dominance in market share. Now, as far as India is concerned, in the Hair Oil space, I think there are clearly 2 trends. We continue to have huge opportunities in terms of people moving from smaller brands to larger brands. And therefore, there is a price point play and there is also an upgradation happening where there are certain players which have done well. And this is an 'and' not an 'or'. We can operate in both these spaces and continue to grow because for us, market share opportunities are there in both. As far as Parachute Advanced Crème Oil is concerned, it is targeted at a super-premium end for infrequent users and lapsers. There is a huge belief in oiling and therefore we are giving them a contemporary format. We think this is the way to grow because we get better realizations and can ensure that we continue to keep that habit alive but in a contemporary format amongst youngsters, especially in urban metros.

Ayaz Motiwala: So, that is helpful. And, Saugata, if I were to quickly ask another question, a lot of the questions have been around innovation within the existing portfolio of products. Of course, you have done oats, which one would not have construed as an opportunity for Saffola and oils kind of things. So, you have done things outside the continuum of innovation on the existing

categories. My question to you sir, is what is the kind of latitude you give to your executives or your program that you have in-house which gives you to explore opportunities beyond your existing set of portfolio and categories because there is a lot of things happening around consumption in India. So, if you could expand that beyond some of the M&A's that you have done which is obviously self-explanatory.

Saugata Gupta:

So, if you broadly look at the categories we play in, the non-core categories, which are our growth drivers, are Male Grooming, Premium Hair Nourishment and Foods. So far, we have dabbled in in-between meals, healthy foods and the breakfast space. I think the latitude we can give is to look at new brands so that is why True Roots is a new brand. The latitude we are giving is to look at digital brands. I think, today, with E-com and digital marketing and Modern Trade, you have a critical mass for doing it. I think it is a question of two things. One is driving a culture of experimentation and risk-taking and we are also solving for it structurally in terms of driving what we call 'Engine 2', which is the digital brands or the new age brands. And second, what we have to do is have an agile system in the supply chain and product development, which has a far shorter lead time compared to the core business and even looking at a different compensation structure for some of them. So, we are trying to create entrepreneurs within the system. Perhaps 10-15 years ago, that was how Kaya was born in Marico and the question is whether we can create some more of these kind of businesses.

Moderator:

Thank you. The next question is from the line of Amit Purohit from CGS CIMB. Please go ahead.

Amit Purohit:

My question is on VAHO segment, we have seen a lot of new launches and a strong double-digit growth. So, could you share what percentage of the new launches would be adding to this growth? And also, the second is on Parachute Advanced franchise there are many launches under the Parachute Advance. And just if you can share what has been the status of those? Are they national launch? And how has been the feedback of consumers on those? Thanks.

Saugata Gupta:

I will give you a flavor of some of the brands, how they are doing, though most of them are very nascent. So, as far as the Parachute Advanced Crème Oil is concerned, it is just available in 2 cities, modern trade chains and is still under test market. Aloe Vera has done extremely well and we are available today in South and West of the country. As regards Nihar ExtraCare, which is the hair fall solution, this has just been test marketed in one state and we are doing a very small test market in the e-commerce space for True Roots. Obviously, as far as we are concerned, all of them seem to be doing well and we will gradually expand on all of these and we believe that these ones will significantly contribute towards driving premiumization and

value share in our portfolio over the next 2 years. Having said that, although they are very differentiated and unique, which is the right thing for innovation, the sales and marketing execution is important to take them to critical mass. So far, Aloe has completed that journey and I think the rest, hopefully, we should be getting at least 3 out of 4 right. If we can get 4 on 4 right, that will be marvelous.

Amit Purohit: Sir, specifically on something like Deep Conditioning Hot Oil and Ayurvedic, are these also nationally launched?

Saugata Gupta: So, Deep Conditioning Hot Oil has limited distribution and is sold mostly in winter in the North and Ayurvedic is sold in the South. But in the South, it is a key player and is the No. 2 player in Anti-Hair Fall.

Amit Purohit: Okay. And generally, on the first question, in terms of the new launches that we have done in the VAHO segment, would it fair to say that the new launches over the last 2 years - 3 years would have been say 10% contribution to the overall double-digit volume growth? Or is it possible to share?

Saugata Gupta: No. We do not want to get into the number, but can only give you a flavor of how they are doing.

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

Latika Chopra: My first question was on gross margins, depending on your consumption averages for copra, do you expect second-half margins to see an expansion?

Saugata Gupta: It should happen. So far, the current trend suggests so.

Latika Chopra: All right. And secondly, you know I noticed that you have introduced Hair Fall Control Hair Oil under the Nihar franchise. Could you just give some sense on what is really happening in this Anti-Hair Fall category? And is the growth really coming back strongly in this segment?

Saugata Gupta: So, I think it is driven by efficacy. Ultimately, there are always trials. There are brands on continuous trials which are high priced and A&P-led. But what is most important is the brand equity and the efficacy the consumer experiences and therefore brands can give continuous growth only if there is efficacy.

- Latika Chopra:** And what are your experience with Ayurvedic Oil suggest?
- Saugata Gupta:** The product has been designed specifically catering to people in the South, so we have a critical mass there. We have about 30% market share in the Anti-Hair Fall segment in the South. But that product formulation does not work in other sets of consumers and parts in the country. Perhaps, we are late in that. It was a miss. We now believe that we have a product that delivers. We are test marketing it. We have just been there for less than 4-5 weeks. So, after some time, if it is successful, we will extend it. But I strongly believe that the efficacy is the biggest driver of growth. Otherwise, what will happen is a continuous enrollment of consumers and continuous lapsing out of it. Perhaps some of the brands which have been struggling in this category is because of that.
- Moderator:** Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.
- Rahul Ranade:** Sorry, sir, this is a preliminary question. I just wanted to understand why the copra cycle takes place in the first place? And what are the factors lead to it?
- Saugata Gupta:** So, it is a question of supply-demand and also the productivity. Sometimes, deficient rains affect the crop. Also, there is a supply-demand, some part of it is inelastic and some part is elastic. There is also a conversion demand that happens in certain other industries. The reason it is volatile also is because no imports allowed, therefore it is a tight market. Historically, there are 18-24 months alternate cycles. Having said that, as I mentioned in the last quarter as well, we are investing towards and working with the farmers to drive productivity and better farm practices. It is a win-win. We are running it under the Kalpavriksha Foundation to ensure that we create higher farmer income and therefore drive productivity over the long-term.
- Moderator:** Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** I have this one specific question regarding how much the copra constitute, how much share the copra price constitutes the total raw material cost? If you can give us a sense of in last 3 years to 4 years because the company has diversified into a lot of things, how has that share actually changed over the year?
- Vivek Karve:** Typically, it would hover between 45-50% of the total raw material cost of Marico.

- Saugata Gupta:** Having said that, it is decreasing because of reduction in dependence on Parachute.
- Anubhav Sahu:** Yes, exactly. And so I mean, also to give you a sense that I will say for a couple of years back, how was the percentage then and now?
- Vivek Karve:** It is also a function of the inflationary and the deflationary cycle. In case you want to understand a little more, my suggestion is you engage with our IR team, they can explain in detail.
- Moderator:** Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you.
- Vivek Karve:** Yes, hi, everyone. I would like to thank you all for attending the call today. We at Marico look forward to healthy profitable growth in the coming quarters. On behalf of Marico, I would like to wish you all a very happy Diwali festival ahead. Thank you once again and good night.
- Moderator:** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

(This document has been edited for readability)