Marico Limited
Q3FY19 Earnings Conference Call

February 05, 2019

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ANALYST: **MR. GAURAV JOGANI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Marico Limited Q3 FY2019 Investors 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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gaurav Jogani from Axis Capital. Thank you and over to you Sir!

Gaurav Jogani: Good evening, everyone. On behalf of Axis Capital, I would like to welcome you all to Marico's Q3 FY2019 earnings conference call. We have with us today Mr. Saugata Gupta, Managing Director and CEO; and Mr. Vivek Karve, Chief Financial Officer.

Before we get started, I would like to remind you that the Q&A session is only for institutional investors and analysts. 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 over the call to the management for the opening remarks. Over to you, sir.

Saugata Gupta: Yes. Good evening, everyone. I just wanted to give a brief commentary before we start taking the questions.

So overall, we had a decent quarter, although we fell short of our volume growth aspirations in the India business primarily on account of Saffola and a significant decline in the non-focused, low-margin coconut oil flanker portfolio. Parachute performance, the continued traction of the new initiatives and the strong new product pipeline appear positive. In Hair Oils, we delivered a high single-digit volume growth of 7% while value growth was at 19%, which, however, fell short of our medium-term guidance of double-digit volume growth. I will talk to you about it later in my address. We expect a slow improvement in Saffola.

In the International business, we have now built a steady growth momentum across all markets other than South Africa.

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Unless there are more surprises, we expect to deliver around 8% annual volume growth in India this fiscal and a double-digit constant currency growth for the International business.

Let me now provide you with a detailed insight into the India business.

Parachute continues to do well both in volume and market share gains, and we believe that it is firmly on track to be in line with our medium-term aspiration of 5-7% volume growth going into next year. However, there is increased competitive intensity in the non-focused portfolio of coconut oil, which has led to some volume decline. We plan to address this over the next few quarters.

Let me now talk about the Value Added Hair Oils segment. The first good news is that the category is firmly on the growth path with accelerated conversions at the bottom of pyramid to organized players who are aggressively driving small price point packs. In parallel, the premiumization opportunity is also playing out, aided by Modern Trade and E-com. Our gap versus volume aspiration has been on 2 counts: lower growth in the premium segment i.e. hair fall control and non-sticky, which is a major component; and our lack of aggressive participation at the bottom of pyramid, which is very low margin however. We have continued to gain market share with a 0.4% gain in the quarter at overall level. Contrary to some perceptions, both Nihar Shanti Amla and Nihar Sarson Amla have grown well in volume and gained market share. We have lost some growth opportunity at the bottom of pyramid given we were not aggressively chasing it. Being constrained by high copra prices and the ask for investment behind new initiatives, we did not divert resources to go for this growth, which is essentially coming in from accelerated conversion from unbranded and local players, mainly in Central and Northern India. Going forward, in the coming quarters, we plan to participate at both ends in order to accelerate our hair oil growth since we now have more resources to invest.

Our new products like Parachute Advansed Aloe Vera, True Roots, Nihar Extra Care Hair Fall Control and Parachute Advansed Coconut Crème Oil are showing encouraging results. They will help accelerate our premiumization agenda in addition to some other new launches like Hair & Care Dry Fruit Oil.

Saffola, unfortunately, is still WIP while we await some recovery, which is much slower than expected. However, we should make up for some of the lost ground in this quarter, by ending with a 5-6% growth in H2.

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Our other new initiatives in Foods, Male Grooming and Serums continue to do well. We are also very excited about the initial response to Coco Soul and also expect the FITTIFY range of gourmet health foods to gain critical mass over the next 1-2 years.

As regard channels, rural, modern trade and e-com continue to grow healthily while there was slight recovery in CSD. GT urban, however, remains muted. We are putting in a strong transformation plan in place for the GT urban segment, and we hope with better execution agility, we should do better in the coming quarters.

As you are aware, the copra prices have bounced back a bit after Cyclone Gaja. We believe the subsequent fall will not be more than 15-20% annualized. As a result, we may not take any aggressive pricing action in Parachute at this point in time.

We will increase our investment behind new products across segments and drive volume growth at the bottom of pyramid segment in hair oils, which will continue to be aided by growth in rural consumption this year.

As regard the International business, we are now in a much more settled state, where we have the portfolio and organizational capability to drive a predictable and profitable growth model except for South Africa, which is struggling. Our aggressive portfolio diversification in Bangladesh has been very successful. In addition to hair color, male grooming and skin care, we will now aggressively participate in the baby care category, which we are just entering this week. Middle East and Southeast Asia are expected to record steady growth as we will now accelerate our innovation and investment agenda in these markets. Overall, we are poised for a double-digit constant currency growth in this business with healthy margins next year.

Given the consumption scenario in India and the fact that most of our international markets are stable and in moderate to high growth phases with very little currency risk at this point in time, we are fairly optimistic about the medium term. We have to rectify the situation in Saffola. We have some answers, but have lots of work to do. We have to do better in urban GT and improve our in-store execution and presence in chemist, cosmetic, specialty food and stand-alone open-format outlets to support the premiumization agenda.

And lastly, we have to aggressively participate in the bottom-of-pyramid opportunity in hair oils to further strengthen our leadership. If we get most of these right and continue to aggressively invest and execute new products well, we should be able to drive a 10% volume growth in India,

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double-digit constant currency growth in International business along with an 18%-plus margin next year.

Thank you for your listening, and I am happy to take your questions.

Moderator: Thank you. The first question is from the line of Abneesh Roy from Edelweiss Securities. Please go ahead

Abneesh Roy: My first question is on Saffola. So you mentioned it is WIP. Now in the last 10 quarters, you have hit double-digit volume growth only once. So obviously, WIP for 10 quarters. Sir, if you can explain. Second is, how much is the impact of urban eating out and urban delivery because of the Zomato/Swiggy revolution? So Q3 had an extremely high discounting, and Q4 also we are seeing high. But now because of the new FDI regulation in e-commerce, which could impact the Zomato/Swiggy, could this change? And is the slow growth largely because of Emami and Adani's very aggressive pricing? Or is it because innovations are not able to really get the interest of the consumer?

Saugata Gupta: I agree that we have taken much more time than it should have to get Saffola back on track. As I have explained in some of the previous calls, a few things need to be sorted out. Our promotion strategy in Modern Trade, is currently on track. There are 2 things that we have not done well. One is in terms of driving innovations at the top super premium end. The second is in terms of the ability to retain that differentiation because of aggressive advertising by some of the other players. Also, the deviation we did 2 years ago, which we continued until last year on supporting Saffola Active, actually led to certain cannibalization. We have started a new communication platform for Saffola. We have to go back to the drawing board as far as innovation is concerned at the super premium end. Lastly, the point which you raised is valid. Saffola attracts a set of very health-conscious users who actually use less oil. And in today's day and age, obviously people are eating out and travelling. So, the consumption of the people who are entering the brand is far lower than some of the other ones, which are also like today's issues. I believe that we should be able to solve some of the problems. As I said, given our trend in January and what we see for quarter 4, we should be able to end H2 at 5-6%, but that is not good enough. We have to move the needle by 3-4%. Do we have all the answers to get to double digit growth? We do not have all the answers. We should be able to get it to 6-8% in the subsequent couple of quarters, and then we will have to see how it moves from there.

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Abneesh Roy: And sir, Q4 base is also favorable at minus 1%. So that will obviously help. But my question is your...

Saugata Gupta: Yes, that is why I said that in H2, we should be able to get to 5-6%.

Abneesh Roy: Sir, one you have written one statement that rising salience of Modern Trade and e-commerce in Saffola. But now when I see e-commerce, both Adani and Emami are extremely aggressive there also. So how you are being able to increase salience there?

Saugata Gupta: Given that we operate at a certain price premium, we have to ensure that we continue to justify the premium either through influencer programs or through communications, which we have not done a good job in and we have to sort it out. We have put in place a new communication, a new influencer program and Modern Trade execution. So, we do not have a problem in Saffola in Modern Trade. We continue to do well in Modern Trade and E-commerce. Our problem has been actually in general trade and the masstige end of the market where we have not been able to convert.

Abneesh Roy: Sir, my second follow-up is actually again on Saffola is the new initiative of FITTIFY Gourmet. In the past, you had mentioned less innovations and big innovations. So does this qualify for that? Because in green tea, your pricing is 2x of HUL and Tata global green tea. Of course, this is having those extracts which I mentioned, et cetera, but Indian customer is extremely price conscious, and he may appreciate this fact or he may not depending upon the extremely high levels of advertising. So given the small innovation in that case because price differentiation is more than 2x of Lever's?

Saugata Gupta: We are not competing at the mass end of the market. FITTIFY is a range of gourmet healthy food. We have green tea, green coffee, meal soups and meal shakes too. You will very soon see things like premium Indian cereals, which can be breakfast substitutes. So, it is a healthy food range. These are coming out of our new initiative of digital brands. We do not intend to compete in mass-market GT with these brands. We believe that in India today, there are opportunities which entrepreneurs are exploiting at the top end, in Modern Trade, and E-commerce, specialty outlets with digital advertising and in-store promotions and there are enough players who are actually getting INR 50-100 Crores turnover. There are enough opportunities, which, if organized players do not do, there will be entrepreneurs doing it. Therefore, we do not intend to operate in the mass end of the market with this range. As we have been talking about, we have created in our business the so-called Engine 2. These products and virgin coconut oil, which is Coco Soul are of Engine 2 where we try out new things. Some of them will scale up, some of them would not, but there is enough opportunity in today's ecosystem system of entrepreneur-driven digital brands, which can do INR 50-100 Crores. There are many examples of that today.

Abneesh Roy: Sir, last question on Amazon Set Wet Studio X. Now you had mentioned online engagement and positive results. But how are the sales because I am not getting that part? And second, now with this new FDI regulations in e-commerce, the footfalls on Amazon will drop sharply. We are already seeing the impact on the market cap in the U.S. So what is the game ahead for this kind of e-commerce brands?

Saugata Gupta: Set Wet Studio X is not just an E-commerce brand. A digital brand is sold in e-comm, Modern Trade and specialty outlets with digital advertising and not necessarily digital only. Therefore, we believe that there are enough options for a consumer. And, as far as the new regulation of the Press Note 2 and the regulation on e-commerce is concerned, there is a temporary instability. I am sure the players will get very aggressive. This was not an exclusive launch. We are planning to sell Set Wet Studio through other channels and Modern Trade also. And these are incremental initiatives. Today, one of the things in Male Grooming and other categories is that you will try out 10 things. 3 or 4 will only scale up, but that is how the game is getting played. As far as big bets are concerned, which are mass-market, we will do few big things. But as far as things like Male Grooming and specialty foods is concerned, we will have to do many things.

Abneesh Roy: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from IPMS. Please go ahead.

Prakash Kapadia: I had 2 questions. One more on Saffola. If I look at Saffola over the last 8 years, you have gained market share from around 52% to 72% as on date. But still, we have not managed to ensure consistent growth in the category, as the previous participant was also hinting at. So you know the right communication of healthy proposition which is not getting communicated? Or is there now the reach and distribution or focused market strategy, which we were trying earlier, that is also not yielding results?

Saugata Gupta: The share we say is in the super premium category. What has happened essentially is that the kind of people who are getting into the super premium category are people who consume less oils. So therefore, the super premium category growth has been lower than what has been the main category growth. Having said that, a significant part of the super-premium category is sold through Modern Trade and E-com and some specialty outlets. And therefore, the Nielsen pickup of that category and the market share might not be fairly representative. I think where we have failed is in having accelerated conversions from the mass end because we have not been able to justify the price premium through our differentiation, and that is the task ahead. In Modern Trade, we have continued to do well. But where we have not done well is the growth in general trade. Secondly, yes, there are opportunities. Saffola is still very metro centric. It is very Mumbai or Delhi centric, and there are opportunities of growth. We have not perhaps exploited that, and we need to do so. When we started exploiting with Active, which is the lower priced oil, it resulted in a certain degree of cannibalization.

Prakash Kapadia: And on the other end, if our market share would have gained, would not it also have less to far more innovation than premiumization of the segment, at least on the metro city part, to ensure we would have a far better volume and value growth? Because one is obviously, you said about the middle- to lower-end customer, which has various and multiple options as on date. But on the other side, converting some of our existing users and upgrading them.

Saugata Gupta: Yes. We have not done enough innovation. We are plagued by the fact that our user base average consumption of edible oil itself has been going down. So, we have a task on hand to increase innovation, like what we tried to do with Saffola Aura with olive. Olive has actually become a commodity as far as we are concerned, and we have to do something better as far as innovation in the coming quarters, which actually drives better consumption.

Prakash Kapadia: Sure, that is helpful. International business continues to do well. So if you could give us some sense. Is it the improved macros? Is it new product development, say? I think you mentioned about the Bangladesh and Vietnam. So if you could give some color that would help.

Saugata Gupta: So let me first start out by saying that if you look at our profile of international markets, they are reasonably stable. Bangladesh continues to grow, have a high GDP growth. The CPG sector continues to do well because of the fact that penetration is low and the disposable income of the population is increasing. Bangladesh is also making great strides in other aspects like Human Development Index and is one of our primary markets in which we are extremely strong. The second country is Vietnam and Southeast Asia. Again, these are reasonably high-growth markets. So the good thing is that in our mix of countries, the average GDP growth is higher. Currency is relatively stable. Our presence in LATAM and Africa is far lower, the contribution being just 5-

10% of International. Therefore, it is a mix of the countries which is helping. We have made significant investments in improving capabilities in innovation, GTM and quality of talent. Therefore, we are now getting the benefits of it. Having said that, we will now be making aggressive strides in the diversification of the portfolio in Bangladesh. We have actually moved from Parachute dependence from 90% to 70% now, and we will aggressively reduce that drastically. Vietnam also is stable. Having said that, if you look at Middle East, I do not think the consumption story is very good, but we are also making up some of the lost ground, which we have lost out 3 to 4 years ago.

Prakash Kapadia: Okay. And on Bangladesh, you said so already Parachute contribution is already 70%. I think in the opening remarks, you did mention about baby care. So what are the kind of segments or products we are looking at, at Bangladesh to further derisk this?

Saugata Gupta: So, we are in Male Grooming, hair colors, body lotions and we have launched petroleum jelly this year. We have also just launched baby care now.

Prakash Kapadia: Understood. That is helpful. Thanks and all the best, I will come back, if I have more questions.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. please go ahead.

Arnab Mitra: The first question is on the, your comment on the low-, the non-focused coconut oil portfolio. So if you could help us. Like what is the extent of volume decline or low-volume growth that you are seeing in that segment? And is your comment on the margins being under pressure also to do with the fact that you would need to possibly drop prices in that segment in a scenario where copra prices have slightly moved up? So both these questions I wanted to ask as a linked thing.

Saugata Gupta: So, the inflation started in the first week of December. Before the cyclone hit, the competition followed cost-plus pricing and reduced prices, due to which we may have missed out on some volumes. However, subsequently there had been a 15-20% increase in prices from the bottom. Therefore, there is no reason for us to take any pricing action in Parachute Rigids.

Arnab Mitra: Sure. No, my question was that your comment that the CNO margins could be under pressure was more on a sequential basis or year-on-year because of a...

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Saugata Gupta: No, we have to handle the low-margin business. We have to see what happens to that. We see 15-20% reduction in prices of copra year-on-year next year, and we do not intend to take any pricing action on Parachute. That is what I said in opening commentary.

Arnab Mitra: Sure. No, actually, I was referring to the information update, which had a comment on that, but I understood what you are saying now. And the second thing was just on the BOP, the bottom-of-pyramid opportunity in VAHO. To what you were already playing that through the low-cost Amla and the Sarso. So what are the other segments there you, so you are not playing today and you would want to play in the future?

Saugata Gupta: We are playing in Amla and Sarson, and both have registered growth. In fact, if you add Shanti Amla and Sarson, we have gained 1.7% on a MAT basis and 1.6% on a quarter basis in volume share. Nihar Shanti Sarson is now 10% of the total Sarson category. Having said that, we have also launched a perfumed coconut oil, Nihar Jasmine. There could be opportunities in other sub-categories too. So, what is happening is, essentially in the post GST scenario, we are seeing faster conversion from unorganized and smaller brands to larger brands in Central and North India. Some of the opportunities are also in Sarson. We can be much more aggressive on Sarson. Last year, we did not have the resources to fight it because of copra prices and the fact that we had to push up the A&P in some of our new products in which today we are seeing traction. We will now divert some of the resources this year to capture this opportunity, which some other organized players may have captured better.

Arnab Mitra: Understood. Thanks, that is it from my side, all the best.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Firstly, in terms of Saffola, is there an issue that there is just a lot more oil like rice bran oil, which is available both sort of either in some Modern Trade of your own brands or some of these brands that were mentioned earlier at a much lower price point and it is also perceived to be as healthy? Is that a problem? And then how would you fix that problem without just adjusting the price rate? Because, I mean, as I understand, some of these price is anywhere between Rs.80 to Rs.120 a litre.

Saugata Gupta: Yes, you are right, the question is that how do you justify the premium. Clinical studies and a lot of nutritionists and doctors do recommend that blended oils are better than single seed oils, but

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we have not been able to justify that differentiation. We are working on both the communication front and on the influencer program front to drive that. Also, we have to ensure that we continue to support the entry level Saffola Active without cannibalizing Saffola Gold. So, you are right that a plain rice bran oil is available at a 30% discount to the current Saffola Oil prices. Our job as a market leader, as we have been creating the best oil for the heart, is to ensure that differentiation through the communication and influencer program. I think that has diluted and we have to get it back.

Aditya Soman: Understand, very clear. And my second question is on noncore coconut oil. Will it be fair to assume that is about 10% to 12% of the overall coconut oil category for you in terms of sales contribution?

Saugata Gupta: Yes, it is a fair assumption.

Aditya Soman: Alright, that is it from me for now. I will come back in the queue. Thank you.

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

Vivek Maheshwari: Firstly, on the input cost environment. So, I mean, copra has started to move up. What is your expectation? Are we at the peak of copra cycle? Or there can be further inflation? Or what has been the trend in January that you have seen?

Saugata Gupta: I wish I could forecast, but as far as trends are concerned, we believe the season is coming. That is why the broad estimate for FY20 is 15-20% y-o-y lower versus FY19. So, I do not see any secular inflationary trend going forward because once the season starts in March, it will start going down.

Vivek Maheshwari: Okay, got it. Second, sir, the volume versus value growth in case of VAHO has, it looks like that there is a big component of price compared to what it was, let us say, in the earlier quarters. I mean, 19% revenue growth and 7% volume. So where is this 12% coming from?

Saugata Gupta: Yes, so there were some price increases we had taken after the crude prices had gone up. And number two is also it is because of the fact that we are now focusing on some of the mid packs, which are slightly higher value both in Nihar Shanti and Parachute Jasmine, and also Modern Trade growth is slightly more in the larger packs.

Vivek Maheshwari: No, but if I look at second quarter, let us say, I know the base is different in and there has been volatility. But second quarter, the gap between value and volume is 6.5%, which has jumped up to 11%. So is this surely because of price hike? And if so, which brand...

Saugata Gupta: No, some of it is price hike. And if you look at our Modern Trade growth today, a significant part of it is in Value Added Hair Oils while we have not so far participated as much in the bottom of pyramid. Also, Aloe is growing. So, it is a one-off. It is mix of A,B and C. Having said that, let us not take this as a long-term trend because this will start smoothening out a bit.

Vivek Maheshwari: Okay. And just a small follow-up in this. And so it will smoothen out, but actually there is nothing to worry about from a next, or this is sustainable for next few quarters? I think couple of quarters?

Saugata Gupta: There will be a gap. But from next year, we will focus at both ends. I think we have not been able to do well in hair fall problem solution and nonsticky segments. We are now introducing Dry Fruit Oil and a product called Nihar ExtraCare, which is for hair fall. And then we will participate in bottom of pyramid. So, I would think that inflation component will go down a bit next year.

Vivek Maheshwari: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ketan Hindoria from Multi Act. Please go ahead.

Ketan Hindoria: I have just one question. We have historically seen that people shift from low-value coconut oil to light hair oil category. So do we see that trend changing as we see, do we see that the people are moving more towards value-added coconut oil or anti-hair fall oil and not to the LHO?

Saugata Gupta: So, in the hair oil category, people move from base hair oils like Amla to Value added hair oils. As far as coconut oil is concerned, the significant portion of the growth comes from loose to branded in coconut oil and people moving from small brands to larger brands like Parachute. I think the issue is at the top end, which is problem solution, hair fall control and others. While there are many players participating, unless there is efficacy of the product, there will be lapsation. Having said that, we see a lot of opportunities. If you look at Value Added Hair Oil as a category, we are under-indexed in Modern Trade and E-com compared to other personal care categories, and there is a catch-up to do.

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Ketan Hindoria: Thank you sir.

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

Harit Kapoor: So just 2 questions from my end. Firstly, just wanted to understand the margin outlook for FY2020. Because on the one hand, you have some benefits likely on copra. But on the other hand, you also have various investments in terms of investing in the bottom-of-pyramid VAHO, investing behind the new brands that you are putting out as well as the low-cost coconut oil portfolio. So how do you look at margins in this outlook from FY2020 to 2019? Yes.

Saugata Gupta: Okay. First, let me just say that we are not going to aggressively invest in the low-cost coconut oil portfolio, something which gets impacted only when there is a huge drop or volatility in copra, which will not be the case next year. So I just wanted to address that. We are not interested in that low-margin business. That actually explains some of the volume gap versus the aspiration. As regards the margin, we believe that the margins should be in the region of 18%-plus. We want to continue to invest behind that new products. After a long, we have a very healthy pipeline on new products. Our execution capability has improved. At the same time, we will participate in both premiumization and the bottom of pyramid. So if it is 18% plus, we will be happy. And 18%-plus should happen.

Harit Kapoor: Got it, sir. Second thing was on the Saffola piece. So as of probably last year or this year, how much would be the healthy foods portfolio as a percentage of the overall Saffola brand, which includes the edible oil as well?

Saugata Gupta: It should be about 15%. We believe the total foods portfolio, along with FITTIFY and Coco Soul, should be comfortably cross the 200 Crores mark next year.

Harit Kapoor: Okay. 200 Crores FY2020, you mean?

Saugata Gupta: Yes.

Harit Kapoor: That is it from me. Thank you.

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

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Krishnan Sambamoorthy: Yes. Couple of questions. One regarding the receivable days. There has been a fairly sharp increase over the last year or so. I understand that somewhere in your information update, you mentioned that your e-commerce portfolio has quadrupled. But is this increase in receivable days going to be sustainably high going forward as well?

Vivek Karve: Yes. So it would depend on the mix during the quarter. But, if the E-commerce and Modern Trade sustain the growth rate, the receivable days are likely to be higher than we have seen in the past.

Krishnan Sambamoorthy: Sure. And what is your receivable days in e-commerce?

Vivek Karve: We would not be able to share specifics with you. I am sorry for that.

Krishnan Sambamoorthy: Sure. And the other observation was regarding your Parachute Rigids. You mentioned that, the comment is volume offtake grew nearly twice that of the category. Is this the overall category including unorganized? Or is it the overall organized category? And if you just see there of those and what is driving this growth?

Saugata Gupta: It is organized branded. First of all, Parachute, as I said, in an inflationary scenario continued to do well, and we have a reasonably stable pricing model. In addition to that, I strongly believe that in a post-GST scenario, organized players in mass categories will continue to mop up both market share and long-term volume growth. So, any distributed brand in a mass category will have an advantage.

Krishnan Sambamoorthy: Sure. And just one final query on...

Saugata Gupta: Just to add, Parachute grew, in terms of percentage, 1.8% market share in the quarter. So it is not just in Coconut Oil. We will see it in other large categories, where some of the organized FMCG players are delivering very good growth. We believe that is a long-term trend that will play out.

Krishnan Sambamoorthy: Okay. Just one final thing on your new products. Looking at the comments on most of these categories, they seem to be performing to expectations or above expectations. Is your confidence on new product portfolio increasing quarter after quarter? And your comments going forward on it?

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Saugata Gupta: Okay. So let me just give you a perspective. I think on Male Grooming and Livon, we now have a reasonably steady-state winning formula on delivering 15-20% growth quarter-on-quarter. I think the days of struggle with the Paras portfolio is behind us. As regards some of the new things have established themselves, like Aloe, which is most likely to cross INR 50 crores very soon. So, Aloe Vera is something which is doing well. For some of the things, it is very early on. For example, True Roots and Creme Oil, compared to initial action standards, they are tracking okay and are improving. I would be able to give a far better perspective on these on whether they will attain critical mass in the coming 2 quarters, but I think our run rate and our new products' contribution to the overall is increasing. And, what has also increased is our execution capability. Is it still 10 on 10? The answer is no. But if we are at 4 or 5 on 10, I think we have moved to 6 or 7 on 10.

Krishnan Sambamoorthy: Understood. Thanks a lot

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

Amit Sinha: On the VAHO bottom-of-pyramid commentary which you made. I just wanted to understand, are these players who are investing in some of these brands, which are helping the, which is making the unorganized to shift faster to organized, are these large national players? Or, you are also mentioning, or you are also referring to some of the local or regional organized players?

Saugata Gupta: It is more large metro players. But just to give a perspective, this are not a very high ATL model. So while they are investing, the investment is on price and distribution and not ATL, as they are consciously sacrificing some margins.

Amit Sinha: Okay. Sure, okay. And secondly, at a time when some of the other, again, large players are talking more about more investment in Rs. 10SKU, you are focusing more on the middle-sized SKUs. I just wanted to understand the thought process. And how is the overall competitive intensity in the overall VAHO profile?

Saugata Gupta: I think you have to do both because the, I do not think we are not going to invest. That is why I said that we will invest aggressively in the Rs.10 or the small SKUs. At the same time, we will continue the premiumization journey where we are underindexed. Last year, we did not do that much, but I think you can expect far more aggressive action on our part. We have aggressively gained market share in the last 8 years. There is no reason why we will stop that. That is where we are coming from.

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Amit Sinha: Just lastly on VAHO again. I mean, it has been one of the best performing, I mean, at least in terms of the growth, it has been one of the best-performing segments for you in the last 5, 7 years. Is the growth becoming difficult to come by because of higher competitive intensity? Do you see more aggression from other players?

Saugata Gupta: I think there is increased competitive intensity. Having said that, also it is a much higher base. But we now have a far bigger ammunition in terms of range of products both at the top end and at bottom of pyramid. For example, I do not think we have aggressively participated in Almond, which we have just launched in the test marketing phase, which is a Hair & Care Dry fruit oil. We have Nihar ExtraCare. So I think we were playing with 3 or 4 offerings strategy but have to play with maybe 7 or 8 offerings, to get it back into the double-digit volume growth.

Amit Sinha: Thanks a lot and all the best.

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

Harit Kapoor: Yes. Sir, just one follow-up. On the International business, you mentioned in your information update the margin improvement is largely on account of gross margin expansion. But would it be fair to assume that this is largely coming from the Bangladesh piece because of lower copra prices?

Saugata Gupta: No, it is also due to Middle East. You might recollect that Middle East business was struggling 4-5 years ago. Secondly, the other reason for improvement in operating margins is fixed overheads. We believe that there is still significant opportunity of fixed overhead reduction in International business. It is currently still 2.5x of the fixed overheads of India business in terms of percentage of sales.

Harit Kapoor: Okay. So it is fair to assume that a large part of this is sustainable margin improvement, right?

Saugata Gupta: Yes. I think that 18% plus is here to stay. Given the fact that we are focusing on a few markets when we do not want to fragment our efforts, we will continue to invest behind rest of South Asia, Southeast Asia and Middle East. Africa and other markets are very low focus for us.

Harit Kapoor: Very clear, so that is it from me. Thank you.

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Moderator: Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: I had one question regarding pricing strategy for Parachute. Will you be looking forward to a downward adjustment in pricing given the competitive pressure? I know currently for you, it is more on the low-margin category. But given the copra deflationary cycle, would that be on cart just to defend the market share and the cost of one brand you have also done some trade promotion? So that context in mind.

Saugata Gupta: If you look at Parachute, we have a kind of a pricing model where we know the point beyond which if copra prices go down, we have to take pricing action. As of now, given the fact that our current outlook indicates a price reduction, 15-20% yoy, there is no reason for aggressive pricing action. In the first half of the year, we will see as it goes. You can always tweak it by managing the promotion quantity but not price, because a price drop creates volatility in volume growth. Having said that, if the copra price reduction is far more significant, we may have to take a proactive pricing action.

Anubhav Sahu: Got it sir. Thank you so much.

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

Ayaz Motiwala: I wanted to know on your hair color initiative, which you had taken some time back, is there an update on that in terms of learnings that you had from the marketplace? And are you going to pursue this sort of category, if at all? And similarly, you have a presence in some sort of form of shampoos. But you have so far never done such an initiative in India. Would you look at that?

Saugata Gupta: So, I would like to discuss our new product strategy. As far as hair color is concerned, we prototyped it, but it did not work well. We have a reasonable presence in the hair color category in Bangladesh and a limited presence in South Africa.

Ayaz Motiwala: Right. And in terms of shampoos?

Saugata Gupta: We operate in male shampoos in Southeast Asia, but are not at any stage of launching shampoo in India.

Ayaz Motiwala: Right. And one quick question on Male Grooming as a category. It used to be getting more and more interesting, both globally and in the Indian context. And a lot of sort of public and private money has come in, and we have seen a whole range of new products coming in to address the male who wants to groom. Do you see that as sort of category going on the path of what happened to deo things? Or do you think there is enough differentiation for your products to stand versus the competition?

Saugata Gupta: As far as deodorants category is concerned, there is very little scope for differentiation. If you look at the complete Male Grooming, there are 3 kinds of male grooming products - hair, skin and face. So, there is styling and nourishment. Therefore, there is a broad participation strategy available, including some of the specialized offerings like Beardo, in which we have a 45% stake and is tracking very well. I think the overall offering is much broader. In the case of deos, it was very fragmented without differentiation. So, deos is just one part of it. Given the penetration of most of the categories in Male Grooming, and looking at some of the slightly more developed markets like in Southeast Asia, Korea, Japan, Middle East, there is huge headroom for India to grow. Most of the penetration is even sub 2 or sub 3%. And there are certain categories like wax, for example, in which the penetration is even below 1%. Therefore, this issue of saturation of growth can happen only in the next 5 to 7 years and there is enough headroom for growth.

Ayaz Motiwala: All right. And lastly, I would like to slip in one question on, you talked about some sort of fruit and, like an almond equivalent oil that you are testing out in the market. You have done cooling solutions in the past and have taken, again, sort of action, but it is not worked out. So in terms of a new attempt, what is different this time for these categories? And what gives you the confidence to sort of keep going back to chase growth in these categories or initiatives?

Saugata Gupta: As far as cooling was concerned, ultimately you need either a differentiated product or disruption in pricing. I think having failed, you have to keep on trying because we believe that there is an opportunity and if you are a market leader in the category, it is not that you cannot succeed. Therefore, I think we have to keep on trying until we succeed. I mean that is what grit is made up of.

Ayaz Motiwala: Thank you very much and I wish you all the very best.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital.

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Tejas Shah: Sir, looking at the NPD product line that we have lined up for FY2020 and beyond, and you highlighted in your update also that we have budgeted robust A&P spend to support as well. So now the flexibility to support the portfolio also comes from the fact that benign RM in copra effectively helps? So in this plan, you, what level of copra have you budgeted for?

Saugata Gupta: Well, all I can say is that given the current situation in copra and our outlook, we should be in a position to continue investment behind the new initiatives. Also, at the end of the day as an organization, with scale, we continuously identify efficiencies and run cost management initiatives. Whatever new products we have launched, we believe that we currently have the resources to support it for the next 1 or 2 years.

Tejas Shah: Even if copra inflation kicks in 10%, 15% further from here?

Saugata Gupta: Copra, our outlook next year is actually a deflation of 15-20% y-o-y. Usually, a typical cycle of copra or if you look at it historically usually lasts 18-24 months.

Tejas Shah: Sure. No, so that we know. But you also mentioned that copra has been volatile again in the last few couple of months, so.

Saugata Gupta: It has been for the last 60 days, yes. But it has already started going down from its peak. In January, it has started coming down. And we believe on a y-o-y basis, in 2019-2020, there will be a 15% to 20% reduction versus 2018-2019

Tejas Shah: Sure, great. And sir, second question pertains to innovation that we are doing in Bangladesh in baby care portfolio. Now looking at what is happening to baby care portfolio, market leader globally and particularly also in India. And that space looks very, the white space is actually for everyone to grab. And there are few organic business players, herbal based and all who are came to gain market share there, so why not to actually put energy, if have already developed production. Why not to put energy in that space in India?

Saugata Gupta: So let us taste some success in Bangladesh. And you are absolutely right, I think one of the things we have not done is launch a talcum powder. So we believe that, let us taste some success. I think Bangladesh can be seen as a prototype, and lets see what happens.

Tejas Shah: That is all from my side and sir all the best.

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Moderator: Thank you. As there are no further questions, we would like to hand the conference over to the line of management for closing comments.

Vivek Karve: I would like to thank all of you for attending today's call. As Saugata mentioned earlier in the call, we will continue to focus on healthy volume growth in the core and building new pillars of growth while maintaining the focus on healthy EBITDA margins. Thanks again and good night to all of you.

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

(This document has been edited to improve readability.)

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