



Marico Limited
Q3 FY24 Earnings Conference Call

January 29, 2024

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CHIEF EXECUTIVE OFFICER, MARICO LIMITED
MR. PAWAN AGRAWAL – CHIEF FINANCIAL OFFICER,
MARICO LIMITED**



*Marico Limited
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Moderator: Ladies and gentlemen good morning and welcome to Marico Limited Q3 FY24 Earnings Conference Call.

We have with us the Senior Management of Marico, represented by Mr. Saugata Gupta – MD and CEO and Mr. Pawan Agrawal – CFO.

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.

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

I now hand the conference over to Mr. Saugata Gupta for his opening comments. Thank you and over to you, sir.

Saugata Gupta: Good evening to all those who have joined the call and my best wishes to all of you for a very happy and a prosperous year ahead.

I would like to begin by reflecting on the operating environment during the quarter post which I will give you a flavor of our performance followed by the strategy and outlook going forward.

During the quarter, the operating environment was largely in line with that of the preceding quarter with no discernible uptick in consumption. FMCG volume growth on a 4-year CAGR basis remained in low single digits, with rural, mass and HPC categories tracking lower than urban, premium and food categories. So far while the pace of recovery in consumption has not been on anticipated lines, we remain optimistic of a gradual uptick in consumption trends over the course of the next calendar year in light of improving macroeconomic indicators, continued government spending, lower inflation and substantial cuts in consumer pricing implemented by large, organized players in response to an accommodative and stable input cost environment.

The prevailing consumption growth pattern, which appears to be more K-shaped, has also led to a continued divergence between how General Trade and organised retail has fared, with the former contending with low business growth and rising costs resulting in profitability and liquidity challenges in the trade. Given the heft of traditional retail and its structural significance

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in a market like India which employ a lot of people, we have taken concerted steps to alleviate the strain faced by our partners and revitalize the channel which is very important to rejuvenate the growth, especially in the core. We expect these initiatives to have a gradual and positive impact on sentiment in the channel and in the quarters ahead while the pressure on our pricing, which impacts realization, also subsides over the next couple of quarters.

Coming to our performance, organic domestic volume growth stood at 2%, which was about 200 bps lower due to a voluntary reduction in primaries to bring down inventory levels at the distributors' end and enhance their ROIs. Despite the impact of this move, the performance on a 4Y CAGR basis in the core portfolios, conveyed signs of some improvement. As far as the core portfolio is concerned more than three-fourth of our business continued to gain market share and penetration levels.

Delving further, volume growth in Parachute improved sequentially as loose to branded conversion appeared to regain some pace with the brand running consumer-advantaged pricing and copra prices exhibiting some upward bias. As a result, Parachute further strengthened its leadership position with a ~40bps gain in market share on MAT basis. We expect the gradual upward trend in volumes to sustain in the quarters ahead as we move into next year.

Saffola Edible Oils had an optically weak quarter with a mid-single digit volume decline on a high base of teens growth. During the quarter, trade remained watchful and continued to operate at lower inventory levels of at least 4 days. The brand also exercised discretion in billing across channels as it did not want to operate below a margin threshold. Looking ahead, given that offtakes remained healthy during the quarter, we expect the brand to revert to growth in the quarter ahead.

Value-Added Hair Oils also improved sequentially with mid and premium segments growing in mid to high single digits and driving mix improvement in the portfolio. Growth continued to be impacted by extended weakness in rural demand and sustained competitive pressures in the bottom-of-the-pyramid segment.

Moving to the performance of our new businesses, Foods maintained its steady growth trajectory and should close the year at atleast ~INR 750 crores, which would be about 4x of its scale four years ago. Saffola Oats anchored the growth and maintained its position as the #1 brand in Oats category. Honey and Soya Chunks continue to scale up well and should reach a scale of INR 100 crore each in the coming year. Both our acquisitions, True Elements and Plix, continue to meet our expectations. Premium Personal Care sustained its double-digit growth momentum with the Digital-First portfolio surpassing Rs. 400 crores in exit run-rate in Q3. The healthy scale



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up of Foods and Premium Personal Care keeps us on course to clock ~20% of our domestic revenues from these portfolios in aggregate this year. We are also actively working on steering brands that are gaining scale towards profitability. For instance, Beardo will be EBITDA positive this year, and similarly Just Herbs and True Elements should be close to breaking even in the coming year.

Our International business was resilient amidst transient macroeconomic challenges. Bangladesh exhibited some momentary weakness with persistent inflation and uncertain business conditions leading into the recently held general elections. While the core portfolios had a soft quarter, the new portfolios of shampoo and baby care fared better. Now, since the elections have been concluded, we expect business performance to revert to delivering healthy growth in the next quarter itself. South-East Asia also had a modest quarter marked by sluggishness in the HPC category in Vietnam. We expect to hold strong given the strength of our portfolio. The MENA business continued to grow impressively as both Middle East and Egypt business flourished. South Africa and our Exports business also registered solid growth. We had embarked on a journey to strengthen and diversify our International business. While the journey is still underway, we have developed fundamentally strong businesses in each of the regions through our focus on getting portfolio, GTM, cost structure and leadership right.

The year has been characterized by a persistently challenging operating environment, but we draw positivity from the improving growth trajectory in our core portfolios, although the growth has been slight, as well as the degree of success achieved in our diversification journey, both in the domestic and international businesses. We have also initiated corrective measures to reignite growth in the GT channel which will be the most critical aspect to not only get better growth but also diversification of our portfolio in chemist, cosmetic channels and foods and rural expansion. We are determined to get GT back on track which we believe will be instrumental in restoring the pace of volume growth in the core mass consumption categories. Healthier offtakes and market share gains in our key portfolios also keep us in good stead. We believe that the improving trajectory in offtake growth across categories will be followed by a similar trend in secondary and primary growth in the quarters ahead and we have already started seeing Parachute exhibiting this trend. Top line growth continued to be dragged by erstwhile pricing interventions and domestic portfolio and devaluation headwinds in certain international geographies, but we expect this to taper off further as revenue growth is expected to turn positive in Q4. On the profitability front, we will be delivering record high operating margin this year, led by gross margins which are set to expand by 450-500 bps and even after ramping up brand building investments behind both, the core and new businesses. While we will aim to maintain

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a resilient margin profile in the quarters ahead, our focus will be on delivering sustainable volume-led growth by reinforcing our strategic priorities.

Last but not least, we have always viewed our entire business operations through the lens of sustainability and our Sustainability 2.0 framework has been progressing well along each of the defined focus areas. We firmly believe the value of 'Creating shared value for all' will aid us in driving sustainable growth in the longer term. Our dedicated microsite captures all ESG related information and successful projects and hope it will aid all stakeholders in gathering all the relevant updates on the progress we are making towards our sustainability goals.

With that, I will now close my comments. Thank you for your patient listening and we will now take all your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take a first question from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: My first question is on True Elements. So here you said that next year you are targeting breakeven. If I see, the category is very attractive and we are seeing many large companies also quite interested here, plus, there are a few D2C brands. So, my specific question is what is the distribution scale up here done till now and where do you see distribution in the next 3 years? Because another listed company in similar space took distribution 10x post-acquisition. Also, in terms of the differentiation in strategy pre- and post-acquisition once you have taken over, are you changing the strategy in terms of the positioning or in terms of pricing etc. anything meaningful versus pre acquisition?

Saugata Gupta: I think Packaged Foods has significant opportunities and especially with True Elements which operates in healthy space in breakfast, seeds and snacking, opportunities are endless. Normally what happens is, and this has been seen even in Beardo, is that once Marico takes over 100%, the trajectory of growth improves because we also continue to leverage our existing GT distribution which we haven't done as far as True Elements is concerned. But we have plans to do that. And I think True Elements and Saffola have this unique ability to have a two-brand play where True Elements plays in breakfast and snacking at a premium end while Saffola continues to play at the masstige-end. And therefore, I believe that the potential of True Elements is significant. Now, one of the other things we must keep in mind is that we have been extremely mindful of the fact that while our digital businesses make good gross margin, our digital businesses which are right now Rs 400-500 crores, in the next 2 to 3 years, hit double digit plus EBITDA, because that is very important. So, we are mindful of the growth and the profitability

together and I believe that there is enough GT potential. We have started in a small way with Beardo and we expect to do that with all the brands in the future.

Abneesh Roy: Two more small follow-ups on Foods business. So, one Plix looks very attractive and very differentiated opportunity, very attractive packaging. What are the initial learnings, what are the initial findings? And second is on masala oats, another listed company entered a few quarters back. They are trying a slightly different position which is millets plus oats. Millets has become in fact quite normal by most FMCG companies. I wanted to understand in masala oats how is the competitive intensity and you have enjoyed an extremely good run there. Do you see some risk of market share loss next 2-3 years?

Saugata Gupta: So, what was your first question? Sorry.

Abneesh Roy: Plix.

Saugata Gupta: Plix operates in the overall wellness space and compared to some of the other brands it's a very young, vibrant brand. Now in wellness, there are different opportunities. If you see at wellness there are multiple vectors of wellness which is cardiovascular, diabetes, weight management, bone health, and gut health. So, therefore, Plix offers huge opportunities to operate as a full spectrum wellness brand. The good thing about Plix is the innovation velocity, strong consumer insights and their quality of digital marketing which is extremely best-in-class. If you look at Plix, I see a 200+ crores opportunity even next year, and also compared to the other brands including this space, the bleed is extremely low. I believe it's a very holistic business and it can obviously grow along multiple vectors and set itself as the wellness brand. If you really look at it, we'll have then a three-brand play where Plix plays on wellness, True Elements plays on both snacking and breakfast but a little bit premium and Saffola plays on masstige and then Saffola also can get into some other categories which is plant protein, immunity where we are already present in. So therefore, it will be a comprehensive Foods play. Now coming to masala oats question. I think the penetration of the category is very low. So, it's good that multiple players are investing to grow this category. Yes, you might lose share but at the end of the day I think what is most important is that Indians now have a choice of having far better healthier in-between meal snacking. We also have millets in some of our variants already and we are very focused on ensuring that millet is a success and therefore, even in oats, there is a variant which has millets. And therefore, I think it's not about the positioning, it's okay to have multiple players expanding this category because there is no reason why this category shouldn't have double digit penetration in the next couple of years.

Abneesh Roy:

My last question will be on the traditional Kirana channel. Growth has been very challenging across most companies and you did speak of the stress here. You also spoke that you are taking lot of proactive steps to get a gradual recovery. My specific question is India's largest consumer company is moving towards an alternate structure with more of a variable component and less of fixed component. So, what are your thoughts on that? And if you could give some more color as to what exactly you're doing because the shelf space issue, regional players issue remains. So, how do the intrinsic issues change because the competition with the online, the quick commerce also remains? So, are the problems changing or will it be more of the market share gains which will help you?

Saugata Gupta:

I will give you an overall holistic view about this. I don't want to comment about anybody's margin profile and all the plans. If you look at it, which is slightly unique to Marico is that we have a far more skew on Saffola and Foods in our organized trade and urban, while coconut oil and hair oil dominate our urban mass and rural. We also don't sell sachets. So therefore, our gross margin and our profitability of the mix which we sell in GT, mass and rural is far higher. Number two is what has happened is that the entry barriers to organized trade has reduced. Therefore, you can buy perhaps volume share by spending. However, there continues to be a significant entry barrier for creating distribution infrastructure and therefore a rural distribution or a strong urban distribution is a source of competitive advantage. Having said that, obviously when you are a challenger brand, it's easier to get market share in say OT compared to GT because in GT you have to make that systemic effort. Like, for example, if you look at honey as a category, we have far more share in e-comm or modern trade compared to GT. But having said that, I think one of the things we have realized is that there needs to be some kind of a systemic effort to drive two things which is a far better quality of distribution in foods, chemist and cosmetics that drives our diversification because that diversification is driven at a higher gross margin. And the second thing is a rural distribution. Now, for that to happen there are costs involved. Now, the other issue that has happened is that, especially in urban, till last year because of Saffola inflation obviously there was revenue growth. Also, during COVID there was revenue growth because modern trade was not working at full potential and also the smaller players were not there. And therefore, large, organized players including us had a significant growth in GT, which is now absent. So, this problem got accentuated from Q3 last year. Now there are a few levers, one is stock, the other one is credit because ultimately, we want them to give more credit in the market. We want higher STRs because we have lost STRs. Now, margins is something we have to take a call, as to how we give the best possible margin for ROI. I think we are looking at all the levers. The easiest one to do is a stock reduction because that we can make up by better nimble-footed supply chain. So, we are doing a host full of initiatives which we'll do one by one. We are doing it in a resource neutral way so that there are no wastages in the system and there

are investments to be done. So, we'll do it in a phased manner such that the ROI of the partners improves. We can invest behind growth in direct distribution, not only in rural but also in urban in these channels. We will get back the STRs gradually because we have lost STRs. We ensure that we facilitate higher credit to retail which they can at the same time improve the ROIs. Now, this is going to be done in a phased manner over the next couple of quarters. But we believe that will lead to core growth and that will also lead to better diversification of our portfolio in GT because a lot of diversifications of portfolio today has happened much more OT led.

Moderator: We have a next question from the line of Avi Mehta from Macquarie.

Avi Mehta: I just wanted to follow up on the GT comment. Are you looking at these changes in supply chain margin, changing the level of inventory, is that the thought or is it more towards a nimble supply chain which you talked? So, would love to understand what do you mean by these and could you just clarify or give us some examples of what are the changes that are being done to drive growth?

Saugata Gupta: Again, I am just illustrating in a structural way and not getting into specifics. But if you look at it, ultimately, I give my distributors a certain margin. They have certain costs, I give them a certain credit, they give certain credit in the market and they hold some inventory. Without causing a permanent hit to the P&L what are the things we can do in terms of our efficiency to drive ROI of the distributors. I think that's the philosophy which we are following so that they make ROI. We ensure we have resourced our distribution expansion and we also ensure they can pass on better credit to trade so that the trade STRs go up. The margin is a one-way street. So that's the last resort we will resort to. And even in margins, we can look at things like high margin brands but there is no need presently. Similarly, if you look at wholesale distributors there is no need. I think margin is something which we'll tackle later but there are enough other ways to manage it. For example, I am prepared to keep on reducing inventory such that because inventory is a cost of carrying and inventory doesn't drive offtake. We have to ensure all our investments are focused towards driving offtake.

Avi Mehta: Just a follow up. Could you kind of help us understand how this inventory has changed 4 years back and what is it now? And probably 5 years ahead how should we look at that? Just to get a sense because it seems you're targeting more channel inventory and trying to modify that.

Saugata Gupta: I think channel inventory is only one step. The reason I shared about channel inventory is because we have done it. As we do some more initiatives over the next two quarters, I will share with you what are the initiatives over the quarterly call or in the quarterly note. Right now, we are not in a position to share the initiatives. Now coming to inventory, see what happens is if GT

was say at 100, the revenue, and as you know there's a deflation plus there's a volume decline. If that has become 90, obviously for that revenue and the fact that STR has also gone down in trade, the holding has gone up. So therefore, we have to start ensuring those holding keeps on coming down. I think that's the framework which we are looking that. Now, as I said that, this is the first initiative. There are other initiatives which we intend to do, for example, we may be running certain trade schemes which are inefficient in the market. We can be running certain promotions or program retailer programs which are inefficient in the market. So, we are looking at the entire gamut of trade spends and looking at the resource allocation so that all the resource allocation is done towards viability of our distributors and profitability of the margins in the trade, so that they deliver better service. They are in a position to expand distribution because distribution means more feet on street. There can be more credit and that all leads to more offtake and better range selling and better assortment.

Avi Mehta: My second question was on the comment on resilient EBITDA margin, especially if we look at FY25. With our portfolio composition now changing, would you see this move to 21% levels odd that we are talking about by 2024 as a new normalized level? How should we look at that?

Saugata Gupta: A couple of things and I will also ask then Pawan to elaborate on this. The thing is that one of the good things is that the diversified part of the business has now a blended gross margin which is almost higher than the current portfolio. So, that is the first thing. So, between foods and digital our gross margin is higher than our core portfolio which we have achieved this year. The second thing which we are doing is that with far better efficiencies of spends and as you know, now, we are a house of brands of four - five digital businesses, driving efficiencies of scale. We are in a position to get to double digit EBITDA over the next 2 years in this business and we are also going to target Foods in the next 2 to 3 years. So that part of the business I think, is in good hands. Now obviously, it is also a factor of inflation-deflation. But having said that, I think this is something which will be our effort next year to deliver double digit profit growth. In the case of international obviously, there have been some issues in terms of currency deflation. Now we hope, given that the Bangladesh elections are over, sometime during the second half of the year we anniversarize the currency depreciation and also, we are doing fairly well in the Middle East, North Africa and some of the other markets which has potential for improvement of operating margin expansion. So given all that, I think our endeavor will be to actually continue to deliver double-digit bottom-line growth next year. Pawan, would you like to add?

Pawan Agrawal: I think Saugata you've covered comprehensively. It's very difficult to give margin guidance at this stage because we do not know as to how inflation or deflation will play out for our key commodities like copra and vegetable oils. But having said that, what we are committed for is

to deliver at least low teen profit growth next year. And the drivers Saugata spoke about, drivers would be first of all, we definitely expect the revenue growth to be in double digits if there's inflation in the portfolio. Number two, we spoke about significant improvement in operating margin of the digital and foods business. Number three, there are a couple of international markets where there is definitely a possibility of improvement of operating margin and number four, I think there will also be some benefits of A&P amortization. So far, we have not driven Saffola master-band strategy and so far, we've been spending in different buckets under Saffola. We believe next year we should start that journey. So, with all these levers and lastly maybe also if our premiumization also plays out well that also improves our gross margin. So, with the mix of all this, we believe that at least we would be targeting low teen profit growth if not more.

Avi Mehta: This is very helpful. Thanks a lot for this and this is exactly what I was trying to better understand.

Moderator: We have a next question from the line of Arnab Mitra from Goldman Sachs.

Arnab Mitra: My first question was on as we look into next year, when do we see the price decline in Saffola and Parachute anniversary and do we see any pockets of price increase that we can see because we are seeing certain categories in Personal Care where price hikes have started happening though there is no commodity pressure? So, could you just help us understand these two aspects on pricing?

Saugata Gupta: I'll give you based on whatever our current outlook is, in terms of the revenue, you will see a slight revenue uptick in Q4 itself. We had earlier committed in Q3, but we had to take some tactical pricing interventions to get volumes back on track in Parachute. And in fact, if I look at optical and secondary volumes, Parachute growth have been robust in this quarter. Now coming to next year, if you look at history of Marico the sweet spot for us, especially in Parachute, is a scenario as follows; low food inflation, copra inflation, we have position gains and we deliver high volume growth and profitability is protected. We see that scenario likely to happen in the second half of next year. As far as Saffola is concerned, obviously I think if you look at the price around, pre-Ukraine, the price of Saffola Gold, which is a bellwether brand, was around 150 a liter, it went to 230, it is currently around 160. So, most of the reductions are done.

Arnab Mitra: And any profits or price increase in VAHO and other segments that you see?

Saugata Gupta: If there is commodity inflation next year, we will take price increases.

Arnab Mitra: My second question was on the Foods business. You've got 18% growth in this quarter. This includes, I presume, inorganic components that got added to the business. So, could you help us understand what could be the organic growth? Has it slowed down for some reason? What could be the reasons why we think it could accelerate next year?

Saugata Gupta: I alluded last time that one of the things we are doing right in our Foods is getting our supply chain and getting our gross margin right. So, there has been a slight slowdown. But if I look at trends, we should be in a position to get back into 20%+ growth from this quarter onwards.

Arnab Mitra: And my last question, Saugata, was basically, if you look at Pawan's comment that next year, because commodity prices are difficult to fall out, you will still look to deliver a double-digit earnings growth. Given that margins, it's unlikely that you'll see margins further go up from where they are, so the burden of growth essentially comes on top. Given the current environment, does it not look very difficult that we could see a double-digit revenue growth next year? Because as you rightly mentioned, pricing, we would probably anniversarize at some stage, but we would have to literally deliver very high single digit volume growth to get to double digit kind of earnings growth. So, is there any difference in how I'm thinking versus what could be the template for next year?

Pawan Agrawal: If you look at copra cycle, typically it follows 18-to-24-month cycle. So logically, we should have inflation in copra. So, we expect once the seasonal months are over, it should definitely have an upward bias. So therefore, there will be a time when we have to take a certain price increase. So, if we're able to deliver around 5%-7% volume growth, I believe that the balance will be made up through pricing as well as some part of the portfolio which will have better premiums. For example, let's say if hair oil does better, or the digital business contribution increases so that delta will be sort of filled up from that part of the portfolio. And also edible, as I said earlier, that it has bottomed out. We have gone back to almost pre-COVID level prices, so we do not expect any further deflation in edible oil. As and when if we face any inflation, of course there could be some price increase. So, as we move into Q4, we definitely expect Parachute to move into positive revenue growth. Come Q1, the entire anniversarization of edible oil will be over. And then depending on if there's an inflation in edible oil that will also sort of move into positive trajectory. As far as value-added hair oil is concerned, we might take certain price increase depending on how the crude oil prices move. And typically, we see that we can always take 2% to 3% price increase in the portfolio without much of an impact on the volume. So, with all this, we believe that if we are able to deliver a certain level of volume growth, it can definitely move into double-digit revenue growth.

- Moderator:** We have our next question from the line of Vivek Maheshwari from Jefferies.
- Vivek Maheshwari:** A follow up to the earlier question on Foods, Saugata. If we do the math, it looks like that adjusting for Plix, the base portfolio actually didn't grow. Is that a correct calculation?
- Saugata Gupta:** The core has seen a mid-single digit growth. True Elements has anyway anniversarized. So basically, it is just the food part of Plix added to it. I believe that from this quarter onwards we'll be back into 20%+ because of the fact that what we did was we slowed down some of the growth because of our ability to manage freshness and also our ability to get the gross margin right. Also, there has been no innovation. If you look at the other thing that has happened is that this year winter has set in late. Honey has not given significant growth, also because last year was a big honey season. So, if you look at all that, I think it has grown in mid-single digits. But as per trends in Q4 is concerned and whatever steps we have taken, I think we should go back into 20%+. And even next year into 20%+ kind of a growth.
- Vivek Maheshwari:** March quarter. Saugata, when you say 20%, that is 20% plus Plix or including Plix, you're talking about 20%?
- Saugata Gupta:** Including.
- Vivek Maheshwari:** That would still be very underwhelming. Because let's say Plix does about 35-40 crores per quarter and let's say last year's base on food business was about 600 crores. So even if you don't do anything, the Plix business itself is like giving you, based on our calculation, about 18%-20% kind of growth. Unless we are getting the seasonality bit wrong.
- Pawan Agrawal:** Vivek, what Saugata is mentioning is the base case, that we should definitely grow at 20%+ in Quarter 4 and we will be targeting more than 20% in FY25. Having said that, our efforts will be to...
- Vivek Maheshwari:** FY25 will be organic, Pawan, right?
- Pawan Agrawal:** Yes, largely because for the first three, four months, if you exclude, we acquired Plix somewhere in the month of July.
- Saugata Gupta:** June-July. So, Plix anniversarization will happen from July.
- Pawan Agrawal:** Having said that, even Quarter 4, what we are planning is high single digit to low double digit in terms of organic foods as well.

Vivek Maheshwari: And the other thing is, Saugata, you had mentioned in the past about, and I understand businesses are dynamic and there are a lot of things which go right and wrong. But let's say 850 crores when you are looking at for F24 and 1000 crores for F25, it looks like it's going to be more like 750 crores F24. What would you say that what did not go right? Is it the macro that you would say did not go as per the plan? Or is it your base case built in maybe one more acquisition, when you're ending with, let's say 100 crores shorter, where is the gap in your view?

Saugata Gupta: I think firstly, we must appreciate that our diversification journey has been reasonably good. If you look at what was there in 2020 versus current, Foods has grown 4x. Now, if I had to see one, two things where perhaps that contributed to the 100 crores gap is, one is that we didn't want to grow at any profitability. We were clearly conscious that we must not grow at any cost. We must get the fundamentals right on supply chain, stock freshness and other things. The second thing is obviously, which you can see is that urban growth rate which was very strong during COVID time has been now tapering off. And you can see it in also some of the food categories and the food company FMCGs that the growth was not at that level that was there, say, one or two years ago. It's a combination of that. Having said that, at the end of today, it's always good to have an aspiration or a dream. We are not way off, I think, from something completely new. 750 by 850 is not a very big miss. It is a miss. Would have loved to do 850, but 750 is not bad at all.

Pawan Agrawal: And if I have to add, Vivek over here, as Saugata said, it was an aspirational target that we had taken in FY20 without sight in terms of which categories we'll get in, etc. So largely, if we have made the business more than 4x, I think it's a good achievement. Now, standing here, what we are looking at is that in the next three years, we should be trying to achieve 2x of the scale where we are at this point in time. So, we are at 750. We should be targeting about 1400-1500 crores, let's say we talk about FY27. So, again we are taking aspirational targets. But yes, it's not a significant miss because we have more than 4x as to where were in FY20.

Saugata Gupta: The other thing I want to add is what we have finally been able to achieve in FY24 exit is a gross margin which is significantly better than Saffola edible oil. So therefore, overall Saffola brand, we have actually been able to significantly up the overall blended margin.

Vivek Maheshwari: The reason why I asked you this was you don't think it's because of rising competition. We are seeing, let's say, Tata Consumer, Nestle, ITC, all of these companies also now getting into some of your zones. So, you don't think it's because of competition?

Saugata Gupta: As I said that in low penetrated categories I think more people investing actually grow the category. And as you know that there is a significant movement into healthy snacking and healthy in-between meals. And you are aware of the strength of the Saffola brand. As I said, that

is not the issue and we could have grown. The only category where we participate, where there has been no growth in the category and actually the category has not been doing well post-Covid is Honey. Otherwise, all the other categories, in fact, if you look at Honey Chyawanprash, of course, Chyawanprash we don't have a presence, those are the categories which are not doing well. And especially there has been delayed winter and all that. But as far as Oats is concerned, we are getting growth. And I think we have just entered snacking. Once we get the GTM and our overall supply chain and capability right, we've taken a pause this year in terms of getting all this right, I think we will get back into 20%+ growth. Now that is the baseline case I am giving. We may be aspiring more, but I think a 20%+ baseline growth is something underwritten next year.

Vivek Maheshwari: One more on PPC. When we look at PPC this quarter, Saugata and Pawan, the presentation mentions about 300 crore Quarter 3 run rate. And last year when I look at the same slide it says 300 crores YTD ARR. If I assume that exit was higher than YTD average, it doesn't look like that PPC has also grown. What am I missing?

Saugata Gupta: There are two parts of the portfolio which hasn't grown. Serums has been growing as a category and it's been doing well. In male grooming, the Rs. 10 gel pack as you know, anyway, there is a stress in rural, so that has got impacted. The other part of the PPC is body lotion. Now this time there has been a very late winter and a short winter and some of that sale has reduced, and some have flown into Q4.

Vivek Maheshwari: And lastly on VAHO. This BOP, Saugata, how much of this you consider the sluggishness because of macro factors versus competition. Because your opening remarks did mention competition as well, because as and when the cycle turns, things get better. Do you think this portfolio comes back or you think you would still be worried about competition over there?

Saugata Gupta: I think there are two ways of looking at it. If we look at it, there is obviously a sluggishness in demand. As you know, whenever there is significant inflation and there is stress in demand, smaller players get into it. And also, there is competitive intensity when organized players are focusing on that. Now, either I put all my resources and defend that versus a smarter way which we are trying to do is growing the mid and the premium where I have much lower market share. That makes far higher gross margin and that is what I intend to do. Because if Player A throws money, me throwing more money and selling at a low gross margin to get some market share is not something which is sustainable and not a smart thing to do over the long term.

Moderator: We have a next question from the line of Akshen Thakkar from Fidelity.

Akshen Thakkar: Just wanted to understand two things from the team. One was around the edible oil business. We've seen quite a lot of volatility in the last two to three years, given the kind of channel corrections that you would have taken, competitive pricing, etc. When you look at this business, I'm not saying in the immediate term, but, next four, six, eight quarters out, how are you thinking about growth trajectory in that business? That's question one. Question two is you seem to be confident that the changes that you made in the distribution end will help growth. If you could just help us understand what the difference was between primary, secondary, so that we can at least better gauge if there is a gap that can be caught up in the coming quarters. Those two questions, and I had a follow up, but I'll wait for answers for this one.

Saugata Gupta: If I look at Saffola, and let me tell you, Saffola works the best when there is stability. And in the last three years, there has been extreme volatility, very high inflation, followed by high deflation. Now, in a high inflation scenario, what happens is, the absolute price of Saffola becomes unmanageable and therefore, people don't upgrade, or rather they downgrade. When there's high deflation, which we have seen in the last couple of quarters, what happens is that the trade wants to destock because they don't want higher price stocks and they get stuck. We also want to be very careful and not push those packs, because if I sell and create higher STR, I'm stuck with those and make low margins, because I may have to pass on below the line spends to basically flush out those stocks. So therefore, the way I look at Saffola long term is this, in the next three, four years, in the Saffola overall portfolio, if edible oil is 50% and Foods is 50%, with Foods delivering at least 10% higher gross margin, if not more than Saffola edible oils, I think that's an ideal thing, which we want to do. So therefore, even if it means mid-single digit growth, that's a very satisfactory growth for me as far as Saffola edible oils is concerned. Having said that, it is very critical for Food to grow at 20%+. And one of the other things you must realize that Plix is wellness and Plix makes far more higher margin than normal food because wellness brands get to make higher margins. So having a far more higher growth trajectory in Foods and as Pawan alluded to the 20% is the base case, if I can do more, the better. But having a 50-50 split over the next three years is something which we must do now.

Now, coming to your next question on GT, as I said, it will be a gradual process because I don't want to drive this expansion with higher cost, but with smarter resource reallocation. It will happen in phases, so one has to be patient about it. What we are doing is a far more longer term reset to ensure the viability of GT. Under indexation in GT and over indexation in OT is not the right thing for long-term profitability and we want to ensure that there is balanced growth between the two channels. And as I said, unlike other organizations, given that we don't sell

sachet and we don't sell Foods and Saffola in rural, our rural GM is actually far better and therefore it makes all the more sense to continue to invest behind rural distribution. As you know, our rural market share is actually lower, especially in Parachute. Also, in some of the markets which are strong markets, our value-added hair oil presence is not that great. We can always diversify. Bangladesh is a classic example where we had PCNO contribution of 90%, today, it is sub-60% and we have been able to do an amazing journey in growth. There is no reason why in some of our Parachute strong markets we can't replicate that.

Akshen Thakkar: Last question from my side, Saugata. How are we thinking about capital allocation? Last two to three years we've made a bunch of tuck-in acquisitions. Do we wait to assimilate these at this stage, or should we be thinking of M&A as a continuing strategy hereon?

Saugata Gupta: Firstly, I think we believe that the digital acquisitions have been immensely successful. We might not be the best in the world in creating digital brands, but Marico aims to be top quartile in scaling up brands profitably. And let me tell you, we have not even done the synergies. We are just about starting the process of synergies, synergies within the digital brands and taking some of the digital brands to GT. So, if there are opportunities, we will do it. Obviously, we have a certain appetite. But I think we will look at it. Having said that, we always believe that M&A is not a substitute for organic growth. Our focus continues to remain that we must deliver organic growth and M&A is a multiplier, and not an escape button for not able to do organic growth.

Moderator: We'll take the next question from the line of Harit Kapoor from Investec.

Harit Kapoor: Two questions. One was on the ad spend side. On the standalone there was an 11%-12% decline. Just wanted to understand, how do we read this? Is it a higher BTL in the core? Obviously, I understand that the advertising on the digital side is in the subsidiaries because it's a stake entity. But I just wanted to get your sense on this decline in ad spend when we had so much of gross margin.

Pawan Agrawal: You're right. If you look at Quarter 3, of course, ad spends in India business which is reflecting in the standalone has gone down. And there are three, four reasons for that. Number one, we have under indexed spends in Saffola this quarter given the volatility in underlying commodity and cautious trade sentiment. And also, we ran a visible campaign in the last quarter where we had spent quite a lot and therefore, we had cut down the spends in Saffola in this quarter. Secondly, in BOP, in VAHO, we rationalized some of the ATL spends and ploughed back towards consumer beneficial pricing. So that also sort of reduced the A&P spends. Lastly, through the NRM project that we have done, we have rationalized some of the channel spends

in alternate channels of MT and E-com, which was getting, sort of, accounted for in A&P. While this quarter fee we have declined by about 8-9%, but if you look at YTD levels, the spend is about 6%-7% in terms of A&P.

- Harit Kapoor:** Pawan is it more of a one quarter kind of a phenomenon. Is that the way to think about it?
- Pawan Agrawal:** If you talk about Quarter 4, it should definitely go back to growth of at least mid to high single digit.
- Harit Kapoor:** The second question was on the GT changes. I just wanted to add one question. Over the next two, three quarters as we implement this, will there be a material difference between primaries and secondaries, or will it be marginal?
- Saugata Gupta:** Right now, as I said, this month was 2%. We might do something more over the next one, two quarters. But ultimately the growth will also start coming because what we are doing is we are ensuring the system is geared towards driving growth, driving distribution expansion. So, I don't think it will be beyond one or two quarters. It will start delivering growth rather than doing further corrections or reductions.
- Moderator:** We have a next question from the line of Latika Chopra from JP Morgan.
- Latika Chopra:** What I could sense was relatively more confidence in low-teens earnings growth for FY25 coming from you. If you look at different permutation combinations on top line growth, of course you've talked about a gradual volume growth recovery over the next four or five quarters. We talked about this GT reset that you're kind of playing out. Do you have any kind of margin levers which probably could take up margins even beyond FY24 levels of 21%, which is giving you confidence in low teens earnings for FY25?
- Pawan Agrawal:** As I explained, it's difficult to give a margin percentage guidance and that's the reason why I took the conversation more in terms of double-digit to low teens profit growth. And for that I've talked about the levers that I can see, which are the couple of markets in international, the digital business, the premiumization, plus, also we have an internal cost management cell that keeps on optimizing every year and we typically cull out about 100-150 crores every year. So, with a mix of all this, we believe that that kind of profit aspiration we should be able to meet. And as I said, we definitely expect anniversarization of Parachute in Quarter 4, Saffola in Quarter 1. If we were to look at the copra inflation cycle, we expect inflation to kick in once the seasonal months are over. So that will lead to some price increase. So, if we're able to deliver medium-term growth levels in our core business, I think it can lead to double digit revenue growth.

Latika Chopra: The second question was the comment that you made on the Foods business, 20%+ growth, assuming Plix obviously is going to get into the pace, are we talking about next year, you mentioned a number for FY27, if I heard correctly, of Rs. 1400 crore. That's the aspiration I understand, but when you were setting that aspiration, is it organic led or you would assume there is going to be some inorganic addition to this particular food business when you're talking about that aspiration of 20%+ growth.

Saugata Gupta: The way we look at it is, we have said the what, we will now start doing the how. Obviously, any long-term strategic business plan has to be a combination of 90% logic, the last 10% ambition and magic. We can look at both inorganic opportunities as well as organic entry into new categories. And the biggest one we have to set right is how can we succeed in snacking. Because snacking is the biggest market and healthy snacking is a significant consumer trend. Plix also, I believe, given the huge trend in wellness, has the ability to really become a large brand and therefore it's a combination of that. Do I have complete numbers for it, no? But I think as long as we are 80% there, 90% there, we'll be happy. Because nobody realized in 2020 that in 2027 that we will have a 2,500 crore Foods plus digital business. We never realized we will have it, but we just dreamt of it. We did it. We may have not done 100%, we have done 80%, but we are there. Broadly, I think we should be able to do it. I think what is most important is that do you have an operating model to drive repeatable growth? I think we are broadly getting it. In digital we have got it mostly right. We have to get it right in Foods.

Moderator: We have our next question from the line of Mihir Shah from Nomura.

Mihir Shah: Since most of the long-term questions are already answered, I have a few near-term questions. One clarification actually on the primary stock correction in GT. It seems that there are more steps you are implementing. Can this continue to impact sales growth for the next few quarters as well? Or given the stock correction has really happened, it can lead to an improvement in volumes optically at least in the near term, in the fourth and the first quarter.

Pawan Agrawal: We have done the stock reduction we started in this quarter. Maybe at best there could be an impact in one more quarter and we do not see really beyond that.

Saugata Gupta: And to answer the second part is that from Quarter 3 onwards we will get the impact, a positive impact of that. Because if we are doing it in Quarter 3, Quarter 4, from next year that is FY25 in Quarter 3, Quarter 4, we will get the positive impact.

Mihir Shah: I wanted to really talk on how should one think about the Parachute and VAHO volumes in the near term given that they have a high base? Do you see enough strength in demand improving from BOP that can help VAHO to remain in the positive zone given the high base?

Saugata Gupta: I think if I look at it, for large brands one of the interesting things you will notice is in both upside and downside, first offtake gets impacted followed by secondaries followed by primaries. That cycle we are almost seeing a complete turn as far as Parachute is concerned. Where we have seen offtake improvements, we are seeing secondary improvements happen and now we are expecting primary. And as I said that next year hopefully there'll be a sweet spot of Parachute which is low food inflation, some copra inflation, and therefore Parachute gains in that kind of a scenario. As far as VAHO is concerned, however, there are two parts to the story. One is that in mid and premium we have to still do a better job. But we are now getting growth. In the BOP part we are not getting growth and the BOP part is not getting growth is a combination, as I said, of stress consumption with smaller players participating and some of the intense competition that is happening. Now, that part we are not clear about what will happen, but at least we are extremely focused on improving or accelerating our growth in the mid and the premium part of it.

Mihir Shah: And a quick one on Saffola oils. Given the sharp price cuts that we have seen, the GT correction, can one expect volumes growth to come back to double digit growth in the near term or there is still headwind from the lower price players that can continue to impact volumes for them?

Saugata Gupta: I don't think we are aspiring, because the double-digit growth of Saffola will happen only at the cost of margins. We don't want to do that. We are far more focused on putting the resources behind Foods growth and therefore even if there is a mid-single digit growth, we are okay with it.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Pawan Agrawal: To conclude, we have delivered a competitive performance in a rather challenging operating environment. If we go by offtake growth, market share and penetration trends, we believe we should see gradually improving growth trends in the quarters ahead. The international business has been quite resilient despite transitory challenges in some of our key markets. With some of these subsiding, we expect to revert to a familiar growth trajectory from the next quarter itself. Overall, while our top line is subdued due to deflationary impact in India business and currency depreciation in international business, we would deliver record high operating margins and fairly healthy earnings growth this year. We've also made visible progress towards the strategic



*Marico Limited
January 29, 2024*

imperatives set out at the start of the year, especially in terms of portfolio diversification and we would continue to invest behind the same. This is it from our side. If you have any further queries, please feel free to reach out to our IR team and they'll be happy to address. Thank you and have a good evening.

Moderator: Thank you, sir. On behalf of Marico Limited, that concludes this conference. Thank you for joining us and you may not disconnect your lines.

(This document has been edited to improve readability)