Marico Limited
Q3 FY22 Earnings Conference Call

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MANAGEMENT: **MR. SAUGATA GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, MARICO LIMITED**
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Moderator: Ladies and gentlemen, Good day and welcome to Marico Limited Q3FY 22 earnings conference call. As a reminder, all participant lines will be in 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 '*' and '0' on your touch tone phone.

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

With this, I would now like to hand the conference over to the management for the opening comments. Thank you and over to you.

Saugata Gupta: Good evening to all those of you who have joined the call. I hope all of you, your friends and family are keeping safe and healthy. Yet another COVID variant has emerged across the globe while the number of infections has risen to record level. The severity has been largely controlled by the expanding vaccination coverage and a seemingly milder variant. Therefore, fortunately, the impact on public health and economic activity has been minimal.

Coming to the operational environment during the quarter gone by, in India, sustained inflation in the economy has certainly impacted disposable incomes and consumer spending, especially in FMCG, which is also evident in the sequential moderation and quarterly market growth as per the Nielson's figures. Given its relative susceptibility to inflation, rural has seen a visibly higher slowdown than urban. In this challenging context, we outperformed the overall market growth both in volume and value terms in the quarter, as well as on a two-year CAGR basis.

On a two-year CAGR basis, domestic volume growth was 7.3% and revenue growth of 15% was in line with our medium-term aspirations. This was enabled by consciously channelizing energies and investments towards driving market share and penetration gains in our categories. Nearly 95% of our portfolio logged market share gains and penetration gains on a MAT basis. While rural consumption has been slower of late, we are optimistic of our recovery with more stimulus and sops likely in the upcoming budget, a good monsoon season and a healthy sowing season. In international markets, we have another strong quarter of high teen constant currency growth with all markets posting healthy growth. The business has steadily become a mark of stability and a model of profitable sustainable growth, as its profitability has expanded over the last decade to being in line with the domestic business today.

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On a consolidated basis, gross margin was lower YoY but improved sequentially and should continue to inch up in the forthcoming quarters. As alluded to earlier, we stepped up A&P investments by 14% year-on-year and prioritized brand building for the long term over preserving short term margins in the face of input cost headwinds. As a result, EBITDA margin was higher sequentially, but still under pressure on a YoY basis.

We will now delve into India business performance in the quarter and outlook going forward. Parachute Coconut Oil delivered a stable quarter with a two-year volume CAGR of 4% despite the moderating consumption environment, exhibiting a competitive edge by gaining 220 basis points in rigid packs on a MAT basis. We have been proactive in passing on value to consumers, and have taken pricing calls in quarter 3 and quarter 4 right now, given that copra prices are further softening in Q4 this time around, which is typically the offseason. We expect an uptick in volumes in Q4, despite an exceptionally high base of Q4 last year on the back of the brand's equity and focused activations in core and non-core markets, and proactive and accelerated pricing calls. The medium-term potential of 5 to 7% volume growth CAGR is very much intact.

The Saffola franchise posted healthy double-digit growth. Saffola Edible Oil had a soft quarter due to higher in-home consumption in the base and weak trade sentiment on account of a volatility amidst a declining trending in edible oil prices, thereby leading to substantially low STRs in trade. Now with crude prices hardening and the descent in edible oil prices arrested, prices are stabilized in a range. We have also taken some pricing interventions just now in January and therefore now Saffola is extremely competitive in the marketplace and therefore we are confident of improving growth trends going ahead. Foods continued to be on an accelerated growth momentum. We are confident of reaching about 500 crores in Foods this year. Saffola Oats has attained the #1 position in value terms in the overall oats category which includes plain oats notes and masala oats. In honey, despite winning traction, there has been modifying category growth as we know that in the base, there has been two years of COVID. The brand has an all-time high market share of 13% in modern trade, and a 23% in e-commerce, which is heartening given that these channels accounts for 30% of honey category in India. We expect to continue to gain market share in GT in the coming quarters. Soya Chunks has exceeded internal expectations and is scaling up to gain mid-single digit share in a rather short span of time. Oodles, though slower than planned, is being prototyped in select GT markets. We remain invested and we will drive awareness and market development for the brand. It is early days for the new Chyawanprash but we continue to get the traction closely and build awareness and visibility for the brand. We are cognizant that every new initiative in Foods may not turn out to be a quick-fire success, but may have longer gestation period than some and therefore will certainly continue to back such NPD sufficiently. In fact, one of the things we have corrected and got the model correct in foods is that we have a strong innovation pipeline. We have a strong

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execution skills and we will remain resilient and ensure that we stay invested in all those brands which we have launched in the past one year.

Value added hair oils grew in double digits on a two-year CAGR basis and gained value market share of 80 bps during the quarter. While tepid rural sentiment muted the performance of the bottom of pyramid segment, the mid and premium segments showed better traction. In line with the intention to drive higher value share gain by driving a richer mix and participating meaningfully in the premium segment, we launched Parachute Advansed Onion Hair Oil and Jataa Ayurvedic Hair Oil for Men, both digital-first brands, broadening our presence in anti-hair fall. We will continue to launch more digital first brands in the premium segment of VAHO. As consumption growth trends normalize, we will continue to aim for double digit value growth in hair oils over the medium term.

The Premium Personal Care portfolio remained steady. Livon Serum sis now well ahead of its pre-COVID run rate. Male grooming is steadily recovering. Having said that I think the current Omicron wave would have disrupted a little bit of growth but it will pick up very soon. Beardo and Just Herbs track in line with our internal targets and acquisition assumptions. We remain positive on the growth prospects and discretionary consumption out of home activities are picking up.

Moving to international, Bangladesh has gone from strength to strength as we continue the diversification journey through accelerated growth in the hair care and Baby Care portfolios. We have also launched a Saffola Honey in Bangladesh along with cooling oil, thereby broadening our play in foods and hair oils in the region. Southeast Asia came back smartly as pandemic led restrictions eased in Vietnam. The MENA business is also treading on a steady growth path. We forayed into Hair Oils in Egypt and Foods in Middle East, thereby expanding the total addressable market in the region. South Africa has also been stable on the back of a healthcare portfolio.

While we are expecting volume growth trajectory in a domestic business to improve in the near term starting with Q4, we need to continue to focus our energies towards the following strategic priorities so that you can deliver healthy, sustainable, and profitable growth over the medium term.

Firstly, we will invest in core power brands and drive premiumization across the portfolio. We have also enhanced our pricing model through net revenue management and we believe we will reap rich dividends over the medium term.

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Secondly, we will continue to be aggressive in driving market share gains and market development in the Foods categories we have forayed into as well as explore a couple of new launches in Q4 or early FY23 in order to build INR 850-1000 crore portfolio by FY24.

Next, we believe our efforts towards go to market transformation in urban and rural enable us to maintain our competitive edge over long term. Our investment in investment in automation and analytics are also enhancing the productivity of our entire sales and supply chain network besides investing in chemists, cosmetic and food outlets in Urban.

Then, we will broaden our digital play through both organic and inorganic routes as we chase our aspirational target of INR 450 to 500 crore digital-first brands business by 2024.

Next, we believe the international business has got into a rhythm of robust growth along with healthy profitability. We now have an institutionalized capability, which will enable us to replicate the Bangladesh model in other geographies. We will be expanding the total addressable market, especially in MENA and Vietnam, which will help us broaden our play in these geographies, and in turn, of the overall international business.

Our institutional cost savings programs further allow us to remain competitive and deliver profitable growth during inflationary cycles and other adverse operating circumstances. While input pressure should ease here on, we continue to set aggressive targets to fund incremental investments in brand building and market development. You will realize even in this quarter, contrary to other players in the sector, we have continued to invest behind brand building, with 14% increase in A&P in spite of so much input cost pressure.

Last but not least, ESG is integral to our purpose and existence. We continue to make steady progress across the key pillars of our ESG program, details of which are available in our earnings presentation.

I would like to close my comments by conveying my gratitude to all the Marico members and associates for their tremendous grit and resilience during the rather extended period of COVID. It is this collective spirit that keeps us firmly tied to a common purpose of making a difference in the lives of all our stakeholders.

Thank you for your patient listening and we will now take your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Avi Mehta from Macquarie? Please go ahead.

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Avi Mehta: I wanted to kind of just, you know, double click on the EBITDA margin, performance or expectations. Now, you had indicated at fourth quarter would start witnessing the benefits flowing through to EBITDA margin, and, you know, it's kind of play to that script. Just wanted to understand when you say flowing through, would it be how to expect 19% plus margin coming through in that time is, you know, could you kind of give us a sense on what are the targets that you have in mind.

Saugata Gupta: So, gross margin will continue to improve. As far as EBITDA is concerned, you will see definitely a YoY improvement in Q4. Going forward, especially in Q1, we are expecting a significantly deflationary copra and I hope by that time crude will also cool down. I think you can expect a normalized EBITDA coming from Q1 definitely.

Avi Mehta: The normalized range would be?

Saugata Gupta: I mean it will be in the long term range, which is 19%+.

Avi Mehta: Okay, perfect. I just want to reconfirm that and second, you know, wanted to kind of just hear your thoughts on the rural side. I mean, last quarter, you had argued that, you know, we do not think there is a slowdown in rural, but now it's the second quarter and, you know, multiple CEOs have also argued that there is some concern on real demand, you have highlighted that your expectations, industry expectations are of you know government support, but barring that, could you kind of help us understand your thoughts on rural outlook?

Saugata Gupta: It is a combination of two things. First, there is an optical factor because we had a very high base. Secondly, as you know, whenever there is high inflation, especially if there is a food inflation, the share of wallet towards FMCG swings a bit and there is also risk of downgradation. I think a combination of this is happening and what we are hoping is I think the government is cognizant of it and we expect some of the support in rural to continue and if monsoon and the sowing season is good, this will ease off because also we are cycling a very high base. In our case particularly, if we look at our volume growth, we are cycling of 15% and 25% volume growth rates in Q3 and Q4 respectively. So, if you look at sequential run rates in absolute numbers, it does not look that bad, but obviously YoY challenges are higher.

Avi Mehta: Exactly, I mean, what I was trying to kind of understand is the expectation is that building a rural uptick or how have you kind of.

Saugata Gupta: I think there should be some improvement. We are also expecting somewhere the overall inflation to settle. You must also realize as far as we are concerned, I think this time we have

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been reasonably proactive and pricing intervention in Parachute. Having said that, it takes four to six weeks too for the market to actually see that price because as you know, the total STR plus finished good stock. So, I think one of the things in Q3 in our power brand Parachute and Saffola the pricing was also not right. Having said that, I think this time having been extremely proactive in pricing given that we have a fairly good pricing model in place, I think we should be in a better position actually to get some growth in spite of the fact and that's what I said that even we have a very, very high growth base in Parachute in Q4, but we should be able to improve the performance.

Moderator: The next question is on the line of Percy Panthaki from IIFL Securities, please go ahead.

Percy Panthaki: I just wanted to get some understanding on the Saffola Oil portfolio. So, as per my calculation and please correct me if I am wrong, the YoY volume decline in Saffola, this quarter would be approximately at around double digits. So, just wanted to understand if that is true, then why is it such a big decline even on a two-year basis, if this 10%-11% kind of number is actually in the ballpark, then even on two-year basis, we are at around 3-3.5% kind of volume growth on a 2-year CAGR basis, which is also very low. So, any thoughts on this?

Saugata Gupta: I think there has been a moderate decline, but not exactly what you are estimating. Having said that, I think there are two reasons, if you really look at it, I think we have a very high in-home consumption in the base. The second thing, as I said, there is a combination of inflation. Also, whenever there is a gradual slide in prices, two things happen. One is our pricing is chasing the trend. If there is this sort of deflation in edible oil, we are not a commodity player that we are going to take pricing calls every day. We take it at a certain frequency. Number two, traders reduce the STR. That is why that penetration in Saffola has not been impacted. What has got impacted is that component of higher consumption, which, as you know, in October, November, what happened is everything opened up and therefore compared to last year, I think there was far more out-of-home consumption than in-home consumption. So, I think that will start correcting itself and this quarter, we have a better pricing in the market. This gradual sliding and volatility is not good for the brand. We always do better, relatively, when there is stability and inflation rather than sliding deflation. So, given the current situation, I think things will get corrected itself and I think you have to look at a 2-year CAGR, the 2-year CAGR is broadly in line with the medium term aspiration, maybe a tad lower. But, we are looking at value growth in the Saffola franchise, which is reasonably on the mark.

Percy Panthaki: Secondly wanted to sort of look a little bit into the future in FY23. So, the model, I think, for FY23, will be that since input costs are declining, there will be no sort of YoY price growth in FY23, or very-very small price growth if at all, and the growth will be volume lead, and in this

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kind of an environment where there is pressure on the consumer, and the volumes are on, I mean, under pressure. Does that really put a question mark on the overall top line growth of the company and also, given that input costs are sliding? How should we look at your margins next year? So, do we see a model where next year is going to be mid-single digit kind of top line growth, coupled with low double digit kind of EBITDA growth due to margin expansion? Would that be a fair way of looking at your next year?

Saugata Gupta: I think it is a bit premature because there are two elements of it. What is relatively certain yet is there will be copra deflation therefore, if we get our pricing right, I think we will get good volume growth in Parachute, however, there will be a deflation component in Parachute. It is very early to comment on the situation on edible oil or crude because as things stand crude is inflationary. So, it will be difficult to comment on the other part of the business. But having said that, I think one of the other good things that will happen and we have put in place significant cost management exercises, which will accrue next year, so all I can say is that there will be significant comfort on the margin front. Now, obviously, we will keep gunning for growth ahead of the category growth. Now, a lot will depend on how the economy shapes up, but I think what we are sure is this that we will continue to have a dominant portion of portfolio continuing to gain market share and penetration, the foods journey is going to be intact, the digital brand journey is going to get accelerated and the Parachute part is clearly certain. It is difficult to take a call on the rest of the business, as it will all depend on the rural growth or inflation in terms of how it will shape up. But definitely we will be far more comfortable on the margin front than what we were this year and we need to continue to invest in our A&P and if you see our A&P which had gone down to some 7-8% in some of the quarters, we are definitely confident of actually investing behind 9% plus in A&P.

Percy Panthaki: Sure. So, all in all, you would be fairly confident of growing profits in double digits next year. Right?

Saugata Gupta: We will be comfortable. Now, it is very premature given all the volatility, but yes, the operating margin will certainly be better next year than this year.

Percy Panthaki: And last question, if I may squeeze in on the digital brands, I know that this information is sensitive and you would not like to give out brand wise, but all your four digital brands put together what kind of net sales do you think they can generate this year FY22?

Saugata Gupta: I can give you a ballpark and we talk in net realization. It should be in the range of 150 to 200 crores. It's our annualized kind of a number. But it is net realization, just clarifying, and not GMV.

Moderator: The next question is from the line of Abneesh from Edelweiss, please go ahead.

Abneesh: My first question is on Saffola Oats so if you could give us the broad split between plain and masala oats for you and the industry now versus say three years back so wanted to understand what is driving this number one position and the 560 bps gain in market share and second related question is that Pepsi has also launched a bit different Masala Oats wherein they are giving the Masala sachet, so they don't have which you are offering. They are trying to offer a more value product to consumer by offering masala sachet wanted to understand consumer behavior wise will it be having an impact?

Saugata Gupta: I think it's difficult for me to give a breakup, all I can say is that obviously we have been far more dominant in Masala Oats than plain oats, but over the last one or two years, we have made significant forays in gaining in plain oats also. Now that we have at this scale, we have a significantly profitable module you know at which we can operate. As I said, I think it is still a category expansion task and therefore the category penetration in this is still low. As you know what we started off by taking a Western breakfast concept which was cold into savory and hot and moving it from breakfast to in between meals, the journey is far from complete and I think yes, there could be one or two players adding into this segment, but I think there is a huge category penetration task which needs to be achieved.

Abneesh: And how about the Masala sachet.

Saugata Gupta: It is ultimately consumer decides and I mean it is very difficult to comment. Our endeavor always to deliver based on consumer insights and trends to deliver consumer delight at the lowest possible cost and offer highest possible value.

Abneesh: Sir one follow up on oats. Oats has gone strongly at 28% and you mentioned a Saffola edible oil slides in home consumption which was high in the base or those kind of issues so in oats also the in home consumption in the base. Would that be a challenge and oats any sense you can give to what could be the growth this quarter. You have given 28% for food, but there are multiple new products also there.

Saugata Gupta: So, I think food were also starting to cycle a higher base but anything between 25% 30% growth in foods will bring us nearer to our aspiration in FY2024 so it is important that we grow food every quarter by 25-30% minimum. Oats has also grown well. Regarding the in-home consumption, oats as I said the penetration is so low as long as penetration increases growth will happen. I think it is a question of penetration and, as we said this year, we have started gaining market share in plain oats, so it is a combination of gaining market share in plain oats and driving

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penetration in masala oats. So, therefore the in-home consumption factor is not that much of a factor unlike in Saffola, where when a person stays at home specially, a typical Saffola consumer who tends to eat out who tends to travel whenever that person tends to stay home, the consumption multiplier is very high.

Abneesh: So, my second question is on Bangladesh, so your new products Red King Cooling Oil. So, want to understand here, the main number one player here is again, the same Emami which has dominated in India and second brand expansion in hair oil in India has been quite challenging by any of the players, you have done well in Amla, but you have not seen success against other players in outside the core. So, how is your positioning and pricing different versus Emami.

Saugata Gupta: It is a differentiated concept. As you know, in Bangladesh, we have a significantly dominant position, distribution and overall capability and we have a proven model in diversification, whether we have done well in shampoo or baby. In value added hair oils, we have been steadily increasing share, whether it is in hair fall or perfumed. So, this is one more endeavor. Having said that, the way to look at it is that you know, it can be a reverse osmosis kind of a thing also in the sense that you know, if a prototype or a mix is successful in Bangladesh, it could mean that we can go, starting with east of India. So, it can work reverse also.

Abneesh: And last quick question, if I see the ad spend by Colgate and Unilever, Colgate down 24% YoY, Unilever 14% on absolute basis, and you have done a very proactive increase of 17% in the India part of the business. So, is it going largely in the new products this quarter and what is the thought process when slowdown is there and crude has again started going up. So, would you reconsider this 9% guidance which are given saying in the advertising spend, because other companies are cutting. We have picked up from TV broadcasters also that FMCG has clearly cut down significantly, so wanted to understand what has driven this this quarter.

Saugata Gupta: 9% is an indication of next year and in our case, as you know, so we have a slightly different mix where we face unprecedented inflation starting from quarter one of this year on copra. Number two, I think we will continue to invest behind three things, one the digital part of the business, two is the food business and also as you know that even in value added hair oil premiumization you will see far more action and I think we have a very strong innovation calendar, you know, reasonably ready over the next 6 to 12 months. I strongly believe that compared to in the past, in terms of our execution capability, our resilience, as well as our ability and we might suffer from setbacks, but every time we will go you know, we will fall down , we will come back running and therefore our approach to innovation is far more resilient in terms of both risk taking and aggression appetite has changed because we believe that our execution

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capability has improved substantially. So, all this will go towards this. Would also remind you that in foods, we now have a reasonably working model.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies please go ahead.

Vivek Maheshwari: First is on the VAHO portfolio, let's say near flat volumes so you know the release say that you have gained shares, what is ailing the VAHO market and I would have imagined you know, given the kind of base you have had if I take let's say three-year CAGR for example, given that, you know, 2-years back you have had a decline the volume growth comes to about 4% CAGR. So, what needs to change for this portfolio given you know, you are sitting on a low base, if we take up you know, the last few years, should not this number or does this number disappoint you.

Saugata Gupta: No. So, I think it is in line with the market you know. There are two things that are happening. See the VAHO growth, if we look at the last year had been fueled a lot by the bottom of the pyramid. So, whenever there is a rural slowdown, there is a combination of downgradation and the bottom of pyramid slowing down. We have not done well so much in the premiumization, we believe now we have the wherewithal to improve our track record as far as premiumization is concerned. I think we are okay with the kind of performance we have in a two-year CAGR basis. I believe that the category growth will start improving. Especially, if you look at Nielson's numbers and the category, the biggest impact has been in the rural sector, and also Q3 and Q4 has a very high base. So, I believe it will start improving Q1 onwards.

Vivek Maheshwari: Right. Got it. Second, on the price changes that you mentioned. So, could you just quantify what is the change that you have taken in the month of January.

Saugata Gupta: We took some price drops in October, then we have taken in December and January, and we are taking one price drop now and this time we have been, unlike in the past, taking proactive pricing calls. We believe that right now, our pricing in Parachute and Saffola is in line with the market. Saffola will be competitive given that actually crude oil and vegetable oil might go up in the next 2-3 months. Copra actually will follow reverse. There could be as you go into the season, there could be a further deflation and if is it necessary we will take another, we are not going to be shy on taking price drops and, you know, our endeavor is to ensure that volume growth happen and not short term margin, setting margins in any case, we are coming off from a low margin in the base. Margin is not the problem at all and that is the reason in spite of a very high base of Parachute growth, we are confident that we will be able to deliver volume growth in Parachute even in Q4.

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Vivek Maheshwari: That's good to know, but Saugata when you say that, you know, you have been proactive and guessing you know, this will be in some ways ahead of the competition. That's what you mean when you say proactive or it is more of a reaction?

Saugata Gupta: No, so, when we had an unprecedented inflation, it is not that we took increase in line with inflation, when I mean proactive is that we will ensure that broadly, the RPI, the relative price index or the price premium versus unbranded and smaller players doesn't go up. Whatever was there in inflation, we will broadly keep in deflation. Normally, what happens is during deflation, that price premium index usually tends to go up because we tend to take much more margin. So, I think this time we are being extremely careful on that.

Pawan Agarwal: Just to add to what Saugata said, so when we saw first signs of deflation, what we did was we took price correction in recruiter packs and when we saw further deflation, then we took a price correction in the consumption packs and this was far more proactive as compared to lets say when we take price increase, we typically wait and then take a price increase. So, two interventions we have taken and the third innovation we're taking in January.

Vivek Maheshwari: And two more quick questions Saugata. One is this urban you know what you put out on your presentation that because ultimately for you, the salience of urban is far higher. So, while the discussion is lot more on rural, but even urban decelerating, is that just a base issue and I am guessing it will not entirely based issue. So, urban itself is also slowing, which is also a worry right

Saugata Gupta: You must realize that all our new endeavors, whether its foods or in digital are very urban skewed, so somewhere it neutralizes and cushions. In rural, we do not have such a cushion.

Vivek Maheshwari: Got it and lastly Pawan quick one, any comments on the staff cost which has gone down?

Pawan Agarwal: Yes, YoY there is some correction. There are three reasons for it. First of all, there was a higher charge to the P&L in the base quarter on account of some cash settled share-based payments, as the stocks had appreciated in the base quarter, whereas in the current quarter stock price has corrected. Secondly, also in the base quarter, we had one-off sales incentive for frontline members in the wake of COVID, which is not there in the current quarter. Lastly, there are some one-off reversals in the variable pay provisions based on the projections for the full year. However, if you look at the YTD number, Vivek, you will find there is a range about 6 to 7% growth which is broadly in line with what the staff cost will be growing at.

Moderator: Next question is from line of Harit Kapoor from Investec. Please go ahead.

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Harit Kapoor: Yeah, so just had two questions. Firstly, was on Parachute. Seem extremely confident of return to volume growth, just wanted to understand that, you know, some of these interventions which have already made in the market, are you already seeing the benefits of that, say during exit quarter three or early quarter four and that kind of is driving your confidence.

Saugata Gupta: The model suggests when are our price index is right, volumes automatically happen. As I told you, there is a 5-to-6-week gap that takes place because of STRs and all the distributor stock cover and the depot stock cover which we have in Parachute. Yes, if you are saying that whether January has been better than December, the trend is better, obviously, when the pricing is right. Having said that, if there is further deflation, if I do not take it action, again, that will get neutralized. So, we have to be prepared to take further price action.

Harit Kapoor: And you also mentioned that you are the only player in the space that has gained market share. So, is this like a broad based gain across competitors? I do not want specific names, but would it be specific to somebody or because number is quite large.

Saugata Gupta: What we have seen is that this process accelerated ever since the onset of COVID, that organized players would have a better chance of gaining market share. In this case, also during times of sustained deflation, we had in the past when you had not taken proactive pricing calls, there is a vulnerability of losing market share. If you look at history, we gain market share during inflation, we lose during deflation. Having said that, when there is significant food inflation and overall absolute inflation, obviously, sometimes we tend to lose market share. I think it has to do with pricing and distribution and I think the other thing while we do not talk about it, whatever you call it whether cluster strategy or mini India strategy we are now having trade strategy or an activation strategy, which is divided into multiple clusters and therefore, that is paying dividends. Our Parachute pack strategy across channels is also different. I think that is also paying dividend that we are targeting specific places to maintain market share and let me tell you also, in spite of the so called competitive intensity, I think we have hardly lost market share in any of the quarters over the last few years.

Harit Kapoor: The last question was on the margin side. So, you know, I think a participant already asked this, if you look at FY23, you are going to see deflation sequentially and YoY across some of the key commodity, you will pass on a bit of it obviously through, you know, to drive volume, but you are also going to see you know A&Ps are going to be in the 9% odd range will be mentioned. So, is there you know a possibility of materially higher kind of operating margin above your 19% threshold, just wanted to understand that I mean you seem to have a lot of triggers for margin expansion moving into next year.

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Saugata Gupta: It is very difficult to predict right now because I think we have a little more certainty on copra, but we do not have a certainty on crude and therefore, on edible oils business or also impact on packaging and therefore, it is a little difficult to say. Having said that, I think obviously the pressure that has released on copra and I think if you look at the peak copra last year versus now, it will certainly aid in that. The other part of the margin expansion is also because of the denominator effect, you know and there is no inflation component in your top line. So, that will also aid, the percentage operating margin, EBITDA percent right.

Harit Kapoor: And also there is an initiative on cost that you spoke about last quarter which will come into effect.

Saugata Gupta: That should be accruing, yes. Having said that, we will continue to invest because we have an agenda, we are determined to do two things one is having a scale in both the digital and the food business and especially they are showing momentum. We seem to have got some of the things right and therefore we shall not shy away from investing behind growing these businesses. Similarly, as I talked about the international business, we will be very focused on replicating the Bangladesh model in both Middle East and Vietnam because I now believe we have building blocks for a repeatable model of growth and therefore we should not shy away from that also.

Moderator: Next question is from Ravi Srivastava from Bay Capital. Please go ahead.

Ravi Srivastava: I wanted to ask you a question on digital A&P. So, can you just talk to us about the mix of A&P how has it moved in the last three to four years from where it used to be in digital to today where it is in digital.

Saugata Gupta: From single digit, it has crossed 20% now. Now, the way we look at it, there are three kinds of buckets of brands, we call it digital first brands, primary digital brands, where E-com and modern trade constitutes 40% of the brand, a brand like that will be a Livon maybe while digital first brand is a Beardo or some of the things which we are now launched and then there is core mass brands. Now, in some brands in the group A digital spends could be as high as 80%. In group B, it could be 40% and maybe in still in other brands, it could be you know, either high single digits. So, our weighted average digital spends is now crossing 20%.

Ravi Srivastava: And where was this number, maybe say, two, three years back.

Saugata Gupta: It would be in single digits few years ago.

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Ravi Srivastava: Second thing I wanted to understand was, you know, your mix on digital, or you talk about ecommerce is roughly 8% of sales, right? What is the mix there versus, you know, what's the company's mix? So, I just want to understand what the consumers there buying.

Saugata Gupta: So, lets take one category, you know, and I think then I can explain to you. So, if I look at value-added hair oils, we have an overall market share of the 36-37%. Now if I look at the premium side of the business, maybe our market share is in single digits and I am not telling you the market share, but it would be broadly single digit. But there is a huge opportunity which perhaps some of the new age players or startups have exploited and that is that a realization of 4x-5x, terms of realization or average RSP or the selling price. There, we have not participated but now we are geared for it. I mean, the biggest learning from Beardo and Just Herbs is now we have significant digital marketing capability. We know how to do performance marketing. We know how to do search. We know how to do a working model where you test and learn, and fail fast and 60 day innovation cycle. So, what you see in Jataa and Parachute onion oil is just a glimpse, and you will see much more of it and let me tell you, it makes much more sense to expand the addressable market with power brands like Parachute Advanced. So, we believe that, you know, there is a huge share to be gained from that. Because right now, in that share of that premium E-com market in value added hair oil, as an example. Its the same story maybe in serum, we are much better in male grooming because of our participation in Set Wet and Beardo, but in these two, we have far lower market share than what we are in at an GT and MT. It's the reverse case in some of the new launches in foods where we have disproportionately high market share. So, I think what it tells us that we know the model to do it. In honey, we have a 23-25% market share in E-com.

Ravi Srivastava: So, two follow ups on this. One is this your thoughts on how big you know, forget about you know, next year or a couple of years later, talking about 2030. How big can you know e-commerce as a segment for you can be in terms of percentage of sales? That's one and what I am trying to basically get at is can these traditional categories also sort of start seeing more salience on online and second is you guys have been you know, at the forefront of digital media spend? I have seen your, you know, Tiktok videos, and a lot of other spends which you guys have done much sooner than most other listed players. Can you talk to us a bit about those different mediums? What are the mediums which are doing well? Where is your incremental digital spend. Within that digital space, which are the platforms where you are spending a lot more and where a consumer sort of moving towards. Both two things if you can elaborate?

Saugata Gupta: So, I will not get into details. What I can say is that we have invested significantly in digital marketing capability. Our investments in Beardo, Just Herbs and the kind of talent today we are hiring. We are hiring talent from startups. It is giving us a significant capability in that space and therefore, I keep on saying that the only good thing perhaps I have done for the digital business is not to collect 20 Marico MBAs and get into and try to improve Beardo. We have let them be and therefore, there is a significant amount of innovation and experimentation there and therefore, that gives us the opportunity to be at the leading edge of capability development. Now, that has helped, I would say. We are trying to do a culture change within the mothership in terms of those learnings to be transmitting back to the mothership and therefore, this digital foray in terms of onion oil and Jataa and you will see some more. It is the first endeavor from the mothership. Now, regarding that thing about that split of 2030. First of all, I'm not a visionary at all. It is very difficult to predict, especially in these volatile times, for example, I think e-commerce growth in post COVID. What could have happened in four years got compressed into one year. So, what I can see in India it will be 'and' growth, and there is nothing such as 'or' growth. Therefore, I think India will not behave like China. India in terms of the traditional trade, modern trade never behaved like some parts of Southeast Asia or Europe. So, India will be a different model, some of the disruptions today, please do not undermine the neighborhood Kirana, the neighborhood Kirana in terms of transformation, I think has been extremely agile and smart. The GTM distribution system will get automated, consolidated. There will be significant transformation in the GTM system. So, I would refrain from saying that, you know, what will be the thing about e-commerce, I believe it will be an 'and' growth, and there will be a significantly transformed GT, which will continue to perhaps be dominant even in 2026 and beyond.

Moderator: The next question is from the line of Palak Shah, Infina Finance.

Palak Shah: Just take your feedback while we keep discussing our YoY number for rural and urban growth can you shed some light on this 2-year CAGR would be in the performance for both rural and urban? How is your performance on a 2-year CAGR for an urban and rural? I am talking specific for Marico.

Saugata Gupta: So, I think 2-year CAGR is fine. There is no stress in 2-year CAGR. It is general trade, especially rural, which has slowed down in this quarter. So, 2-year CAGR is broadly in line, as you know, last year, specifically for Marico, we had significant growth. Volume was at 15% and therefore GT had a tremendous performance. So, had E-com. The only change that has happened I would say is that this year relatively modern trade has performed much better and e-commerce, which had unprecedented growth, that has slowed down a bit.

Palak Shah: Secondly on proactive pricing in the Parachute side. This will be similar to what we tried in 2018, where we try to predict commodity Copra prices, and that accordingly, take a pricing interventions, or this is only.

Saugata Gupta: In 2018, we got it wrong. So, 2018 we delayed. So, for about 2 years, we have not done a good job. This year, I would be not give a pat on my back right now. But I think we have been a little more proactive is all I can say.

Moderator: The next question is from the line of Vaibhav Badjatya from HNI investment, please go ahead.

Vaibhav Badjatya: So, I have a question on the premium end of the VAHO market, you know, so there is a large market there which is currently captured by the competitor and they are trying to do a lot of things by launching dry fruit and others. So, if we look at the overall market, it has not grown too much. Within creator, I am talking about the premium end of the market. So, what do you think that why that over-all market has not grown? I am not just talking about last 2-3 years, but over the last 7, 8, 9 years, there has been no growth in that end of the market. So, what can change going forward and how we can drive that category? Something, I am trying to understand.

Saugata Gupta: So, I think in terms of there are three vectors of growth in the premium end. One is the problem solution, and I am not including cooling, because cooling is not for hair nourishment, cooling has a different benefit. Other than cooling, there are two vectors of growth one has been problem solution, which has been driven by hair fall and the second one has been sensorial, which is largely been driven by, you know, non-sticky hair oils, like, you know, Almond and or Hair & Care, and Aloe. I think as far as we are concerned, we have been reasonably successful in Aloe and we have a presence in the hair fall segment in the South with Ayurvedic. So, I think that is one area we need to and you will see far more aggressive action in hair fall. Because if you do not succeed in hair fall, you do not succeed in a premium end of the VAHO market. The other end of the VAHO market, which has developed and which has none of organized large players, which are there has taken but has been taken up by the startups and that market has become significant specially on the digital side is the, onion oil or apple cider vinegar based hair oil. That is where we are trying to foray into. Now, obviously these are baby steps, but I think we believe that at least, both in hair fall and in the digital brands, I think we have learned from the past and driven execution capability. So, the one which we have not been able to tackle so far, is almond. But having said that, you see people do not go by species, but the people go by sensorial and benefit. Therefore, I think what is also happening especially in the Hindi heartland, you see, there is a far more growth at the bottom of pyramid which we are participating in and in the Hindi heartland, if you look at even some of the other hair oil players, while they are launching a lot in the bottom of pyramid, it is also cannibalizing a lot from their premium brands. Now, in our case, the premium market share in the North and East is very low and for us, it is okay because we have nothing to lose there because the market is moving towards the bottom of pyramid. Having said that, if we can get higher share in value added hair oil and participate better in digital brand. I think as far as a digital brand's capability is concerned, I can confidently say that we are we are reasonably good there and I am confident that we will be able to garner share as I gave you an idea that we are maybe single digit share in that compared to a 36% market share in the overall market.

Vaibhav Badjatya: And then on the specifically within the Almond market there is a large market which is captured already by someone else so what is your strategy on that? How do you want to tap that and gain some good revenues from there, because that is a highly profitable large market, which is available.

Saugata Gupta: But a me-too strategy might not work. I mean ultimately people go for benefit as opposed to a species as such. So, we are looking into that opportunity, but just a Me-too strategy need not always work.

Moderator: Next question is from the line of Sheela Rathi from Morgan Stanley, please go ahead.

Sheela Rathi: I just had one clarification in terms of the launch of the onion oil. If I understood correctly, this is a Digital-First brand and you have launched it more in the rural market. Is that understanding correct?

Saugata Gupta: We have launched it on E-commerce. Not in the rural markets.

Sheela Rathi: Okay. So, it is more of an urban play and only on the e-commerce side.

Saugata Gupta: Right now in e-com but obviously given the strength of the brand and if it meets action standards we will definitely extend into offline, right.

Sheela Rathi: E-commerce So, this is more of a foray into the urban market on the digital side and is there any initial feedback because we already have an entrenched player there?

Saugata Gupta: I would urge you to see the bestseller rank on Amazon.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for the closing comments. Thank you and over to you.

Saugata Gupta: Thanks a lot for listening in on the call. To conclude, we had a resilient Q3 performance in the current market context, with healthy topline growth both in India and international markets. As Saugata mentioned, we expect an uptick in volumes in the domestic business going ahead in

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spite of higher base. The international business should continue to outperform. With cost pressures easing, we expect gross margins and earnings growth trajectory to improve, while maintaining optimal investment in brand building and market development.

If you have any further queries, please feel free to reach out to our IR team and we will be happy to address the same. That is it from our site. Please stay safe and take care!

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Marico Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

(This document has been edited to improve readability.)

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