Marico Limited

Q2 FY21 Earnings Conference Call

October 28, 2020

MANAGEMENT:	**MR. SAUGATA GUPTA - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER** **MR. PAWAN AGRAWAL – CHIEF FINANCIAL OFFICER**
MODERATOR:	**MR. GAURAV JOGANI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Marico Limited Q2 FY21 Earnings Conference Call, hosted by Axis Capital Limited. 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. Gaurav Jogani from Axis Capital Limited. Thank you, and over to you Sir!

Gaurav Jogani: Thank you, Faizan. Good evening everyone. On behalf of Axis Capital I would like to welcome you all to Marico's Q2 FY21 Earnings Conference Call. From the management, we have with us today, Mr. Saugata Gupta, MD and CEO and Mr. Pawan Agrawal, CFO. Before we get started, I would like to remind you that the question-and-answer session is only for institutional investors and analysts and therefore, if there is anybody else who is not an institutional investor or analyst, but would like to ask questions, please directly reach out to Marico's Investor Relations team.

With that, I would like to hand the call over to the management for their opening comments. Thank you and over to you Sir!

Saugata Gupta: Good evening to all those of you who have joined the call. We hope all of you, your friends and family are safe and healthy. We continue to cope with the impact of the pandemic and our top priority is to ensure the health and safety of our employees, associates and other stakeholders. Marico has already pledged INR 8-9 crores towards various relief and rehabilitation initiatives.

I would start with a quick brief on the quarter gone by and the outlook going forward before I leave the house open to questions. We are happy to report a domestic volume growth of 11% and a 7% constant currency growth in the international business in Q2. Secondary growth tracked ahead of primary as we continued to operate with reduced inventory levels to protect the ROI of channel partners in the current environment.

Supply chain operations stabilised and direct coverage surpassed pre-COVID levels. In terms of bottomline, we have delivered a robust 15% like-to-like growth in PAT and 10% growth in operating margins in spite of short-term input cost pressures towards the back half of the quarter and significant investments behind A&P this quarter; however, reported

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PAT grew by 7% after accounting for the one time impact of exceptional item of INR 33 crores as we rationalized partial capacities in one of the units by moving capacities closer to the demand centers leading to impairment of certain fixed assets and inventories. The strategic change in manufacturing footprint will benefit the company in building agility and fulfilling consumer demand at the lowest possible cost in the coming years.

Demand relocation due to reverse migration, government stimulus packages and a good monsoon enabled rural volume growth of 22% thereby increasing its contribution in overall business to 35% - an improvement of 3% from the previous year. If you take out Saffola and Saffola Foods and some of the portfolio that is urban, our rural contribution is significantly higher. In urban markets, General Trade continued to grow in double-digits while Modern Trade had another subdued quarter although showing sequential improvement in most recent times.

With the festival season coming and the urban markets unlocking, we expect Modern Trade to see better growths in the balance part of the year provided the pandemic situation does not worsen. Our distribution reach is back to pre-COVID levels in this quarter and we will continue to aggressively drive direct distribution in both urban and rural in the coming quarters.

E-Commerce continued to grow handsomely and contributed a sizeable 8% to the overall turnover and we expect that this trend will continue. The unprecedented impact of COVID-19 is transforming consumer behavior. Consumption patterns in the health and hygiene segment are witnessing rapid changes. While some of these behaviors are transient, some are more permanent resets. The accelerated demand in the hygiene category would most likely settle down as the impact of the pandemic recedes and consumers adopt to life in the new normal.

Health, immunity and safety are top concerns and we expect the consumer preference on health and immunity boosting products to continue because of COVID-19 experience and its aftermath. Adoption of digital in everyday life will drive the increased engagements with consumers of various digital and E-Commerce platforms.

Delving deeper into the India business, core categories delivered strong growth. Parachute registered a 10% volume growth ahead of its medium-term aspiration. This has been achieved because of consumers' unwavering trust in the brand as well as the strength of our

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direct distribution reach. We would like to use this opportunity to have a permanent reset of our competitive position in this category.

The Value Added Hair Oils category has bounced back to growth trajectory, recording a resilient 4% volume growth in the portfolio despite a sharp decline in CSD. Though the premium segment continued to face headwinds given the current macro economic situation, both mid and bottom of the pyramid segments recovered. Nihar Shanti Amla led the growth for the franchise and we will continue to invest in TV and print media to further strengthen its brand image and drive penetration.

Recent innovations in the category registered a healthy growth during the quarter with Parachute Advansed Aloe Vera Enriched Coconut Hair Oil witnessing increased traction and Nihar Naturals Shanti Jasmine strongly rebounding after a sharp decline in Q1. The category has been showing signs of revival and we shall capitalise on the market leadership position of our brands to deliver a much stronger H2 performance in comparison to Q2.

Over the medium term our three-pronged strategy of gaining market share in the premium segment, driving value in the mid segment and aggressive pricing in the bottom of pyramid shall continue. We will continue to gain market share just like we have done in previous years with aggressive play at both bottom of pyramid and in the premium segment.

Saffola Edible Oils continued its stellar performance with 20% growth in volume terms. We are happy to report that 62% of the volume growth came from increased household penetration with addition of accelerated new trials and increased retention rates. We will continue to invest towards delivering value to our consumers, building further on the gravitating consumer sentiments towards healthy cooking and increased household penetration.

Food is well entrenched on a strong growth trajectory. The portfolio delivered an exponential growth of 55% in value terms with our base business of oats franchise growing at 45% year-on-year. Saffola Oats continues to attract new consumers with 60% of the volume growth coming from increased household penetration.

Saffola Honey launched in the previous quarter has already garnered a market share of 8% in Modern Trade within three months of its launch. We had a digital launch of Kadha and Haldi Doodh under the Saffola ImmuniVeda range and to further strengthen our play in the

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mass immunity boosting category, we have forayed into the Chyawanprash segment with the launch of Saffola Arogyam Chyawan Amrut. It is an enhanced version of traditional Chyawanprash with added ingredients of Ayush Kwath herbs, Ashwagandha, Turmeric, Giloy, and Amla which boosts respiratory immunity.

We are very much on track to deliver INR 300-350 crores of Foods turnover this fiscal. Also weakness in discretionary spending led to a year-on-year decline in the premium personal care portfolios. The brands performed better sequentially with Livon Serums regaining traction and delivering marginal volume growth. We will now double our efforts to get this portfolio back on track and as the situation improves, we will start to invest in this portfolio over the medium term to drive disproportionate growth.

The Hygiene segment has been settling down as the accelerated demand begins to taper off and the category contributed to about 1.5% of the turnover in the current quarter. Going forward we will continue to focus on the differentiated segments of the portfolio and maintain sales at these levels.

On the input cost, copra and rice bran oil are witnessing inflationary trends; however, we will tide over the cost impacts with a host of cost saving initiatives and do not expect to do any significant pricing interventions. We expect input costs to soften in Q4 with seasonal arrivals. Advertising spend at 9.5% is almost back to pre-COVID levels. We will continue to invest behind growth and market share in core and scale the new mass offerings in Foods.

Coming to international business, Bangladesh marched ahead with a 16% constant currency growth. The non-coconut oil portfolio in Bangladesh grew by a strong 31% increasing the non-CNO contribution to 35% as compared to about 25% in FY18. South Africa had a good quarter on the back of buoyancy in the healthcare portfolio. Vietnam posted a decline in the quarter due to sluggishness in demand in the personal care segment; however, we see signs of revival in Q3 and will exit the year in growth.

We remain cautious about the MENA business but will continue to focus on getting it back on growth by the end of the year. With restrictions having significantly eased across the country, the company will strive to sustain the momentum and aim to deliver 8% to 10% volume growth in the India business in the balance part of the year. We will aggressively chase market share and volume growth. And we see a transient pressure on margins in Q3.

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But with an aggressive cost optimization initiative of delivering INR 150+ crores in structured savings, we are confident of maintaining a threshold operating margin of 20% this year.

We believe that delivering consumer value through pricing will be critical to deliver high volume growth and market share gain in the near term. On the international front, while Bangladesh stands on a firm footing, we see signs of recovery in other geographies and are confident of delivering high single digit constant currency growth in H2.

To summarize, we shall be gunning for an 8% to 10% volume growth over medium term by concentrating on volume growth and market share gain in core franchises, scaling up our foods business and delivering strong growth in the international business. What is extremely reassuring is that 75% of our international business comes from high growth, high potential countries like Vietnam and Bangladesh and we are now ready to replicate the successful Bangladesh playbook in Vietnam.

We have four clear focus areas over the next two years - continue to deliver medium term aspirational growth on the core consistently, get aggressive scale up in Foods to INR 450-500 crores by FY22, deliver steady performance in majority of the markets in the international business and finally establishing at least 2-3 more successful digital brands other than Beardo. While we continue to fiercely defend and gain market share in our core, we have shown the ability to gain market shares in segments where we are challengers.

Contrary to some perceptions, our historical track record on market shares is very good; however, we will not be mindlessly competition focused but only consumer and customer focused. Our objective is to win in the consumers' hearts and in the marketplace and not anywhere else.

Before I conclude, I would like to say that we have not only been resilient, but also emerged stronger from the effect of the pandemic. Agile execution, high degree of experimentation, our inherent distribution strength and strong brands and culture are the pillars on which Marico shall continue building itself. Our philosophy of People First, Business Next, and Profits Last is a true testament of what Marico stands for and I would like to thank all Marico members and associates who have made this journey possible in these difficult times.

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Thank you for your patient listening and we are happy to take questions.

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

Abneesh Roy: Congrats Saugata on very good volume growth and recovery almost across all the key businesses. My first question is on Saffola. So, in both Saffola Oats, Foods and Saffola Edible Oil you have commented that 60% to 62% of the growth is coming from increased penetration on account of new users or increased retention. Now that is a very high number. So, what have you done differently? Is this Nielsen data and is it sustainable?

Saugata Gupta: When we were growing in Saffola for the last few quarters, there was this question as to whether the entire volume growth is coming from pantry loading and increased cooking. Now that people are moving out and a lot of unlock has happened across and people are going back to work, the quantity of household cooking and others have reduced. Some food companies have commented on it. In spite of that, our Q2 numbers are actually higher than Q1 numbers despite the fact that Modern Trade and CSD continue to be impacted. So, this is household penetration data. What has happened essentially is three things. One is people moving towards trusted brands, the share of requirement in multibrand households where Saffola and other oils exist, Saffola has increased the market share and also the retention rate and the number of lapses are coming back to the category. It is a function of that. Now obviously any brand that goes through increased penetration (which is increase in new trials and increased retention amongst dual oil households) that growth is retained. And the other interesting fact we have noticed is that some of the new set of consumers that have come in to the brand are actually heavier users. So, it is a combination of all four and we are fairly confident that we will maintain a good volume growth track record in Saffola. Having said that you must also keep in mind that in the last year Q4 we had significant pantry loading, which resulted in a 24% growth. We were tracking a growth of 13% to 15% in Saffola till March first and second week and then the core growth spiked to 24%. Having said that, because of communication, pricing, the promotions strategy and overall work, which we have done, I think the brand is on a healthy track now. Our first endeavor is obviously to consistently deliver double-digit growth of the brand. That is something which I think we should be able to deliver.

Abneesh Roy: One follow up Saugata - biscuits have seen significant slower growth in the last few months versus Q1, while Oats if you see is largely a formal category with all the top two, three players are all big players, so there it is not much of market share gain, so in Oats what explains the higher growth versus Q1 when seen against biscuits. So, is it essentially consumers are focusing much more on health because in Q2 there is some negative impact of work-from-home reducing also?

Saugata Gupta: Two things are happening - the share of healthy products in in-home snacking is increasing. Number two, we have also increased market share in oats over the last couple of quarters and in the last year. So it is a combination of two things. The other interesting thing we did was while everybody knocked off advertising in Q1, we have consistently invested behind A&P on oats right from first week of April. So, we have continued to invest behind oats and it is a combination of the three that has happened and as I said that a significant portion of the growth has happened through penetration and there has been also a growth in market share.

Abneesh Roy: Saugata my second question is on the gross margins. So 160 bps dip YoY, you have mentioned copra is up around 9% to 10% sequentially and YoY. So, is it largely because of copra because you have also mentioned in VAHO the mix has been adverse like the bottom and the mid end growing much faster than the premium end and also in couple of edible oils if you could comment the impact of higher rice bran oil and you are also saying you will not increase the prices much. So, gross margins are you willing to sacrifice? Is that a conscious strategy that in the near-term till prices are high, better to focus on volume growth and market share gains?

Saugata Gupta: If the COVID situation does not deteriorate sharply, we are reasonably confident of delivering an 8% to 10% volume growth over H2 and our first endeavor is to do that. We are also acutely conscious of the fact that the economic situation for consumers, especially to a large extent in urban, will continue to be challenged till there is a full blown economic recovery and therefore we would like people to downtrade within our portfolio if at all but not outside our portfolio, or outside our brands. So, if you look at the current forecast or the current foresight what we have is that this input cost increase is transient. In fact, we have already seen a slight softening in the last 10 days, so we believe this impact is going to last us maximum, for edible and copra, until between December and January and then things will start softening. So, therefore taking a temporary pricing action and then reducing it especially when the consumer wallet is challenged might not be a good idea. So it would a short term absorbing of costs. As I said, we are putting an aggressive cost management plan where the accruals will now happen. We started the cost management program sometime in

July and a significant portion of our cost saving accruals will happen now, coming from October till March, so we will be able to hold on to this input cost pressure for two to three months and that is a smarter thing to do.

Abneesh Roy: My question is that most of the pressure is because of copra only or it is across businesses some pressure is there?

Saugata Gupta: There is a transient one in edible oil and some in copra. That is it. In the rest of the stuff, there is no proper pressure because that is linked to crude.

Abneesh Roy: Last small question, VAHO you have done exceedingly well versus earlier and definitely in the current context. Now my question is in hair oils, when I see you are also very aggressive and want to get volume growth market share, Bajaj Consumer under new MD is exactly doing the same strategy, Dabur exactly same. So, will you three players essentially get market share from each other and one will win and two will lose or you will get some share from regional players? What do you see - is it a price war, is it high ad intensity versus a one year-two year back?

Saugata Gupta: I cannot comment on others. All I can say is on market shares, there are no alternative facts, alternative truth. There is only one truth and if you look at in Value Added Hair Oils over a three-year period, amongst all players we have actually grown 2% in volume share. So, I cannot comment on others and that is the only fact. Now coming to what has changed - because of certain demand conditions last year and post COVID, the market has structurally shifted a little bit towards mid and value. Having said that why we do not participate in it, I think there are opportunities in areas like hair fall, which is at a slightly more premium end of the market. Our objective is to have a far broader participation strategy. Last year we had some issues and all that is behind us and we are extremely confident of delivering a higher volume growth in the back half of the year compared to Q2. I cannot really comment about others.

Abneesh Roy: Sir, my question was competitive intensity has not worsened significantly versus one year-two years back. That was the limited answer I wanted.

Saugata Gupta: I think there is competition, but as I spoke in my narrative that we will not be mindlessly competition focused but our job is to win in the consumers' hearts and in the marketplace. So, I do not want to comment on it. Amongst all players, our market share gain in volumes

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has been 2% over the last two years and I believe we were not participating in the bottom of pyramid, we are now reasonably participating in that. The other players have not been participating and I believe there are enough opportunities in the premium end and which we are not actively participating in other than in hair fall in the south. So, there are opportunities there. May be there are smaller players who might be losing market share and may be one or two players will be consolidating their market share.

Abneesh Roy: Thanks a lot. That was very helpful. All the best.

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

Percy Panthaki: Good evening Saugata and team. Congrats on a good set of numbers. My question is on the ramp up of different categories, so, VAHO versus the coconut oil category. So, why is the ramp up so different? Why is Parachute at a 10%, and VAHO at a 4% - is this reflective of the underlying industries of VAHO and coconut respectively or is it that Parachute has done 10% because there is some tremendous market share gain and the copra industry as a whole has grown similar to VAHO?

Saugata Gupta: Our strategy on coconut oil is to continue to drive conversion from unbranded to branded. Also, as you know that our market share in urban is close to 60% but our market share in rural is 46% and given our brand distribution strength and the fact that the people go for trusted brands especially Parachute as it is produced untouched by hand, this has had its impact. So the medium term aspiration of Parachute has been 5% to 7% growth and if we continue to get the pricing right, continue to drive direct distribution and continue to drive rural market share, the 5% to 7% medium term growth aspiration will continue and there is at least a run rate for eight to 10 years before saturation happens just like in Bangladesh where we are growing in Parachute only 2-3% but we have diversified the portfolio. That runway is around eight to nine years. Coming to Value Added Hair Oils, the dynamics are different. First of all, you must appreciate that there are different parts of the portfolio in Value Added Hair Oils. There is a significant premium part of the portfolio, especially the non-sticky part of the premium part of the portfolio which is used post wash and the usage is far more in setting your hair and grooming - that had a significant impact as people were staying at home and a lot of part of the portfolio in VAHO which is used at the bottom of pyramid has continued to do well. I believe that even the Value Added Hair Oil, volume growth for us will continue to improve, and we expect much better volume numbers in the

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second half of the year as compared to the second quarter. Having said that I think, may be, we should be able to get Nielsen stabilised in the second half of the year. Maybe the potential for market share gain given the competitive position in coconut oil is higher.

Percy Panthaki: Just a sub question to this Saugata. In the earlier calls, you had mentioned that in VAHO you have one brand in which there are some issues in terms of brand equity, and you need to bring that back. So, any update on how that is progressing?

Saugata Gupta: As I said earlier, I think all the issues in VAHO are solved and we are more or less back on track and therefore we are far more confident of delivering a stronger growth in the second half as compared to Q2.

Percy Panthaki: Second question is on Saffola Oil. Here also the growth trajectory has been really more or less maintained versus Q1 and it has not dropped at all. So, just wanted to understand what is happening there, because my understanding was that this has gone up because people are staying at home and not eating outside food and obviously when you cook at home you will use Saffola versus outside oil you might use something else and that is why Saffola is benefitting. But now people have started eating out, etc., and to a large extent those habits have normalized, but still your topline growth has not come down at all. So, is this just a sort of slight delay in that normalization or you expect this kind of growth trajectory to continue for some more time.

Saugata Gupta: I am not in a position to completely share data, but there are certain indicators that within a repertoire of brands in this category, people are searching for healthy brands and if you are pricing it reasonably attractive and availability is there, you have a chance of a better performance compared to other brands. Also, you must realise that Saffola has continued to invest behind A&P and we are reasonably salient so it is a combination of all the three and I think the last thing, which I mentioned in the opening commentary was we believe that the other interesting factor is that the lapsation rate has come down, so the retention has moved up and number two, which is very interesting is that within dual households or multi-brand households the market share of Saffola has gone up. People are going for trusted brands which are supposed to be much healthier.

Moderator: Thank you. We will take the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

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Aditya Soman: Good evening. Just a couple of questions from my end; firstly, in terms of modern retail do you expect that to have an impact on growth, and when I ask is obviously in traditional retail for example, trusted brands like Saffola when the consumer asks for that brand, will have a better recall and they might do well. So on the shelves where the people compare prices would Saffola stack up as well or do you think now the prices have been readjusted to a level where you do not see that competitive dynamic being negative anymore?

Saugata Gupta: I think Saffola had a far significant skew on modern retail and Saffola continues to do well in modern retail. I think from the first Saffola had a dependency on CSD where CSD as a channel has not done well. Logically if you look at Q1, the decline in modern retail disproportionately had impacted the Saffola growth and the fact that modern retail for us has come into a better performance actually positively impacts Saffola. Having said that, as you know there has been volatility in both input costs and there is volatility to supply chain - Saffola has maintained steady pricing. Saffola has also, in terms of fill rates and supply chain, been advantaged. So, maybe some part of it would have come from there, but I think a significant portion, basis the consumer analytics we have done, is that people have moved to oils which are perceived far healthier and there is a conscious choice of people during these times to opt for safe, trusted and healthier brands.

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

Harit Kapoor: Good evening. Just wanted to get your sense on when you said the secondary sales were ahead. I just wanted to get your sense on where we are in terms of the distribution in our channel pipeline now and by when do we expect this channel pipeline to normalize?

Saugata Gupta: Let me just give you a perspective. We must be the lowest in the last three-four years in terms of our current pipeline and distributor stocks. Now as you know last year because of the growth of alternate channels, in the General Trade system, the distributors were in a bit of a stress in terms of ROI. What we did was post March when we had a significant reduction in stock, when the lockdown started, we have not replenished the stock. You will also notice from our financials that we have kept a very tight control on our receivables and our credit in the market. So, we believe that this model is fine because we have an auto replenishment model. The other thing we have done is we have significantly simplified by reducing a lot of SKUs and we have tried out different supply chain models to increase fill rates, so we are very, very comfortable with distributors maintaining this kind of a pipeline,

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also ensuring very healthy ROI and also that ensures our credit outstanding and our system health. So, we are quite happy to operate at these levels.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities Limited. Please go ahead.

Manoj Menon: Saugata, one top of the mind investor question which I thought it is important to ask in this forum has been actually the Saffola equity extension to some of the perceived Ayurvedic natural organic products – I am using all these words interchangeably, I know it is all not the same - something like a Chyawanprash, and some of those other products. For honey, there is some sort of a consensus. I am just trying to understand from you on what the consumer has told you and your research on the ability of Saffola to stand on its own in the otherwise perceived as Ayurvedic segment.

Saugata Gupta: Let me answer it in two parts. If you look at the history of Saffola it started of as a very strong heart equity therapeutic brand. It moved some time in the late 2010s or 2008-2009 into a more preventive kind of a brand. With the launch of oats and other things it has moved into a healthy better for you brand and that is the journey of Saffola. Saffola has to remain in health. Even in oats, when we initially started on health and weight management, we have now moved into healthy snacking or healthy eating and that is how the exponential growth of oats happened. Initially I think the penetration was restrictive. So therefore, for any food brand to succeed, first thing it has to deliver in taste. Number two, it has to take on a far more inclusive positioning, which is good for you - healthy living and Saffola symbolizes healthy living. As far as Honey is concerned, you are right, it is a very straight extension because anything which is healthy living, better for you, Saffola extends into. How do we see the extension on Ayurveda? The way we are looking at Ayurvedic space is a more modern Ayurveda as opposed to traditional Ayurveda because obviously at the end of the day one of the interesting things we have been noticing is for example, a category like Chyawanprash was very skewed towards a certain season, it was skewed towards a certain section of consumers and a certain region. Post COVID, the interest in immunity and interest in having something which is so called preventive has increased and therefore there is a space for something in a very traditional space of a modern kind of a version. Well, Saffola in the ayurvedic range is a more endorser rather than a brand and therefore between ImmuniVeda and Arogyam, we will obviously sometime translate into a sub-brand which will perhaps take it on after some time. This is different in Saffola Honey and Saffola Oats where Saffola continues to be the main brand - that is how I see the difference.

Manoj Menon: The second one was on the premium oil opportunity which is on Parachute Gold, which you already have, some update on the ramp up beyond what is there in the information update – the reason I am asking this is because it is a product which is largely in in home consumption. I know that things will change in a year's time, but when you look back, would you think that you should have invested a little more in this? What are the current thought processes on the premium, the functional oil?

Saugata Gupta: You are absolutely right. There is a role for premiumization. Having said that if you really look at the drivers of premiumization in terms of channels, it had been earlier Modern Trade, E-Commerce and beauty and cosmetic outlets. During these times, both Modern Trade, because of the fact of social distancing, there is no way for promoters to drive experiences of sampling and even in the case of cosmetic outlets or personal care outlets where there used to be beauty advisors to drive new products or new brands, I believe this might not be the right time to invest. Today we are seeing a lot of personal care products being driven either from E-Commerce or through chemist channels. So, I think we will wait and watch. I completely agree with you. This is an opportunity because in VAHO if we have to grow consistently in volume terms, we also have to participate also actively in the premium end whether it is hair fall, whether it is a thing like Parachute Advanced Gold.

Manoj Menon: Thank you so much team. Have a very good evening after this call. Thanks.

Moderator: Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Thank you for the opportunity. Congrats on a good set of numbers. Saugata, you explained in detail about extending the brand equity of Saffola to many healthy cum Ayurveda platforms, but purely from GT's investment ability or standpoint, in the current environment do you think that GT can support these many launches in such a short period of time?

Saugata Gupta: Actually if you ask me, we have not launched too many products. While I do not want to get into details because it is a competitive thing, there is obviously a channel-region kind of a portfolio approach we are doing. So, I do not think in a particular city or particular GT will have to start five Marico products.

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Tejash Shah: You spoke about Honey gaining 8% market share in Modern Trade - if you can help us what will be the share of Modern Trade in overall honey category?

Saugata Gupta: Nielsen only captures Modern Trade. Modern Trade is significant and E-Commerce is a significant driver of honey.

Tejash Shah: I will come back in queue for the followup. Thanks.

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

Kunal Vora: Thanks for the opportunity. My question is on E-Commerce. Fairly strong growth of 39% and you have amongst the largest E-Commerce contributions across your peer group. Now do you see that this growth rate is sustainable and E-Com getting to let us say from 8% to 12% to 15% in a couple of years? Was there some one-off boost because Modern Trade demand shifted to E-Commerce and Saffola had strong, good tailwinds? So if you can comment on your expectation from E-Com going forward.

Saugata Gupta: You are absolutely right. There has been an accelerated growth of E-Commerce - which is in some way also a permanent reset. Perhaps two years' growth has got compressed into one year and therefore a lot of consumer behavior changes once they are used to this. I would say in a larger phase, what consumer behavior has changed is a more digital adoption and digital adoption could be in the form of how consumers choose a brand - it need not be always shop from there. Also it has thrown open the opportunity for actually GT to participate. A lot of buying today happens through WhatsApp, so it is a digital adoption of the consumer. I would say that I cannot guess a number in terms of the E-Com contribution. E-Com will grow. Modern Trade will grow. Modern Trade should come back into shape. Some part of growth in E-Com has obviously been because of Modern Trade not participating in the growth trajectory in these times, but one of the biggest interesting things that we are seeing is also the so-called resilience and the rebirth of GT. And in GT, you will see a lot of more adoption of digital, lot of automation and even in the General Trade distribution, I see a lot of consolidation and automation coming in. In fact, we are ourselves doing a lot of experiments in the way we service GT and the way I would think the revolution will happen is in India it will be an 'and' story rather than an 'or' story.

Kunal Vora: Very helpful. That is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Vishal Punmiya from Nirmal Bang Institutional Equities. Please go ahead.

Vishal Punmiya: Thank you for the opportunity. Congratulations on good performance. My question is on edible oils. So, there seems to be a sharp price hike of around Rs. 20-25 in some smaller brands. While we have not taken any price hike, so the premium between Saffola Active and Tasty with these brands kind of reduced from Rs.35-38 to Rs.15. So my question is does this kind of benefit us with new customer additions or the customers do not actually pay the reduced premium in the current environment where there is a pain in the pocket?

Saugata Gupta: I have not covered this, but we have also taken a price increase in Saffola in September. I believe that that increase has not been proportionate to the input cost increase because that input cost increase peaked somewhere till the first week of October and it started cooling down. So, we have taken price increases in Saffola and maybe we will take one more small tweaking in pricing, but enough to ensure that we maintain a threshold level of margins. Having said that for a certain period of time, it could be that we were relatively more attractive than in the past.

Vishal Punmiya: I could not see the price increase in the information update. So, that is why the question came up.

Saugata Gupta: It has been taken in the last. In the market it would have got reflected in this quarter.

Vishal Punmiya: We will kind of benefit in the near term at least when the premium is kind of reduced, right?

Saugata Gupta: Again as I said, given our strong cost management initiatives, our ability to absorb transient input costs is far higher and therefore it is okay in order to ensure that we maximize volumes and drive penetration of the brand, to withstand it for a couple of months. Our belief is that the table will cool down. It has already started cooling down a bit.

Vishal Punmiya: Thanks.

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

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Amit Sachdeva: Congratulations on a good set of numbers. Just one small question if I may. Saugata, you mentioned that the Bangladesh playbook would sort of be replicated in South East Asia like Vietnam which obviously is a growth market. I was very curious to know that given the portfolios are so different at least in both countries and may be consumers may be different as well, how this strategy of Bangladesh would perhaps be replicated in Vietnam which probably has been struggling for a while, or at least it grows and then slows down although it is a growth market - what is really the game plan there?

Saugata Gupta: Firstly, I would talk about it as a process playbook, I would say an FMCG process playbook. I do not want to get into details of the process playbook, but I think there is some, what I call a secret sauce, which we have been cooking in Bangladesh that is delivering. Yes, the market conditions could be different, the categories could be different, but if you look at it as a disciplined repeatable model in order to get a business getting into a predictable kind of growth, they are similar in different markets. Both these markets are similar in some ways. They are high growth economies. They are otherwise stable. In spite of having a much more competitive category, we are a market leader in male shampoos - X-Men is a very strongly entrenched brand. So we are trying to replicate some of the learnings from there, whether it is in go to market, whether it is in the kind of processes, structure or portfolio and I strongly believe we have already unleashed a lot of things. I would urge all of you to wait. I think you will see some result, and we will start seeing the results in Vietnam from Q4.

Amit Sachdeva: That is very helpful. Is there any portfolio change plan or it would be the same sort of portfolio?

Saugata Gupta: One of the biggest successes happened in Bangladesh after diversification of the portfolio. This is something we are also going to look at in Vietnam.

Amit Sachdeva: Great. All the best. Thank you so much.

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

Latika Chopra: Thanks for the opportunity. I have two questions. The first one was the price mix change widened in this quarter sequentially versus the prior quarters across the three categories. Is

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it on account of just adverse mix or was there some more promotional intensity in the quarter?

Saugata Gupta: If you really look at it there are two parts of it. One is obviously, we had a firm idea about what we intend to do in terms of driving volumes this quarter - the kind of promotion, the kind of below the line spends. In Q1, it was all a question of availability. So, a lot of promotional spends, lot of BTL was not being spent. But here we have systematically gone to say that what is the kind of pricing, what is the kind of spends and this is also reflected in A&P spends that which will drive maximization of volume in this quarter and obviously one of the things we engineered by June is what is the likely pricing of Parachute given the fact that we want to maximize volume. In the case of VAHO, it is also mix because in VAHO, the brands which are at the lower end have grown more than the brands that are at the mid end. Anyway we hardly participate at the premium end.

Latika Chopra: The second question was on digital brands. In your opening comments you mentioned you want to launch more digital brands beyond Beardo. If you could elaborate more on what are the kinds of segments you are looking at and if it is possible to share the size and scale of Beardo, now that it is going to be consolidated?

Saugata Gupta: For us for any brand to do well digitally, it should hit INR 50 Crores. So, our aspiration is over a three-four year period can we actually create some more brands like this. We are looking at primarily two things - one is we launched a couple of brands last year in Foods, which is Fittify and Coco Soul and we have launched ImmuniVeda this year, which is a modern Ayurveda and we also have one or two brands in skin care like Kaya Youth. So, this will be a journey of experimentation, fail fast but invest and we have also invested seriously in digital capability and I think Beardo has given us a lot of learning. So, based on that, between skin care and premium foods - male grooming obviously we already have a brand in Beardo - this is the area of play for digital brands.

Latika Chopra: Thanks for that and all the best.

Moderator: Thank you. The next question is from the line of Gaurang Kakkad from Haitong Securities. Please go ahead.

Gaurang Kakkad: Thank you for the opportunity. I just had one question in terms of the exceptional item, if you can share some more details in terms of what is the category wherein the manufacturing

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location has been moved closer to the demand and does this lead to any incremental capex? Also the cost savings from this if they are material enough to be quantified? That is it.

Pawan Agrawal: This is basically on account of certain unusable fixed assets and this will be taken care of in the next one or two years and we are not in a position to specify which particular plant it is.

Saugata Gupta: Just to add to what to Pawan said, COVID has given us the opportunity of relooking at our supply chain because at the end of the day you have to be closer to the customer and therefore we have looked at a reconfiguration of the manufacturing footprint and as Pawan said, obviously we have taken this knowing fully well that we will get benefit from next year and if you call it a breakeven of the impairment cost that will happen very, very quickly. But what it will also do is, one is much better quality of BCP should COVID II or any such black swans happen and far better fill rates and obviously lower delivered costs.

Gaurang Kakkad: Currently this plant was way off from where the demand was is what I get to know from the information?

Saugata Gupta: We have not said one plant. It could be a section of certain plants.

Pawan Agrawal: Just to add this does not lead to any additional capex to clarify.

Saugata Gupta: Reconfiguration of the manufacturing footprint. That is all.

Gaurang Kakkad: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Abhijit Kundu from Antique Stockbroking Limited. Please go ahead.

Abhijit Kundu: Thank you for the opportunity. My question was on Value Added Hair Oils. When we look at Parachute Rigids, we have a medium-term goal of about 5% to 7% volume growth. What would be the goal in Value Added Hair Oils and within Value Added Hair Oils, in the premium segment, Hair & Care was facing a problem and you had restaged it last quarter and from your commentary what I could understand is that you are seeing some amount of favorable responses happening there. So, what has to go right in Value Added Hair Oils and can we get back to that 12-15% volume growth trajectory over the next three to four years?

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What is the thought process over there? This is one of the categories which had been one of the key drivers for you in the last seven-eight years.

Saugata Gupta: Just to reinforce, our medium-term aspiration of getting into double-digit growth remains. What we are confident about is first we have gone into low to mid single digits. So, immediately we get in the second half of the year into high single digits and then growing from there. I believe there is some where lack of participation or empty spaces. We still have some empty spaces as I talked about may be in hair fall or some of the premium end, but in the mid and bottom of the pyramid, we are participating in most of the spaces. Cooling, of course, we do not intend to participate in right now because the benefit is different. So I would think that the progression from the current 4% to a high single digit to a double-digit is very much possible and that aspiration remains. We will try to obviously do it quicker but maybe I would think that a significant improvement in that traction is very much possible and this will be possible because of, of course overall category growth, market share gain and additional participation in some of the categories.

Abhijit Kundu: Secondly on the CSD part. There has been a sharp fall. We have scaled down on its operations. Now is this permanent? How should we look at it in the sense that if it has declined by 29% and for the half it has declined by certain percentage, would this settle down at this value revenue and then grow from these levels? How should we look at it? I mean is the fall permanent for this year?

Saugata Gupta: It is very difficult to forecast something but my best guess will be that it will settle down and start moving up again and it is not that consumption would have declined by that kind because obviously some consumption would have happened otherwise. So, I would think that going forward from next year I do not think it is going to decline beyond this. So, I guess it has reached its bottom level and it will steadily grow.

Abhijit Kundu: Any reason that you can find out that why this scale down in operations are happening because in CSD's case, there should not have been ideally any reduction in consumption. The falls and all should not have been impacted.

Saugata Gupta: I cannot comment on it.

Abhijit Kundu: That is it from my side. Thank you.

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Moderator: The next question is from the line of Prakash Kapadia from Anived Portfolio Managers Please go ahead.

Prakash Kapadia: Could you help us understand the cost saving program which you talked about as to which areas are we working on, what is the kind of savings we are looking at and on Bangladesh, was the lockdown not so strict? Obviously we have done well in terms of derisking from copra and Parachute, if you could throw some light there?

Saugata Gupta: As far as the cost saving program is concerned, we have looked at everything. Our philosophy is People First, Business Next and Profits come last, so first assurance we gave is that we will ensure we protect everybody's jobs and everybody's salaries. Number two, we will continue to invest behind leadership capability, innovation and digital. Other than that nothing was a holy cow. We looked at all costs and we have looked at structural savings rather than temporary savings. Just because your office is not working, you are now saving on electricity - it does not mean is a saving. So we have looked at structural savings. We are extremely confident of delivering savings of INR 150 crores plus. Now as regards Bangladesh, Bangladesh's approach to the lockdown was slightly different. They did have some lockdown, but they continued to run business and more than that we have been successful more because of our aggressive and accelerated diversification of the business and the way we are rapidly expanding into the new categories. If you see the reduction and dependence on Parachute - so while Parachute might be growing a couple of percentages, 3-5%, the rest of the business is growing at 40-50% and that has driven the growth of Bangladesh. As I talked about, there is a playbook. The biggest, critical and the differentiating factor is of course strong brands, strong distribution but a strong and committed leadership and culture. I think the culture of an organization and strong brands and people - these are the biggest and priced assets and we are extremely proud of what we have been able to create in Bangladesh and the Bangladesh team. They have braved all the difficulties during the COVID time and continue to deliver above average and a top quartile growth.

Prakash Kapadia: That is helpful. Thanks. All the best.

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

Harit Kapoor: My questions were answered. Thanks.

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Moderator: Thank you. We will take the next question from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: I had just two questions. First question was on the working capital side. There is a strong improvement on both the debtors as well as the inventory side - somehow it is not getting reflected on the net working capital. Is there any structural kind of a change that we should assume in terms of our net working capital position through all these efforts that you are doing through change in inventory norms and SKU rationalization? Is there any structural change that could happen to the working capital requirements?

Pawan Agrawal: If you look at the working capital, it is largely on account of reduction in the debtor turnover and the inventory turnover days. If you look at debtor turnover, it is largely on account of three different reasons. So one is on account of reduction of Modern Trade contribution. As you would have seen that the Modern Trade contribution has gone down both in Q2 and Q1 and therefore at a H1 level it has reduced by about 2%. Similarly, contribution from CSD has reduced by about 2% and these have typically higher outstanding days. And thirdly, is also what Saugata alluded into his commentary that we had tighter credit management because we had reduced the inventory in GT. So all these has sort of led to reduction of debtor days from 37 to 26. Similarly, in our inventory we did a lot of work with respect to tightening the inventory norms, SKU rationalization and we have put in lot of automated systems because of which the inventory turnover days came down from 66 to 58, so that is largely the reason and we expect the working capital to be in this range as we move ahead.

Saugata Gupta: Just to add, a lot of it will be permanent - with our new manufacturing footprint, reduced inventory days at the depots or at the distributors and also a very, very aggressive SKU rationalization exercise which we have done – a combination of all three.

Prashant Kothari: The net working capital days have not really fallen much - just to change of one, while the debtors and inventory days have gone down, so I am just trying to understand what is it.

Pawan Agrawal: That is because of our supply finance program, where we were having supply chain finance, where our trade payables would go up. While there has been a reduction in the debtor turnover and inventory turnover, at the same time there had been reduced payables because we stopped the supply finance program. But what is more essential is how we manage our debtors and inventory and as I explained the reasons for them, we have a much tighter

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control. Also with respect to debtors, now it is completely under order management system which is with zero manual intervention, so that will help us kind of keep the debtors and inventory days and stocks under control and therefore the overall receivables will be very much under control.

Prashant Kothari: Other question was on your international business, we have Bangladesh and Vietnam which are high growth markets, but there are also other markets which are not may be as exciting as those. Any thoughts on whether we should continue investing behind those markets or we should kind of focus our efforts only in the high growth geographies and we also have these emerging countries where we are trying to incubate international business, are these high growth markets in your definition or are they are not as exciting if you can throw some light there?

Saugata Gupta: Firstly, we are extremely privileged to have 75% of our international business from high growth markets. You would all have seen extensive market coverage on the Bangladesh and Vietnam growth this year - these are the two shining ones. So for us getting these two markets on growth - Bangladesh is already on growth, how do you maintain these double-digit growth levels and getting Vietnam on growth - so a significant portion of our investment, share of management time will go towards these markets. Having said that in Middle East and North Africa as well as South Africa - they contribute to around 15% to 20% of our topline - I would say that for us it is much more about sustaining rather than trying to aggressively invest behind these markets, because we have the short-term outlook in terms of whether economic growth or significant demand is currently little muted. Having said that if there are opportunities in Middle East and North Africa to gain market share versus someone, we will definitely go ahead with that. Lastly, we were looking at some of the other international markets in the pre-COVID time - we are opening up in Sri Lanka, we opened up Nepal, some of the South Asian markets, we looked at Africa. Currently, given all the issues, other than may be South Asia, we will be slightly less active on it and we will wait for the situation to normalize and we will take a call may be by 2022, not before that.

Prashant Kotari: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take one last question from the line of Richard Liu from JM Financial. Please go ahead.

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Richard Liu: Thank you. What I was asking was that in terms of the metric that you looked at in Q1 in terms of judging the quarter's run rate versus the FY20 monthly run rate, I recall that you had said that you used to have a very big Q1 not because of reason of seasonality and based on that your Q1 number was actually 1.04x of FY20 on a monthly run rate basis. If I use the same metric, the number for Q2 is actually 1.06x that of FY20 run rate. Now considering that Q1 had one month of huge disturbance which was April and Q2 had seen normal months plus you also had a lot more new products coming in, is this progression from 1.04x FY20 monthly run rate to just 1.06x FY20 monthly rate from Q1 to Q2 a satisfactory progress for you?

Saugata Gupta: Absolutely. Pawan also mentioned we have gone into a complete order management system. We hardly have skews within a month and a quarter - we actually have almost like a daily sale kind of a rhythm. So as long as there is a sequential improvement, we are happy and now also you must realize this is the primary sale. As I mentioned that the secondary sales have been a little higher and we did not fill up the channel at all. There could have been some channel filling in the retail channel in June. So I would think if you look at our seasonality some could have been because of our actions, we normally used to have 28%, 30% Q1. I think it is now normalized and as I said that we have introduced certain ways and that is the reason our distributor stocks are also low almost like replenishment model which is now fully executed, so, you will see far less skew in our numbers going forward.

Richard Liu: Just to clarify, on index number, this number is 1.08 and not 1.04 to that extent it is slightly better and also as Saugata suggested there are two things. One that we have removed peaks and troughs both at intra month level and inter month level, so within the month now it is a very, very normalized sort of sales on a daily basis and also we have removed peaks and troughs for different months what we used to have.

Richard Liu: The other way to look at it is that your Q2 turnover is higher than Q1 by about Rs. 28 crores and Q2 was a more normalized quarter so to say. The Rs. 28 Crores Q-o-Q growth in the absence of seasonality in the business, that was what I was alluding to, does not that look little on the lower side given that Q1 had a very, very disturbed April?

Pawan Agrawal: Also we need to see Richard there is a deflation component. So while you are looking at purely from an overall value perspective, as I said, if you look at from an index at over the last year rate, it is about 108 of the annual average.

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Saugata Gupta: Richard, just to add you are looking at primary to primary, the secondary sequential is higher.

Richard Liu: Thank you. Wish you all the best.

Saugata Gupta: We are doing business in a very, very methodical manner now and this is something which is a deviation from a lot of industry practices. As I said that no month end skews, no quarter end skews but almost trying to say that can I sell the same numbers every day in a 90-day quarter.

Richard Liu: Thanks Saugata.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take that as the last question. I would now like to hand the conference over to the Management for closing comments.

Pawan Agrawal: Thanks for listening on the call. To sum up, we have had a very satisfactory Q2 as we witnessed improving trends across all categories in India and our key international markets. As Saugata mentioned, we will carry the momentum and strive to deliver strong volume growth in the second half, sustained investment in the core and participation in new categories with a differentiated proposition. There are some immediate commodity led cost pressures, but on the back of the aggressive cost optimization we are confident that we will deliver 20% plus margins in FY21 which will be the highest ever and also under unusually challenging circumstances. If you have any further queries, please feel free to reach out to our IR team and we will be happy to address the same. I wish you all a safe and happy festive season ahead. That is it from our side. Thank you once again.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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