



Marico Limited  
Q3FY18 Earnings Conference Call

February 12, 2018

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**Moderator:** Ladies and gentlemen, good day and welcome to Marico's Q3 FY2018 Earnings Conference Call, hosted by Motilal Oswal Securities 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishnan Sambamoorthy. Thank you and over to you, Sir!

**Krishnan S:** On behalf of Motilal Oswal Securities, I welcome you all to the 3Q FY2018 post results conference call of Marico. On the call, we have with us Mr. Saugata Gupta, Managing Director and CEO and Mr. Vivek Karve, CFO. Before we get started I would like to remind you that the Q&A session is only for institutional investors and analysts and therefore if there is anybody else who is not an institutional investor or analyst, but would like to ask question, please directly get in touch with the Marico Investor Relations team. With that I would like to hand over to the management for their opening comments.

**Saugata Gupta:** Good afternoon everybody. I would like to give you a flavour of the quarter before we start taking questions. Overall, we had a decent performance in India, except for Saffola, and in the international business sans Vietnam, although the growth was less broad-based than our expectations. A 19% topline growth in the India business, coupled with an improved performance in the international business with constant currency growth hitting double digits in most markets and nearly hitting double digits overall, along with market share gains in 90% of the portfolio, is encouraging. The most heartening aspect of India business performance is the significant traction experienced in Male Grooming, Foods and some of the innovations in Value-added Hair Oils. We have also managed to partially mitigate the cost push impact, mostly through an aggressive cost management program. In India, the sector and our business have largely stabilized in both wholesale and rural and there are some green shoots in rural consumption and market share gain opportunities in the post GST scenario. CSD is the only channel which continues to be under stress, but we hope that things will normalize in Q1 next year with anniversarisation. However we have not been able to recover the STR losses, which we experienced post demonetisation and GST even now and we will endeavour to make it up next year. We continue to believe that we are in a position to deliver 8-10% volume growth in the India business and a 12% plus constant currency growth in international business over the next few quarters. There will be some near term margin pressure, especially in the first half in FY19 with input cost increases on multiple fronts, but we need to brave it out and continue to focus on volume growth, market share gain and increase success rate innovation.

A significant absorption of the cost push will be borne by aggressive cost efficiency programs in the sales and marketing spends in the coming quarters. As I mentioned earlier, we had passed on the GST input tax credit benefits for value added hair oils and Saffola in July. In November, we similarly passed on the benefits in premium hair nourishment and male grooming, post the GST rate reduction. If we were to adjust for the difference in taxes and the price cuts undertaken to pass on the benefits of input tax credits or lower GST rate, our turnover growth would have been higher in this quarter by approximately 3%. A similar adjustment for A&P expenses for a like-to-like comparison has been mentioned in the information update. We strongly believe that the market conditions are favourable to drive higher growth next year, especially in the rural segment, if the proposed government schemes are executed well.

A combination of inflation and greater compliance in GST are definite tailwinds for Parachute growth, aided by market share gains. Even the import duty on premium personal care in male grooming, in addition to GST, will help us in driving additional growth. The lower growth in Value-added Hair Oils in this quarter is an aberration and we should be back on track to deliver double digit growth over the next few quarters. Saffola is a clear definite issue to be fixed and we have conducted a deep diagnosis of the issue. We need a medium-term solution to our variant communication, promotion and pricing strategy and it should get back to decent growth by Q1 next year. We are now more confident of delivering better acceleration in our new products, when we are also going to ramp up our digital and e-commerce strategy far more aggressively, given our early win in this area.

In the international business, most of the markets are doing well and the gap between constant currency growth and the INR growth is expected to get narrower. Having said that, we have a problem in Vietnam. The price increase and subsequent price drop in sachet continues to disrupt the business. That has given us a far more a clearer idea of the issues we face in our business because of a weak GTM and our inability to grow the male shampoo category. We are taking some definitive steps towards solving it and we should be back on track by Q1 next year.

We are now in a position to deliver double digit constant currency growth in Bangladesh subject to a continued favourable macro environment, while there will be moderate growth in the Middle East and Africa business going forward. Overall, a double digit constant currency growth of 12% plus is very much possible over the next few quarters.

To sum up, we have a couple of problems to fix and a short term margin pressure to combat. If we do this successfully, we can definitely improve the growth trajectory to around 15-20% in value growth for the overall business in the coming quarters.



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Margin pressure should start winding down towards the back half of next year. Overall 2018-2019 is expected to be better than 2017-2018. Lastly, I would like to mention about the Sustainability Report we have released last week. We are extremely proud of the work we have done in this area, in line with our purpose and we have taken some challenging targets over the next few years, which we are confident of delivering as a conscious and responsible corporate.

I am now happy to take your questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir thanks for the opportunity. My first question was on one of your problem areas of Saffola the last five quarters if you see it is below the rates, which you would actually like to have, my question is how much is the impact of your rice bran earlier it was Fortune and now Emami is offering rice bran around INR 90, so how much is impact of that, so whenever if this kind of new players comes so this kind of a pricing comes will Saffola face volume growth issues, second when you see market share for this category are you taking rice bran because ideally you should because consumer will see that as a part of the same basket, so any comments on that?

**Saugata Gupta:** You are absolutely right. Saffola has not been performing at the level which it is supposed to, over the last four quarters. However, I don't think it is a question of one particular player. There are three issues to be solved in Saffola, without me getting into the details because that is a strategic plan. One is obviously that the price table for certain competitive offerings, from which upgradation happens, has been impacted because of heavy discounting. Secondly, we have had a variant strategy in place with a channel focus, which we are revisiting. Similarly, we have had a "one size fits all" promotional strategy. We believe that Saffola can grow with a far more focused strategy. I will not be able to get into the details of it. We have done a deep diagnosis of all the issues facing the brand. At the same time, given the high equity of the brand, there is perhaps a different business model to grow. It will take us a couple of months to get all this into execution. As I have said, just as we had faced headwinds three to four years ago and we got back on track, we are pretty confident that, by Q1, we should be back on the growth track and I think these fixes are going to be far more medium-term in nature rather than short term fixes, in terms of our pricing strategy, promotional strategy, which variant to communicate and what is the kind of media, market or channel priority strategy we are going to take.



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**Abneesh Roy:** Sir one followup on that do not you see new consumers down trading or going first to rice bran and then may be see when prices go up, so are you tracking the market share data where in rice bran is also there?

**Saugata Gupta:** Yes. We are tracking that. You are absolutely right, that we have to improve our market share in the overall market. As a category, the super premium space is not growing at the same rate as the market which is at the INR 100-110/ltr level. As a category leader, it is our task to drive this and therefore we have to do a much better job at it. You will see that in some of the ideas which we are going to implement over the next three to four months. While we do not track it on a monthly basis, we do track the overall market and how each of the market segments is behaving on a quarterly and annual basis.

**Abneesh Roy:** So one followup here how is your premium end of the offering you always talk about the new launches I do not find any mention of the Aura Olive Oil offering I know it is early days you are seeding the market, but if any comment it will be helpful?

**Saugata Gupta:** So, it is only restricted to mostly Modern Trade. I believe this market is bound to grow and we are participating in it. It has neither reached critical mass, nor is it doing badly. So, it will take some time, but we believe that this is a market we intend to participate in and grow.

**Abneesh Roy:** But you feel pricing is correct?

**Saugata Gupta:** We have reduced our pricing.

**Abneesh Roy:** Sir my last question is on your Livon Hair Gain that brand also seems to be facing new issues every time, what is the issue here and what can be the long term growth just the way you give for every brand, what can be your long term growth here?

**Saugata Gupta:** It is less than 10% of the overall youth portfolio currently. We will concentrate only on E-commerce because we believe that in hair fall, there is a far bigger opportunity in the mass end. We do not see this as a focus brand. We are growing reasonably well in the male grooming segment and in Serums also, there is enough opportunity to grow. We will just focus on this in a limited way, and as long as the overall segment grows, we are okay.

**Abneesh Roy:** Here what is the issue, competition is the issue, so many unsubstantiated new players is that the reason?

- Saugata Gupta:** Yes, it is a combination of all that and also, it is super premium. If you look at hair fall as a segment, a lot of players, including at the mass end, some of the leaders are not doing well. So, it is a question of certain brands over-promising and not delivering on efficacy, which could be leading to some of the lack of belief and erosion of brand franchises.
- Abneesh Roy:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.
- Manoj Menon:** Congratulations on a very good performance. Just only one question here. This is actually on the VAHO products particularly the Shanti Amla given the scale what you have achieved in this brand over the few years could this be a significant driver for your incremental profit growth let us say into the medium term?
- Saugata Gupta:** The way we look at it as an organization is that we want to focus on volume growth and market share. Given the fact that our rural contribution is still below 35%, we intend to take it to 40% as we are still not that strong in some of our markets in the North. I think this is a journey and the profitability can happen far more in the amortization of the scale benefits in the A&P and other things, rather than on pricing. We have not had a good track record in the premium part of the VAHO segment. We believe that in the next two years, our performance in the premium part of the VAHO segment will improve drastically with Aloe or Hair & Care and some of the new offerings. We would rather manage the weighted average margins through that, than trying to do this in the bottom end, which is Shanti Amla. In Shanti Amla, there is enough opportunity for more market share gains beyond this.
- Manoj Menon:** If I understood correctly for example Shanti is an important carrier pack for you in some of the markets, so if I understood correctly you are simply saying that probably for Shanti would be to deliver that whereas you managed the portfolio profitability?
- Saugata Gupta:** Yes. I think we have reached a milestone on market share, but that does not mean we will stop at it. We are still on the treadmill on that brand.
- Manoj Menon:** Understood very clear. Secondly on the Livon part of it just wanted your thoughts on the market readiness for the premium products whether it is anti hair fall, which you alluded to that it is growing well, but what could be the potential let us say if you look at the overall hair oil where you have a very clear segmentation between coconut, amla, almond and cooling? Now this is a

fifth segment, which has come up in the last few years, so how big this can get and how do you play in that including if you comment on Livon Serum is it just that the market is not ready for it as yet?

**Saugata Gupta:** Livon Serum is continuing to grow. If you look at it, after quite some time, we are growing well. One is we have introduced a sachet, which is driving penetration. Having said that, I believe there is a business model ready today, given the critical mass we have in terms of digital or internet penetration in India as well as of E-commerce, Modern Trade and specialty channels like cosmetics, there is a case for brands, which are not mass advertised. In fact, Livon Serum is the example of a brand in which majority of spends are on digital. So, I think a business model is emerging in that segment and I would say that both the mass segment the premium/niche segment can coexist. The only difference in the last two to three years is that you don't need a mass marketing or a mass media now to drive relevance or category growth. Today we have a digital marketing model, which we have successfully prototyped. In fact, our E-commerce contribution has already crossed 1%. We believe that if we get our act right, we can even hit somewhere close to 1.5% to 2% over the next one year, also given our ongoing learnings from Beardo. So I think there is a market there. Will it make a meaningful difference in the one or two years? No, but this kind of a market and digital brands will make a meaningful difference, perhaps in the next three to five years.

**Manoj Menon:** Thank you and all the best.

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

**Amit Sinha:** Thanks for the opportunity Sir. Sir firstly on Parachute what you have highlighted in the update is market share gains both from the GST led trends and inflationary trends in copra, just wanted some more colour on the initial signs of shift from unorganized in GST?

**Saugata Gupta:** It is going to be a long term rather than a short term thing. It will take some time, but I believe that for organized players, there are two things. One, a level playing field with respect to compliance and therefore, pricing and margins. Secondly, that people with direct distribution especially in rural, will be at an advantage, given the fact that while the wholesale has stabilized, it is not the same as it was in the pre-GST era. I think organized players are going to be at an advantage. In the long term, the kind of categories expected to have an advantage, are soaps, detergents, household cleaning, coconut oil, etc. These are the kind of categories where there are local/unorganized/regional players, if they are at least even in partial compliance, they will get disadvantaged for not having direct distribution.

- Amit Sinha:** So it is more distribution led advantage or it is also tax compliance led advantage?
- Saugata Gupta:** It is a combination of both I would say. I do not think you will get 100% compliance from them, but definitely there will be some compliance and it depends to the extent the government ensures compliance. But I believe there is a shift that has started happening. It is not going to be radical shift overnight, but over a two-three year period, you will see that. I think, in some of the categories I mentioned, in the next one or two years, you would see some consolidation amongst the organized players.
- Amit Sinha:** Secondly on Parachute again, you have done, if I look at last three quarters, the growth rates have been significantly higher than what you have been guided for, but still your future guidance remains at around 5% to 7%, is it because of higher base, which will see going forward starting fourth quarter or you are just being conservative there?
- Saugata Gupta:** Yes, you are right. Q4 is the high base. As you know, we did a 10% volume growth in Q4. Having said that, I am giving 5-7% volume growth as a medium term guidance. Should there be an opportunity to mop up additional market share or growth, we will seize it, but I think I am giving you a normalized outlook over the medium term.
- Amit Sinha:** Sir, lastly on VAHO and despite market share gains, the growth rates have been lower than your guidance over the medium term and this quarter number is coming on a very, very weak base of demonetisation quarter, so obviously if I look at the overall category, overall market in VAHO is probably struggling and is definitely growing lesser than the coconut oil, do you see a trend there and what gives you confidence that VAHO will be back to double digit going forward?
- Saugata Gupta:** You are absolutely right. There was a lower base. Having said that, there are two components of it. One of the reasons for the growth below double digits has been CSD. I believe that CSD will get back on growth and CSD has a significant contribution to VAHO. Secondly, I think one is rural consumption driving and I believe that the first signs of green shoots of rural has started, and if the government executes all the measures well, I see that over the next two-three quarters, rural consumption would grow. Also, I think we are seeing some initial traction in our some of our initiatives like Aloe and others, which will expand next year. A combination of all three gives us the confidence that we will be able to get it back into double digit growth.
- Moderator:** The next question is from the line of line of Percy Panthaki from India Infoline. Please go ahead.



- Percy Panthaki:** My first question is on the outlook for copra prices generally towards the end of February as the harvest comes in we would expect copra prices to fall and given that it is cyclical in nature and we are probably at all time high prices, are you expecting copra prices FY2019 versus FY2018 to actually decline Y-o-Y?
- Saugata Gupta:** Let me give you a broad outlook. I think it will be only towards the back half of the year and not in the first half of the year. We now have a visibility of the crop and I do not think we see any significant improvement. Having said that, I think the pricing is at its peak. I do not see any further inflationary trend, but any softening will happen more towards the back half than the first half and we are actually quite okay with that.
- Percy Panthaki:** Because the price increase you have taken one in January also and one in October also, is that sort of going to support gross margin in FY2019 at the levels we would see in FY2018 on a full year basis?
- Saugata Gupta:** The way we look at it, as I said, there would be some short-term margin pressures in the first half and we are much clearer about our objective of continuing to drive volume growth and market share gains. I would rather observe that in the first half of the year and see, because beyond the point, just pricing might damage the consumer value proposition. So we are yet to take a call on the pricing. We will get a clearer view sometime in April when the first crop starts coming. Having said that, as I said, I would rather let the first half be as it is and things will soften in the second half of the year.
- Percy Panthaki:** And any reason why it will soften in the second half?
- Saugata Gupta:** That is the next year crop you will get. So the impact is the combination of the supply & demand. The forecast, which we have based on the current crop and the next year's crop, we believe that it will soften out. Also, as you know that with sustained inflation, there is migration of demand especially in other uses. So, I think that has started now. So, there is an automatic balancing of demand and supply that takes place in a six to nine months period. So, it is cyclical and this time instead of 18 months, it is more of a 24 month cycle.
- Percy Panthaki:** Understood and my second question is on the VAHO portfolio you have in the past discussed this and you are saying it is a blip and we should go back to double digits, but just trying to understand the underlying factors why this quarter was so bad, I mean on a two year CAGR basis it is actually negative growth, so just wanted to understand why that is the case?

- Saugata Gupta:** The CAGR is not the right method because we have had a significant STR loss, which we have not been able to recover. Technically, the way to look at it is also the offtake. This 8% actually is 11% growth in retail. 11-12% is the retail growth. Having said that, it is not as per the expected performance and that is because there hasn't been a broad based growth within the VAHO portfolio. In one or two brands, there has been an aberration in performance. However, as an outlook of this quarter, since we are already 42 days into the quarter, I think we are in a position to say that we should be able to get back to double digit growth.
- Percy Panthaki:** Understood and which are the couple of brands, which underperformed in Q3?
- Saugata Gupta:** We are not going to get into it. You must realize we are sensitive to competition on this one. As you know, we are reasonably transparent in terms of an absolute standard, but we will not get into this at a brand level.
- Percy Panthaki:** Sure and one last question, quick one if I might squeeze in, for the domestic business this year has not been very great in terms of margins, so what is the outlook for next year, I mean are we likely to see an expansion on this low base or do you think that this is more or less going to be where we are going to stay in the next three, four quarters?
- Saugata Gupta:** Margins have been pretty good. We are still at 20% plus and the way to look at it is that how do you maximize volume growth and topline growth. You must also realize that next year, we should be able to get a far better topline growth given the pricing, and therefore, that can have some impact on the cost structure. The way we look at it is that, as long as we can deliver the committed threshold annualized number, which is 17-18%, and maybe there would be a first half and second half difference because of the input costs, etc., I think we are okay. Our endeavour is to keep on delivering the 8-10% volume growth and how can we get 10% instead of 8%, given the fact that you will have some inflation in Parachute pricing, and delivering a 15-20% topline growth. As long as we do that, I think we are okay.
- Percy Panthaki:** Right Sir. I understood. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.
- Amit Sachdeva:** Good morning all. Thank you for taking my question. Sir, coming back to copra prices again, remember last time discussing with you your initial expectation was at April could see some softening already and now you are perhaps saying that could be second half, can you set off with the crop already in the place and what you expected to set off see in the market place, what is the

probability that copra could actually soften in April itself and not in the second half, are you completely ruling that out not now from your commentary?

**Saugata Gupta:**

Both, the North East and the South West Monsoons, have an impact on copra plus an S&D. The supply and demand ratio is a function of the crop and also the fact that if the prices are high for a significant portion of time, there is a demand shift because coconut has other alternative uses. Given the fact that we have a reasonably robust forecasting model, we believe that S&D continues to be a little tight and therefore the softening, even if the crop is at similar level or slightly better, the impact of softening will happen only towards the second half of the year. That is our current position. Obviously, it may change, but given the forecasting accuracy level which we have developed over the past few years, it is definitely better than crude. This is the current view we are holding, but as I said, if we can weather the first half and continue to deliver volume growth and market share, we should be able to absorb the margin pressure in a couple of quarters.

**Amit Sachdeva:**

Okay. Got it and second one very quickly on Saffola brand, I noticed budget changes on vegetable oils across the board, does it actually benefit you somewhere from competition point of view that some people who have maybe large reliance on imported oils, who are just packaging it versus you are procuring locally most of it and some part is imported, does it benefit you in terms of pricing, etc., or give you some benefit here?

**Saugata Gupta:**

Most of the competitors are traders who make narrow margins. I do not think there will be a significant issue. It reduces the pressure on pricing because given the higher import duty on some of the other oils, it is unlikely that you will face pricing pressure. So, instead of an advantage, I will say that the relative disadvantage will go. Lets put it in that way.

**Amit Sachdeva:**

Sure, got it and thirdly Vietnam has been going on for a while now, but how confident are you that things will be back on track on Q1 because this issue seems structural rather than based on one price point correction on the sachets and trade not responding, what exactly is going on and how – is it the male grooming shampoo situation is actually more of a now ubiquitous that there is no male or female shampoo, it is just same and that is the reason this headwind is coming.

**Saugata Gupta:**

No, it is a combination of all three. The trigger or the catalyst was the entire sachet episode which we discussed. Our dependence on both sachets and wholesale is very high and therefore, that has necessitated a complete restructuring of the GTM, which we are doing. We are trying to do a more long term fix than a short term fix. With regards to the male equity, we are doing a long term fix in terms of re-engineering the equity. I cannot get into details of what we are doing here

and also for a broader participation in the entire segment, but as I said, some of things we have already started implementing. I am taking a little more time to tell you that we will try to fix it in this quarter. It is important that we do a medium to long-term fix and therefore we should start seeing results more definitely by Q1 next year.

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

**Saugata Gupta:** Thank you.

**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 Sir. First question on VAHO in Bangladesh, so if I look the last few years, you had seen some market share declines in FY2015-2016 and after that you have seen a very strong rebound 2017-2018, so like if you can explain how the competitive scenario is there and what you have done differently in that market in the last couple of years?

**Saugata Gupta:** To headline, we have done two things. I think we now have a much more capable management, stronger marketing and sales capability and we have put the GTM in place. I think that is exactly what we have done that has made a significant difference and there is a stronger focus on diversification of the portfolio and not being complacent on being a market leader in a single brand. I think the significant difference we have noticed in most of the international markets is, if we get a strong and capable leadership with strong sales capability and execute some of the GTM as we have done in India, I think that works. So, in Bangladesh, we would continue to grow, diversify and reduce our dependence on Parachute Coconut Oil and things are working well. Since we are operating from first principle rather than doing quick fixes, I am far more confident that, subject to a favourable macro economic and political environment, Bangladesh will continue to grow in double digits.

**Kunal Vora:** Sure and who do you compete with there, is it like local players or it is multinational?

**Saugata Gupta:** No, everybody is there. Every player is there if you look at it in terms of India. In fact, there is an additional player called Kumarika, from Sri Lanka, who is also very strong and has a value-added hair oil. In fact, they were number two once upon a time.

**Kunal Vora:** Sure and just last question, did you indicate that A&P spends could be lower next year while you were talking about...

**Saugata Gupta:** No, this is the basis of the new accounting post GST. So, if you look like to like, what is 11-12% will become 10-11%.

**Kunal Vora:** Sure. Okay. Only accounting change and how big is digital for you now, digital advertisement?

**Saugata Gupta:** In E-commerce, we are 1% plus and, as I said, we believe that we should be able to hit 1.5% and our aspiration will be to hit 2%. What works in Digital is a separate portfolio and a different focus and that is what we want to do. Number two, that also gives us an opportunity for cross pollination of some of our international stuff. You will see some of it is going to happen in the next two to three months. I believe the trick is to have a dedicated, different approach in terms of the business model, team and portfolio. If you do an extension of your current mass market, it does not work in Digital.

**Kunal Vora:** Okay. That is it from my side. Thank you Sir.

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

**Harit Kapoor:** Good afternoon. Sir just one question on the A&P part, your information updates spoke about the reduction in A&P spend obviously one is led by in the optical aspect of GST, the other part was the improved efficiency through cost-saving programmes, I just wanted to understand how do you balance the cost-saving program on A&P as well as the fact that you are looking at strongly increasing your new product spends, so if you could just give a sense on how you are going to balance that?

**Saugata Gupta:** Just to give a flavor, there has been a 14% increase in the India business A&P. There was a reduction in international because in some of international markets like Middle East and also in Vietnam, we were actually doing some restructuring. We will plough back all the efficiencies of A&P back into A&P. So, therefore that 10-11% which is the actual 11-12% as per the old accounting will work harder. We have done two things, one is a trade offer and consumer offer effectiveness exercise and second is an RFP on media which we have done recently. Therefore, both of these will lead to significant savings, which will be ploughed back into A&P. So, the same 11-12% will work much harder.

**Harit Kapoor:** I understood. The second question was on the NPD part, you have even mentioned in your opening remarks about driving new product development as well as you said that it will be fewer

things and bigger things, so if you could just give a little bit commentary on what your thought process is on that going forward next couple of years?

**Saugata Gupta:** So, I will talk about three to four areas where you will see growth. One is the premium part of the hair oils, which includes both premium hair oils and serums. The second is, we will continue to drive bottom of pyramid, whether it is price point packs or some new offerings like mustard, which is also gaining traction. The third area is male grooming and in both premium and male grooming, you will see some mass and you will see some digital brands. The fourth is Foods. So these are the four things which we will drive in new products. We will also try out some new things, which we call Horizon 2 of the future, in vending machine business or out of home. We have currently 150+ vending machines, which is now dispensing masala oats and it will start dispensing soups. We will be aggressive in those kinds of business. We have just started nutraceuticals. So, those are some of the things we are dabbling in, which could be Horizon 2 projects of tomorrow.

**Harit Kapoor:** I understood. That is it from me. Thanks.

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

**Krishnan Sambamoorthy:** My question is regarding rural we have seen two quarters of strong growth in rural and possibly two more in the Q4 and Q1, what gives the confidence of growth further, this is particularly in light of RBI actually flagging off higher risk of inflation going forward?

**Saugata Gupta:** Okay, so let me first address this. A part of the 26% rural growth is also a base effect because last year was a demonetization quarter and the rural was more impacted than urban. So, if you really look at it, I don't think I would articulate that the rural growth has completely outstripped urban growth. What we believe is that if some of the policies which the government has announced are executed well, we could see further traction in rural consumption in a couple of quarters. So, right now it is only green shoots and we cannot confidently say that it is booming.

**Krishnan Sambamoorthy:** Okay and anything to be particularly concerned about regarding RBI flagging of the higher inflation going forward?

**Saugata Gupta:** So two things; as you know, FMCG growth gets impacted if there is high food inflation and we have to also keep in mind how crude behaves next year. So, these could perhaps derail growth.

**Krishnan Sambamoorthy:** Okay. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Vishal Gutka from Phillip Capital. Please go ahead.

**Vishal Gutka:** Hi Sir. I just want to have one question on international business, Sir do you think the Bangladesh business should be able to give a double digit growth given the arrest of the key opposition leader and election that is scheduled in 3Q FY2019, so how confident of you delivering double digit growth in FY2019 for Bangladesh business?

**Saugata Gupta:** I do not want to comment on political matters, but as I said, given if we have a stable macroeconomic and a political situation, especially a stable macroeconomic situation, Bangladesh will be able to grow.

**Vishal Gutka:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.

**Abhijeet Kundu:** Hi Sir. Thanks for the opportunity. My question was on Saffola, in the super premium refined edible oils, what would have been the growth, I mean for the category as a whole, have we seen any slowdown in the category as a whole in the last you know when we compared to the last two to three years because our market share has more or less remained the same, but still we have seen a slowdown in growth here.

**Saugata Gupta:** Yes. There is a definitive slowdown in the category. While overall edible oil is growing, the super-premium category has not grown. Also, as category leaders, it is our responsibility to grow the category, and we have to differentiate better and have a far more focused approach in terms of channels or markets to grow. There is a growth opportunity, but perhaps a “one size fits all” strategy is not working. Secondly, as I said, in terms of relative pricing, discounting and promotion, the competition had become aggressive, so, that arrested the upgradation story that was playing out. So, as Saffola, we have to be accountable for driving the category and we have not done a good job. We have done a deep dive diagnosis into the issues and we are revamping the business model. That is one of the reasons perhaps we have not been growing because we have been following a certain “one size fits all” strategy while the competition have revamped their strategy.

- Abhijeet Kundu:** Okay, so the pure rice bran oil players, they are not a part of the super premium refined oil and those ingredient-based edible oil players are growing at a faster rate because of the discounting.
- Saugata Gupta:** Not just the rice bran. It is all who are priced at INR 90-110 per litre. It is the entire segment and not just rice bran.
- Vishal Gutka:** But that category is, I mean that has shown a healthy growth?
- Saugata Gupta:** Better growth than the super premium, you are right.
- Vishal Gutka:** Okay and again on Saffola, the second part the healthy foods franchisee, what would be the size of Saffola masala oats now and for the franchisee as a while I mean the healthy food franchisee as a whole, where do you want to take it a over three-, four-year period because this franchisee is somewhere where you are coming out with a lot of new products, so just wanted your view on that.
- Saugata Gupta:** So, Foods for us is INR 125 Crores plus. Our first step is to get it to INR 200 crores and having experienced it, we now know the business model, whether it is GTM, product development and others. We have gone up the curve in the kind of capability. We are test marketing soups now. We also use vending machines. Vending machines, if we forget the business for once, do a lot towards sampling and creating market equity. So, our first step is to get to the INR 200 Crores level. At 200 Crores, we start making money and once we do that, we have to accelerate it. So, I believe, compared to say, one year ago, we are far more confident in delivering growth in Foods and also in terms of a new product pipeline. The way to look at it is that how much is Foods as a percentage of the overall Saffola franchise and that is a metric which we will evaluate internally. Once we have some traction, I will be happy to share what our three to five year aspiration will be for this metric.
- Vishal Gutka:** Okay. Thanks a lot. That is from my side.
- Moderator:** Thank you. The next question is from the line of Rahul Maheshwary from IDBI Asset Management. Please go ahead.
- Rahul Maheshwary:** Sir can you give the outlook on your distribution strategy, no doubt you explained more on the digital side and the team and all this thing, but on rural distribution because we have seen from last seven years your distribution has been grown, so for next three to five years what is your distribution outlook at least on a rural side?



- Saugata Gupta:** So, there are two aspects to the distribution. As far as urban is concerned, if you look at our new portfolio, we are still underindexed and we have a job to do in the chemists, cosmetics and food outlets and therefore there is enough opportunity. Our urban distribution, direct and go-to-market is still not at full potential. The second part is direct rural reach. In a post GST scenario, where the dependence on wholesale is going to progressively reduce, perhaps direct distribution will be a source of competitive advantage. Therefore, we need to continue to invest behind direct reach in rural. So, these are the two things.
- Rahul Maheshwary:** What is it right now direct reach in rural and overall reach and what is your target?
- Saugata Gupta:** So about 32% is our direct contribution of rural. It is still lower than some of our peer set companies also because the Saffola part of the business is mainly urban. We should progressively move towards levels of 38-40% in the next five years. So, there is enough opportunity in the rural business.
- Rahul Maheshwary:** And in urban what is your reach, it is mostly the direct reach or towards the wholesale channel kind of thing?
- Saugata Gupta:** No. So our direct reach is around 1 million outlets and our overall reach is 4.7 million outlets. As I said, it is not the reach, but the quality of the reach. We are under-indexed in chemists, cosmetics and specialty foods and these are the three channels we will focus on in the future.
- Rahul Maheshwary:** So kindly just to squeeze, you mean to say the quality of reach is more important rather than just the number, so currently and incremental add on toward direct reach in urban and rural, what kind of throughput you get and means just to get a sense of your quality of reach, how its playing for you?
- Saugata Gupta:** I do not think I will be able to get into exact details, but I will give you a flavor. In a premium category or a slightly urban category, weighted distribution is more important, and in a mass category, numerical distribution is more important. So, for a mass category, we continue to invest behind numerical distribution. To give you an example, in hair fall for example, if you can tackle the chemist channel, the weighted distribution is taken care of. So the strategy is taking care of weighted distribution, which is more quality and depth in the case of premium offerings, and in the case of mass offerings, it is numerical distribution.
- Rahul Maheshwary:** Okay and currently no doubt your strategy is more to diversify as you spoke about if you reach to INR 200 Crores into the food business you would be making a good business scale would be



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there, but what kind of margins are there in your food business as compared to the overall 19 to 20% margins, which are there for the entire company level?

**Saugata Gupta:** So I think the way to look at is that is the food business making more gross margins than Saffola. So, that is the way we look at it and it is making a little more.

**Rahul Maheshwary:** And Saffola is definitely making much more margin than the Parachute?

**Saugata Gupta:** No.

**Rahul Maheshwary:** Okay. Thank you.

**Moderator:** Thank you. As there are no further questions from the participants, I now handover the floor back to the management for their closing comments. Over to you Sir!

**Saugata Gupta:** We would like to thank you all for your participation in today's call. We had a decent quarter and we believe that the near-term outlook looks positive and we continue to be committed to a sustainable performance in the quarters to come. Wish you all a good day ahead. Thank you.

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

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(This document has been edited for readability.)