Marico Limited
Q3 FY2020 Earnings Conference Call

January 31, 2020

MANAGEMENT:	**MR. SAUGATA GUPTA - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – MARICO LIMITED** **MR. VIVEK KARVE – CHIEF FINANCIAL OFFICER - MARICO LIMITED**
ANALYST:	**MR. GAURAV JOGANI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Marico Limited Q3 FY2020 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. Thank you, and over to you Sir!

Gaurav Jogani: Thank you, Faizan. Good morning everyone. It is my pleasure to welcome you all on behalf of Axis Capital to Marico's Q3 FY2020 Earnings Conference Call. Today, we have with us from the management, Mr. Saugata Gupta, MD and CEO; Mr. Vivek Karve, 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.

Saugata Gupta: Good morning to all those who have joined the call. I would like to start with a quick brief on the quarter gone by and our outlook going forward before we start taking the questions.

In Q3, our overall performance has been a mixed bag. While in India business, volume growth and top line growth was poor, both declining over last year, we continued to gain market shares in our key portfolios, and the operating margin improved. The International business delivered a fairly strong performance with a double-digit constant currency growth along with healthy operating margins. Bangladesh had broad-based growth, and we continue to actively expand the non coconut oil portfolio, HPC growth in Vietnam has been muted during the quarter, however, the Foods business delivered robust growth. While expectations from MENA and South Africa are modest given the macros, they do not jeopardize the overall performance. We expect to sustain this consistent growth trajectory in both top line and bottom line in the international business going forward.

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Coming back to India, volume growth has been impacted by both macro and some internal factors, which we will cover subsequently. In the macro context, contrary to expectations, category offtakes across mass non-packaged food categories in India witnessed deceleration on a sequential and a Y-o-Y basis. This is a secular trend across multiple categories and not just to our core. There is no drop in penetration or consumption in our core categories. However, the loose to branded conversion has drastically slowed down, and there has been reverse migration from branded to loose in certain rural markets. Urban GT, especially wholesale, continued to reel under tight liquidity conditions. Growth in the new age channels for us also came off significantly as we took specific steps to bring about price parity across channels. We believe this is in the interest of the long-term, as it ensures harmonious, profitable and incremental growth as opposed to cannibalistic growth and channel conflict. Most of the initiatives in terms of differentiated pricing and assortment are in place, and the new age channels will be back on the high-growth pace over the next 2 quarters.

The ongoing consumption slowdown was more pronounced in rural, severely affecting growth in hair oils, as overall category offtakes declined during the quarter. Against this backdrop, our franchises continued to gain market share as brand offtakes grew ahead of category volume offtakes. Secondary growth at lower-single digits lagged offtake growth as channel liquidity issues led to a drop in trade stock holding, especially in rural and wholesale. Further, reported primary growth was even lower as we supported the channel partners ROI in this slowdown by reducing distributor stock position.

Delving further into India business, Parachute declined by 2% this quarter, as the pricing interventions taken hit the shelves only in end December, since we had older inventory in the channel to clear after the lower throughput in the previous quarter. We have also witnessed some deceleration in conversion from loose to branded, which we expect to pick up as the pricing intervention slowly kicks in. This should move us back into growth as per our medium-term aspirations over the next couple of quarters while we continue to gain market share in this category.

In addition to the macro headwinds affecting category offtakes, our performance in hair oils has been affected by underperformance in some of our mid-market and premium brands,

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where we have to solve certain equity issues. This adverse mix and some price corrections and consumer offers, has led to this deflation of 10%, which will progressively correct itself over the next few quarters. We continue to witness growth at the bottom of pyramid segment, driven by Shanti Amla and Shanti Jasmine and some of the other flanker brands. We will aim to aggressively lead growth in this segment on the back of our leadership position.

Among the new launches, Parachute Advanced Aloe Vera and Hair & Care Dry Fruit Oil has been tracking well, and we have successfully scaled them up to a pan-India level. These two brands will together contribute anything between Rs.125 Crores to Rs.150 Crores next year. Given that, we are #2 or #3 in these premium subsegments, we will target market share gains on the back of innovation and brand building. At the premium end, we aim to drive innovation, focusing on higher order sensorial and functional benefits, and this will be our big bet for the next two years. We do not expect an instant recovery in volume growth for hair oils, and hope to resume with a higher single-digit growth earliest by Q2 FY2021. Our medium-term aspirations are completely intact and once the macros correct and we get our execution in the mid and premium segment back on track, we should be in line to get back into double-digit growth by end FY2021. In line with the overall FMCG trends, categories with higher urban salience did relatively well. Therefore, growth rates in Saffola Edible Oils and Foods stood out. Along with MT and E-com, Saffola Oils put in a better performance in GT as well on the back of uniform pricing, coupled with a consistent, effective brand campaign.

With the recent rise in edible oil price table, we will pass on the impact to pricing in the coming years, while carefully balancing price premium and volume growth aspirations. We expect mid-to-high single-digit growth in Saffola edible oils in the near-to-medium-term.

In foods, the oats franchise has been growing in the range of 20% to 25% in value terms. We will continue to drive innovation through new flavors to suit the regional palate. We have also been gaining traction in new foods, FITTIFY, Coco Soul, as we will continue to invest towards market development and innovation. Saffola Perfect Nashta has been expanded to NCR and will make its way to Mumbai in Q4. Together with Oats and FITTIFY, Coco Soul, the Foods business is expected to cross around Rs.250 Crores in FY2021. In the Premium

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Hair Nourishment portfolio, Livon Serums logged growth in high single-digits during the quarter. We expect a double-digit growth in Livon in the medium-term. However, overall premium hair portfolio declined on a reported basis due to the launch of Crème Oil and True Roots in the quarter of previous year, on which we have gone back to the drawing board to work on insights drawn from the consumer feedback to the prototype.

Male Grooming declined marginally as hair gel LUPs were affected by the slowdown in rural discretionary spending and a weak performance in Deos. While the recovery in gel ensues, we continue to premiumize with strong growth in hair creams and waxes. We will work towards product and packaging innovation in this franchise and deliver a mid-teen growth in the medium-term.

In Premium Skin Care, initial response on Kaya is encouraging and we continue to broaden our play in this category, which will enable us to reach critical mass. We are optimistic of some visible improvement in macro trends over the next 2-3 quarters. We will focus on sustainable growth in India through 5 key pillars: redirecting monies towards end consumer pricing to trigger pickup in consumer offtakes; investing behind stabilizing distribution infrastructure in Urban GT by improving channel partner ROIs and driving distribution in urban, especially in new channels; ensure incremental sustainable profitable growth across channels as opposed to cannibalistic growth through new age channels; increasing our direct reach in rural by expanding stockists; we have already increased substantially in the last quarter,, and we will start getting the gains in the subsequent 2 quarters; cost optimization, reducing wastages and driving A&P effectiveness. The input cost situation has been comparable throughout the year. While we are witnessing sharp increase in edible oil prices, we expect, maybe a mild inflation in copra prices in FY2021. We will take judicious call on pricing to balance volume growth and margins. While operating margins in the current year will be 20% plus, there will be some minor moderation in the next year.

While we are driving cost efficiencies and spend effectiveness in A&P spends using analytics, we will continue to invest in brand-building initiatives and will remain in the range of circa 9% of sales in the medium-term. In view of the overall decrease in ad spends in the environment and in this sector and all categories, this is good enough to maintain strong SOV

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positions and invest behind growth engines. An organization-wide war on waste initiative is being put on place, and we plan to identify significant cost savings across the business.

Going forward, we expect a gradual recovery in the overall demand sentiment and macro environment definitely by Q2 FY2021. On the back of such recovery, we expect that it will take a couple of quarters for us to deliver healthy growth in the India business. We remain confident of high single-digit to low double-digit constant currency growth in the International business. This slowdown has made us to relook at our strategic priorities and, therefore, we are working towards reinventing our operating model to enable us to be future ready, and this may take a few quarters. However, this all will be more structural and sustainable which will help us to get back into our medium-term growth aspirations by end FY2021.

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

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: A couple of questions from my end firstly, you mentioned that you sort of have your stockist ROI or wholesale ROI by thinning out some inventory. Do you expect there to be a sharper inventory fill in the next quarter or do you think that will take a few quarters for you to sort of fill inventory back up again if at all and secondly, your competitor, Dabur, commented on sort of focusing more on coconut oil and coconut-based hair oils, which obviously have been a forte for you so do you expect there to be sort of strong pricing reaction from you to defend market share?

Saugata Gupta: So let me address the first question. I think at the end of the day, we believe that the distributor's job is to primarily drive demand generation, and therefore, any additional stockholding is actually impacting their ROI in view of the slowdown and tight liquidity and input costs so therefore, I think with alternate supply chain models and fulfillment models, which are now available in the metros, this stock correction will be permanent. With regards to wholesale, maybe when liquidity conditions improve, we can do some kind of STR regain.

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But normally, we believe that we should solve for offtakes rather than channel filling. As long as offtakes increase, I think that will lead to much more sustainable growth. So, I would say the stock correction in the distributor is permanent, and we might even look at some more because that will help them having a far more stable and a structured ROI and a sustainable ROI in Urban. As far as wholesale and retail is concerned, I think there could be some filling. But having said that, our focus is to continue to expand both in rural and urban and concentrate more on direct distribution as opposed to depending on wholesale.

As regards to Coconut oil, just to give you a perspective, in terms of volume share and value share, we have continued to gain volume share and value share. As regards competitive pricing action, I think at the end of the day, we will be taking steps to continue to balance both margins and volume growth. I will just give you a more theoretical construct in terms of pricing. Usually, price disruption offers in categories where the incumbent makes super normal margins, and therefore, there is a space for a challenger to make reasonable profit so that they can invest in A&P for growth. This, in certain cases, where the incumbent manages profitability and pricing to an extent that is not so high, this will not work. Normally what happens is there could be share mopping up that happens from the other smaller players, so that is our belief. Having said that, we are cognizant of the fact that we will want to protect both market share and margins and therefore, I talked about our organization-wide war on waste, which should be able to create funds to ensure that we are in the right pricing and volumes.

Aditya Soman: That is very clear and just following up on that. We are also seeing some of your retailers also launched private label brands very aggressively. Sir, I mean just going back to that argument on gross margins, for some of these retailers, they could operate with a very different gross margin structure and an A&P structure so how would you sort of compete with players like that?

Saugata Gupta: See at the end of the day, I believe that the role of alternate channels and new channels is to drive premiumization and assortment. India is a large country with huge rural and urban distribution. It is not that private label brands have not existed. Both Parachute and Saffola are very strong in equity and as long as we continue to invest behind equity and manage

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pricing, we should be able to grow. For our core brands, there are enough opportunities for growth, and we are looking at alternate channels, primarily at new age channels to drive assortment, drive premiumization and drive our new product portfolio. So yes, it is a threat. We are cognizant of it. But I think this is something, which is not new.

Aditya Soman: Thank you.

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

Abneesh Roy: Saugata, Saffola has seen a good recovery this quarter, but next quarter, the base is 18% so could you say the growth in the Q4 will be challenging and in terms of pricing pressure, because inflation is being seen in a lot of the edible oils, and some of the players like Emami, which were very aggressive are facing their own promoter level issue so is the pricing intensity in edible oil with Saffola, stretching is the worst behind in that?

Saugata Gupta: So we will look at the run rate. I think the run rate is on a positive trajectory, and therefore, I think there is a reasonable confidence to get into medium to high single-digit growth in Saffola over the next few quarters. As regards the edible oil inflation, there has been a significant inflation in input cost. Some of the competitors have increased prices in the range of 8% to 9% and we are going to take a price increase in Saffola. Having said that, I think we should be, in no way, diluting our competitive position and our price premium will be reasonably attractive. Also, we used to run multiple consumer promotions and have ultimately converted all those trade promotions and consumer promotions, which brought volatility into sales into uniform prices right through the year. I think that has considerably helped Saffola. I believe ultimately, what matters is the end consumer pricing and not necessarily frequent TOs and COs. Sometimes frequent COs can just lead to temporary pantry loading, or TOs can lead to temporary loading in the channel. But what matters is a uniform end consumer price. I think we have corrected that it has taken time and therefore, I think some recovery has happened, and we have to stay on course on that.

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Abneesh Roy: Saugata, 1 related question is on E-commerce Saffola has done well, and Saffola has a disproportionate presence in E-commerce. But in spite of that, E-commerce growth rate has slowed down drastically from 300, it became 200, then 100, then 75 and now it is only 5 is that a one-off here? Could you explain is it because of the GT protests, which are happening, where they are saying that it should be uniform kind of pricing? Is that the reason, so it could be more structural in nature?

Saugata Gupta: In the long-term, we would like a sustainable growth for all channels because in India we believe all channels need to exist, and they will coexist and therefore, there is a different role for each of the channels. What we have done is, as I said, we have started assortment planning as we sell different assortments in different channels and a minimum operating price. This E-com component and Modern Trade has a B2B and B2C. The significant correction has been more in B2B than B2C and most of the actions are in place, and therefore, you will get back into a good growth over the next 2 quarters. Now obviously, the 75-100% growth was from a low base, a lot of this was not same-store, but inorganic. But what we need to do is to sell a far more premium assortment and a differentiated assortment in these channels, so that both the channels coexist, and both the channels can grow sustainably and profitably.

Abneesh Roy: Right. My second question is on the value-added hair oil so 6 quarters, and no double-digit growth seen here and last 4 quarters, out of that 3 are flat or negative so you have already done a lot of stuff in the last 4 quarters, and you have elaborated what you will do in the future. Does not seem to be dramatically different versus the last 4 quarters so why will the growth revise here and in terms of medium-term outlook, you do give for every category, and I have not seen for this. What will be the medium-term growth outlook?

Saugata Gupta: Okay. Let me first address your last question. I think in our commentary, I talked about it. The reason we did not give it is because as I said that we will take a couple of quarters to get it into mid-single digits and then get into a medium-term aspiration. So we need 2 to 4 quarters, and that is the reason we did not provide it in the commentary. Because at the end of the day, you are right. We have not delivered growth in 4 quarters, so therefore, we must do and then say. Regarding what we are doing differently, let me tell you, in the last 4 quarters, what we have done is we have participated in premium segment through Aloe and

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DFO, which is a Dry Fruit Oil, both are doing well. What has not done well, and some of it is partly internal, partly external is, due to macroeconomic conditions and competitive actions, in the hair oil market , there has been a little bit of value-added commoditization and the center of gravity shifting towards the bottom of pyramid. Initially, we did not participate in it. We have now started participating in it with Sarson Amla and Nihar Shanti Jasmine, and initial results are not bad. There has been, in addition to that, some equity issues in some of our premium mid-to-premium brands, which we are solving and which are internal issues so if we can solve some of them partially, as I said, in the next 1 or 2 quarters, and some of them will perhaps take a little bit more and to add to that, we have to participate far more aggressively in things like hair fall and maybe a more premium format, which will start happening over the next 2-3 quarters. I think we should be able to get it back. Now we would need some time to get it back, but I do not think there are any concerns as far as we are concerned on consumption. There are no concerns on the category. These are hiccups, which we have to solve as I said, some of them external and some of them are internal execution issues so I would think that there would be a gradual recovery, the first recovery by Q2 and then by the end of the next year. Till that time, there is no point trying to say that we will grow at 10% and not growing those 10% or double-digits, but there is no deviation from our medium-term aspiration and therefore, we will start articulating that once we start delivering some results.

Abneesh Roy: Ok Sir that is all from my side. Thank you.

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

Percy Panthaki: Sir, first question on VAHO if you can give some more sort of insight on how the subsegments within VAHO have performed for you, that is the light hair oils, the Amla and the VACNO that would be very useful, Sir?

Saugata Gupta: So I will give you a very broad sense without getting into the specifics. I think we continue to grow and gain share in Shanti Amla. We have started doing well in some of the other bottom of pyramid packs, but they are not critical mass. At the top end, we have not done well in the other brands, except for Aloe. We are getting reasonably good satisfactory outcome so far in Dry Fruit Oil.

Percy Panthaki: Okay so one is market share trends, but we know that sometimes they can be sort of different versus what the company level growth is, at least the primary growth and I am assuming this time you have no deliberate channel, sort of, upstocking, or downstocking done so would it be fair to say that as far as your primary growth is concerned, it is in the same order that on a relative basis within your VAHO, Shanti Amla has done better and sort of the other brands have lagged behind?

Saugata Gupta: So as we have said in the note and in my commentary, we have a cascade between offtakes, secondaries and primaries. So therefore, if you look at the category growth for the category, VAHO is around just about minus 1%. Our offtakes are slightly higher. That is why we have gained share and our secondaries would be again lower because of some STR corrections and our primaries will be further lower because of the distributor stock correction. But in terms of trends of the brand, you are right that the highest growth in offtakes has also been in Shanti Amla, and lower growth in offtakes and secondaries would have been the others. Shanti Amla, Aloem Nihar Shanti Jasmine and now DFO, these are standing out, while the others have not performed well.

Percy Panthaki: Understood, Sir secondly, on the Parachute Coconut Oil, our margin tailwinds are fading, and very soon there is going to be no tailwind at all so in that kind of a situation, like in the last 2, 3 quarters, while our top line has been depressed, we have been able to at least deliver decent bottom line growth because of the margin tailwind. But if basically you are saying that the demand recoveries, work in progress, it will take a few quarters and in the meanwhile, our margin tailwind goes away so what then drives bottom line in the next few quarters or would it be fair to say that bottom line would also be very, very muted at least for the next few quarters?

Saugata Gupta: So I think I would give a picture of the next 5-6 quarters, we expect volumes to improve. There are two things which will also help in some way. As you know that the overall media spends in the overall CPG and overall environment has decreased. Therefore, we can maintain

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SOV at a lower A&P. We will put in place a war on waste, which will drive a lot of cost savings and also, we are also looking at analytics to improve our trade and ad spend effectiveness. So I would think that maybe in a quarter or so, while there could be moderation that margin front, it will start again going back. The copra inflation will be very mild. The other edible oil inflation we will be passing on and fortunately, as things stand now, we do not see any inflation in the crude-based derivatives and packaging.

Percy Panthaki: Right. Sir, and lastly, if I may, on Saffola, you have done very well so if you can just sort of give us some idea on what exactly sort of clicked for that brand after many quarters and do you think now do you have confidence that this volume recovery is sustainable?

Saugata Gupta: So, it is two things I believe. One is a complete conversion of all multiple TOs and COs into end consumer pricing because at the end of the day, you have to give consumer value. Excessive CO leads to volatility in sales and pantry loading. Excessive TO leads to channel loading and not necessary offtakes. So, we are solving fundamentally for offtakes because the biggest ask for Saffola was the price premium justification. Secondly, I think focused communications and the third, which will now start is increase in distribution. We believe that there is enough potential to increase distribution atleast in the top 6 cities where we are present. We have also managed channel pricing to minimize conflicts so I would think over the next 1 year, we are fairly confident that it will go into medium single-digit to high single-digit growth. Yes, there is a hump in quarter 4, but that is a one-off.

Percy Panthaki: Right Sir that is all from my side and all the best.

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

Prakash Kapadia: I had two questions. If I look at employee costs, they are down on a year-on-year on a sequential basis so is there someone one off actuarial liability reset? Or is it variable pay, which is reduced because of muted topline?

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Vivek Karve: So it is on two accounts, as you rightly pointed out. We have lowered our performance incentive provisions and we have also lowered the long-term incentive provisions because of the changes that have happened in the stock price. So you are right, both sequential as well as Y-o-Y.

Prakash Kapadia: So assuming if we continue to have lower top line as we are currently witnessing, this could continue for a quarter or 2?

Vivek Karve: Yes, it is difficult for me to comment on this right now because stock price is not something that we can control.

Prakash Kapadia: Sure and on the India business, what are we doing to support the general trade channel? I think, I read about credit being offered on a selective basis so is it what extended working capital? However, we are assessing credit risk, if any? What is happening on the general trade channel? If you could give some insights that will be helpful.

Saugata Gupta: Yes. I think our objective is to ensure a sustainable, profitable business model. So what we are looking at is alternate models in terms of order fulfillment and supply chain. How do you help bringing down the costs of operating in general trade? Which also means consolidation, network optimization, route optimization and much more use of technology. Also as we scale up our new age outlets, which is Chemist, Cosmetic and Food, and they start selling differentiated high GC assortments, that will also help in higher realization. Actually, what has happened this year specifically is that, while costs have gone up a little bit, the fact that there is no value growth has led to an ROI issue. Now doing short-term things like subsidy and increased credit are actually short-term fixes. I would rather like to do a more long-term solve because then that will carry through over the next 2 to 3 years and I think the other thing which we have done in this quarter, is assortment planning, which is slowing down a certain kind of growth in new age channels, but that will also help in reducing channel conflict and driving channel co-existence and growth.

Prakash Kapadia: Okay and on the general trade, they seem to be getting affected by liquidity so what is our sense? Will this change soon because whatever the macro issues or the NBFC crisis, that does not seem to be nearing an end, they continue to have weaker trends so what is the sense you are getting from general trade specific?

Saugata Gupta: There is I think, the liquidity issue, which continues. Having said that, we believe that the stress in the wholesale is far higher, and therefore, we are concentrating on 2 things. One is, as if we continue to increase our direct rural coverage and effectiveness of our rural coverage, simultaneously we are also trying to expand urban direct coverage. I think we have to solve for offtakes, because at the end of the day if offtakes start growing and we can drive share among handlers or per dealer offtake, this will only solve the problem. This is here to stay, hopefully, in the next 2-3 quarters, whatever steps the government is taking, things will recover. But I think, we have to solve for offtakes and that is why we are focusing on end consumer pricing as opposed to trying to do some short-term fixes.

Prakash Kapadia: Understood that is helpful. I will come back if I have more questions. Thank you.

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

Arnab Mitra: Saugata, my first question was on coconut oil, where Parachute, you have corrected the pricing, but we are in kind of an unchartered territory in where environment is very bad. This brand basically depends on upgrades so the level of pricing cut you have taken, is there a risk that, that does not suffice because the price gap has obviously gone up in this deflation cycle of copra any initial signs you are seeing of growth reviving there or any risk that this actually would need a much bigger pricing correction?

Saugata Gupta: So we used to deliver different kinds of interventions to get volume, which could be COs or TOs, which is trade offers, or pricing. We now believe that just like we have done in Saffola, can you channelize money from ineffective TOs and COs into pricing. To give you an example, if the category penetration is high, and your share is relatively high, consecutive extra product promotion gives to pantry loading. Similarly, too many TOs gives the chance to trade to stock up. Multiple trade and consumer offers also lead to volatility in sales, which are other issues in terms of a smooth operating model. So I think can we need to channelize all this into pricing. I think we are almost there in terms of correcting the price premium. Having said that, I think your point is valid, especially with food inflation creeping in, it could have some short-term challenges. But I am sure as far as food inflation is concerned, the government will take steps to correct it.

Arnab Mitra: Sure and my second question was on VAHO so any specific comments on the scented coconut oil business is that also under a lot of stress given the lower prices of normal coconut oil and any interventions on that front?

Saugata Gupta: So, as I said, there has been a general down-gradation from mid and premium categories into the mass, especially in rural, so we are doing multiple interventions again. We are following the first principle. In our case, 1 or 2 brands also have equity issues, which we are solving over the next 1 or 2 quarters. Having said that, there are categories which are slightly more premium, like hair fall, almond, where, we do not participate much. We will aggressively invest and participate in these, so the strategy has to be threefold. One, is continue to participate in bottom of pyramid and ensure that the fair share of up gradation comes to you; correct the equity issue in the couple of brands, which includes value-added coconut oil or scented coconut oil; and the third, more aggressive participation in the top end where we have a lower market share.

Arnab Mitra: Thanks that is it from my side. All the best.

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

Tejash Shah: Saugata, in past, we have seen that VAHO, whenever the fall happens in a subdued environment, that down-trading is usually captured by copra hair oil or that conversion gets captured. But this time, overall, the hair oil category is seeing a massive slowdown so does it mean that there is a broader category value proposition issue rather than intra category players not playing out?

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Saugata Gupta: So with respect to growth of the category, especially in rural, this is a secular trend. It is just not restricted to Value Added Hair Oil. It is also with other personal care categories, if you see all the mass categories. Having said that, in the case of Value Added Hair Oil, we also see the reverse migration from branded to unbranded. If you look at the household panel data in terms of consumption, penetration and usage, it is not falling so people are not consuming less, neither has penetration fallen. In the past, significant portion of the growth of our core category has been fueled from upgradation from unbranded to branded and getting share from small players. Now that unbranded to branded, which drove the category growth, has slowed down significantly and in certain markets there has been a reverse migration, so unorganized has actually increased a bit.

Tejash Shah: And in your commentary today, the signs of channel conflicts are very much visible, even in your investor update so if you can elaborate the nature of the problem here. What exactly is wrong between GT and Modern Trade and what is the nature of intervention that we are planning on this?

Saugata Gupta: I would rather give you a broad feel. At the end of the day, each channel has a role. While you cannot change consumer behavior, it is a question of ensuring that everybody has a fair right to grow. It could be more B2B and GT and not necessarily B2C and GT. I think the way to look at it is to ensure that you have a differentiated assortment and ensure a different role for the channel, so that the growth overall for the manufacturer and the channels are mutually exclusive and not 100% cannibalistic, but incremental and therefore, lot of organizations globally which use a different assortment and they are able to manage this better than if you just do cannibalistic sales.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa: My first question is basically on the other expenses line so your medium-term guidance is somewhere between 11% to 13%, which is roughly where it is on a 9-month level but if I break that up, almost 30% of those other expenses are fixed and year-to-date, that has been growing at about 11% so could you take us through what are all the expense items under this head and what kind of growth rate you would expect, let us say, going into next year?

Vivek Karve: So, on a quarter-on-quarter basis, based on the various initiatives we may take, the overhead line item can show different trends, either growth or degrowth. But what we would like to say here is there is a certain guidance we have given in terms of the range, which is 11% to 13%. We do not want to change that range guidance at all and at times what happens is, these are fixed overheads in nature and as a result, they behave in a certain pattern. In a deflationary year, that as a percentage of sale will go up and in an inflationary year, those as a percentage of sale will come down. So, I would say you take it as a broader guidance. It will be difficult, otherwise, to map it on a quarter-on-quarter basis.

Karthik Chellappa: Just putting it in a broader context, would it be fair to say that, when Saugata talked about the war on waste and referred to advertisement expenses and probably even raw material savings, the other expenses line, the potential for savings will be much lower so ultimately, the leverage that you get will depend on pure revenue growth?

Vivek Karve: No. Revenue growth leverage is evident across line item, so there is no exception. However, when we talk of war on waste, the overhead expenses is definitely one area where we will focus with equal intensity as we do it for the advertising and COGS expenses.

Karthik Chellappa: Okay. Perfect. Got it my second question is on the Value Added Hair Oil segment. One of the initiatives that you have proposed in the information update is in the mid segment, you are proposing to accelerate growth through pricing and brand renovation. Could you maybe talk a little or could you give us some more color on what exactly you mean by that because in the low end, it is pretty clear. Your strategy was pretty clear that you had a leader who was making supernormal margins, so you came in with an aggressive pricing, and we were able to make reasonable margin but the second portion, could you elaborate a bit more?

Saugata Gupta: So what I talked about is, in the midst of a slowdown and some market action, which is leading to a bit of a downgrading in the segment, how do you ensure you have the right pricing for people to upgrade from the base to the mid segment and I talked about some of the brands,

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which we have in that segment and the second thing, I think a couple of brands have equity issues, which we are solving for in the next 1 or 2 quarters so some of it is also internal, which we have to solve for.

Karthik Chellappa: Got it thank you. Wish you all the best.

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

Latika Chopra: Saugata, you mentioned in beginning that you are looking to relook at your strategic priorities and rework the operating model. A few years ago, you had refreshed the innovation approach for Marico. In that context and based on the learnings from the new launches that you have done, would be good to hear your thoughts on whether your strategic review process will focus on your portfolio diversification strategy and if possible, at a broader level, what could be the likely steps to accelerate the diversification efforts?

Saugata Gupta: So to give you a broad flavor of this. If this slowdown persists, it will need a medium-term fix. We are witnessing some kind of a divergence in category growth across CPG, where we believe that Urban and Food are more likely to have growth potential so that means that can you accelerate given that you have now got a critical mass in Foods. That could be one. Secondly, I think the fact that I talked about now that new age channels are growing instead of mass advertising model, can there be an alternate models to drive digital-based brands in these new age channels and get some share of the growth. Third is, in view of the wholesale channel under threat and liquidity and the model gets challenged, can you now aggressively invest in direct distribution, which we have not been doing. The fourth one, analytics, how do you drive far more towards consumer pricing instead of all other initiatives. So, I think these are some of the things. As far as the learnings from the new initiatives is concerned, I think we have done a fairly good job in Aloe, Dry Fruit Oil and Foods, in terms of some of the new other things like Crème Oil and True Roots, there is a lot of learning from the prototypes, which we have to go back to the drawing board and get it right and I think there is a huge scope for us to continue to grow. Male Grooming, Skin Care, Kaya Youth, is just about getting critical mass. The new age Food also is, I would say, while it has done decently,

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I think 1 or 2 of the subcategories in the new age Foods, ie. FITTIFY and Coco Soul has the opportunity. So I think there has been a lot of learnings and in the last 2 years, our contribution of new products have improved, although far below expectations, it has improved, and we need to now reinforce our learnings and accelerate that.

Latika Chopra: 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: Firstly, again, on VAHO. I just wanted to understand the gap between the value and the volume growth and is there any one-off, which you spoke about internal equity issues in mid to premium brands. Just wanted to understand, is there anything, which is one-off for the third quarter and which can correct going forward?

Saugata Gupta: So I will just give you a market construct. I think if base is x, that the mid operates at 1.3x, the premium operates at 1.6x to 2x and beyond. Now if the brands at base only grow, and 1.3 and 1.6x brands do not grow obviously there is an impact on the mix and some of it is also some pricing actions we have started taking. Now this minus 10 is surely a one-off. I think it will gradually start reducing over the next 2-3 quarters, so it will automatically correct itself.

Amit Sinha: Okay Sir and basically, there has been a significant degrowth in the mid-to-premium segment in the quarter?

Saugata Gupta: Yes.

Amit Sinha: Okay. Secondly, is it possible to quantify the distributors stock positions or at least how much correction has happened in the last quarter and how much do you see because you also commented that this might further go down. Just wanted to understand broadly what is the level of correction, which is happening?

Saugata Gupta: So all I can say that secondary growth was in low single-digits.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Sir, my question is on VAHO, again. Is there any trend where the consumers have downgraded to low-priced units because of the frequency of usage must have stored, because earlier, they must be using it maybe all day a week and now the frequency has come down to twice or thrice a week? So is it something, which is happening in VAHO, that has resulted in lower consumption?

Saugata Gupta: No, I do not think the household panel is showing any consumption impact. Just to give you a more macro trend, the reduction of frequency that happens with a very top end, which is 1% or 2% of the population, is sometimes substituted by higher usage when relevant. There is no degradation. Now as far as the VAHO trends are concerned, it is similar in all other mass personal care categories, like shampoo, soap, skin cream, if you see the growth trends. I would think what is happening is because of the liquidity issues, because of weaker sentiment, there could be downgradation that is happening. I do not see the household consumption is decreasing. Given that it is a challenge in disposable income, sometimes there is downgradation so therefore, the bottom end brands have grown. The mid ones have not grown. Again, due to market conditions some our own internal issues and the top end, which is the premium end, we do not participate much, which is hair fall, etc.

Kaustubh Pawaskar: Right, Sir one last on the Southeast Asia business. What has happened there because the growth has moderated to 4%, 5%, which was earlier in double-digit and what kind of initiatives are you taking in this particular region?

Saugata Gupta: So I think it is in line with the growth of the main category where we participate, which is Shampoo and Male Grooming. We are looking at accelerating just as the way we have done in Bangladesh, the diversification of the portfolio and that will improve the growth rate. But in our core category, if we look at it, that will be the kind of growth rates. Having said that, I think we remain extremely positive about Vietnam, given the fact that the macros are very good. I think 2 countries, which contribute to around 70% of our International business, which is Bangladesh and Vietnam, have very good macros and the outlook over the next 2 years continue to be very good.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Equentis. Please go ahead.

Jaspreet Singh Arora: Just wanted to check on the initial comment you made about the movement back from the branded to loose, you saw that happening this quarter so if you could elaborate more on that? When was the last time you saw that happening and what are the specific reasons you would attribute this to?

Saugata Gupta: I think it is a combination of the fact that there is rural stress so therefore money in the hands of the people and the fact that we did not take the Parachute pricing correction and this would be happening only in rural so when I say branded to loose, it is basically SOR in households, which do dual usage. Maybe they are doing so there are a lot of households in rural, which use branded and unbranded so there the shares would have fallen so that is what has happened. It is not that somebody permanently going back into unbranded.

Jaspreet Singh Arora: Sure. I got it and therefore, now that you have taken the pricing action, that phenomena should not hold through anymore in the current quarter?

Saugata Gupta: In a gradual manner, I would say, because we were able to implement the pricing secondaries in the market only towards the fag end of December. As you know, there are STRs so it will happen over the next 2 quarters.

Jaspreet Singh Arora: Sure and this pricing actions, Sir, that you have taken, I believe, it is about 5% to 6% so on what percentage portfolio would have happened is it across?

Saugata Gupta: No, we have migrated some of our consumer promos also into pricing so it is not just an absolute price drop, but a significant portion of our Parachute portfolio and we have taken some tactical measures in mid-range Value Added Hair Oils and some we are still taking. So, some of them we are taking during this quarter.

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Jaspreet Singh Arora: Sure and if I heard you right, you mentioned the target is to come to high single-digit by Q2 next year and maybe double-digit by the end of the year so that would mean that we would need to be closer to mid-single-digit in the next 2 quarters would that assessment be right? I mean should we take the confidence?

Saugata Gupta: So by exit FY2021, we would try to get back into the double digits. It is not a weighted average.

Jaspreet Singh Arora: I got it. But you also mentioned a high single-digit for Q2 onwards?

Saugata Gupta: Mid-to-high single-digit from Q2 onwards.

Jaspreet Singh Arora: Okay. I am just trying to understand for that to happen, there has to be a gradual improvement, let us say, if not in Q4, but probably Q1?

Saugata Gupta: Yes, this quarter will be better than last quarter so definitely, yes.

Jaspreet Singh Arora: Understood and just, Sir, last thing, I think you mentioned about product innovation and the likes in the next 2 years. Would you be able to throw more light on what exactly you are referring when you are talking about the next 2 years pipeline in terms of new products, new brand extensions, product extensions? Is there anything you could throw more light on that?

Saugata Gupta: I think I have given you a broad flavor. I do not think we have to get into specifics.

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

Nikunj Doshi: This is Nikunj Doshi here from Bay Capital. Just wanted to understand, recently, Nielsen released a report saying that the rural demand is stabilizing and is likely to improve, whereas most of the consumer companies commentary is slightly different so where is the disconnect what we will see actually on the ground?

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Saugata Gupta: So if you ask me, quarter 3 versus quarter 2, we are not seeing any significant change. I think what Nielsen perhaps is seeing and we do have all the data which they have published that the deceleration rate has come down and therefore, they are thinking that we will now see a little bit of turnaround, given also the base that will set in by Q2 next year.

Nikunj Doshi: Thank you.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, my question is on your revenue growth and margins so going forward, will your sales growth in value terms be higher or lower than your volume growth, I mean, say, in FY2021 for the company as a whole?

Saugata Gupta: So the anniversarization of the price drops depends on 2 things. The pricing intervention in some of the portfolios, while in edibles, there could be a plus so I would think that revenue growth going higher than volume growth could happen only towards the end of next year, not in the immediate 1 or 2 quarters.

Ankit Babel: Okay and you also mentioned in your earlier remarks that this year you are reasonably confident of achieving a 20% margins, but next year, there could be some decline so could you quantify it and also, what would lead to such decline? Is it decline in gross margins, higher A&P or what?

Saugata Gupta: No, I do not think it is the A&P. A&P will be in the range of 9%. It is just because of the fact that, as I said, that there could be a mild inflation in copra, and also edible oil, while this inflation we will pass it down, at the same time, we will ensure that there is volume growth also being taken into account and sometimes, the 20% is also because of the denominator effect, because of the fact that we had a lower value growth. So I think that could also neutralize to a certain extent. Therefore, there could be a minor reduction in EBITDA margin.

Ankit Babel: Okay fine. Thank you so much Sir.

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Moderator: Thank you. The next question is from the line of Nitin Gupta from SBICAP Securities. Please go ahead.

Nitin Gupta: Just wanted to get a sense on why the tax rate has gone down for this quarter, from 26% to 23%?

Vivek Karve: So it is primarily on account of the fiscal benefits. However, if you look at the full year, last year our tax rate was ~ 25%. In the current year also, we see our full year tax rate to be in the range of 24.5% to 25%, so it is more a quarterly phenomena, and there is no change in our annual outlook.

Nitin Gupta: Okay and my second question is like, being a large hair oil company, just wanted to get a sense on the premium hair oil, so while the slowdown does not have an effect. But do you see there is an efficacy issue like the claim all the hair oil companies have put forward that it will arrest hair fall and will help in terms of hair growing so you see some impact of that on the premium side?

Saugata Gupta: No. I think the premium side is growing. I do not see any issue on the problem solution segment not growing. As I said, that we do not participate other than in the south through Ayurvedic and that is an opportunity for the long term and as consumers continue to have treatments, like coloring, etc, they visit more salons and do things like blow drying and other treatments, the need for hair nourishment and problem solving will continue to increase and only Leave-in Hair Nourishment category is positioned to take advantage of that, which wash categories or rinse-off categories cannot do.

Nitin Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Bismut Naik from R.W. Advisors. Please go ahead.

Bismut Naik: So what would be your total direct reach in both urban and rural, as well as the contribution from GT to sale?

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Saugata Gupta: Around 1 million is our direct reach.

Bismut Naik: For urban rural combined?

Saugata Gupta: Yes and our overall is, direct plus indirect is 5 million.

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

Harit Kapoor: Just one question really on the price premium for Parachute versus the unbranded or the loose coconut oil so how much had that expanded prior to your price activations and how much do you plan to cover it by?

Saugata Gupta: So we had expanded to beyond the yield point in our price modeling. As I said, we perhaps took a wrong call in quarter 2, not to take down prices. I think that was also because of the kind of growth we had in Parachute in Q1. We have subsequently corrected it back into our manageable levels and if there is a minor cost inflation in copra next year, I think our price premium will be definitely far more attractive than what it was in this previous year.

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

Kunal Vora: Just one question. Like you mentioned that to resolve channel conflict, you are looking at different assortment for different channels. Can you give us some examples of what you have done so far and whether the distributors are happy with, like there are any, what you have done so far?

Saugata Gupta: So I think, as I said, the distributors will be happy when there is growth and ROI, so our objective is to get it back on track and get stability. We are looking at differentiated assortments and pack size. I do not want to get into details. This a standard practice in markets where channel have to co-exist.

Kunal Vora: Okay that is it from my side. Thank you.

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Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Vivek Karve: We would like to thank all those who participated in today's call. As Saugata mentioned right at the beginning, while in the short-term the headwinds are pretty strong, we are hopeful of a recovery, especially in H2 of the next year. Thank you and have a good day.

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

(This document has been edited to improve readability)

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