



**Marico Limited**  
**Q4 FY18 Earnings Conference Call**

**May 03, 2018**

**MANAGEMENT:**      **MR. SAUGATA GUPTA - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – MARICO LIMITED**  
**MR. VIVEK KARVE - CHIEF FINANCIAL OFFICER – MARICO LIMITED**

**ANALYST:**          **MR. VISHAL PUNMIYA – MOTILAL OSWAL SECURITIES**



*Marico Limited  
May 03, 2018*

**Moderator:** Ladies and gentlemen, good day and welcome to the Marico Q4 FY2018 Earnings Conference Call, hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Punmiya from Motilal Oswal Securities. Thank you and over to you, Sir!

**Vishal Punmiya:** Thanks Lizanne and good afternoon everyone. On behalf of Motilal Oswal Securities, I welcome you all to the 4Q FY2018 post results conference call of Marico Limited. On the call, we have with us Mr. Saugata Gupta, Managing Director and CEO and Mr. Vivek Karve, CFO. Before we get started I would like to remind you that the Q&A session is only for institutional investors and analysts and therefore if there is anybody else who is not an institutional investor or analyst, but would like to ask questions, please directly get in touch with the Marico Investor Relations team. With that, I would like to hand over to the management for their opening comments.

**Saugata Gupta:** Good afternoon everybody and thank you for joining the call. Before we take the questions, let me just give you a flavour of the quarter gone by. At the macro level, the results are embarrassing and concerning. The three contributory factors are the continuing sluggishness in Saffola and Vietnam in addition to a one-time aberration in Parachute Rigid volumes. So let me address the issues upfront. We are in the process of sorting out Vietnam and Saffola over the next two quarters and they should be in a gradual recovery mode by H1 of this year.

The decline in Parachute Rigids is clearly just a one-time exception. We had a high base of 15% growth both in sequential and Y-o-Y terms. In addition, due to a sudden temporary dip in copra prices for around three weeks during the quarter, the trade started reducing their stocks in anticipation of a price drop in Parachute. However, since then, copra has bounced back to higher levels and we have started picking up volumes. If you consider H2 growth from last year or the average of growth of Q4 of last year and the estimated growth in this coming quarter, we will still be in the medium term zone of 5% volume growth. 5% plus in fact. As regards this year, therefore, we will be in a position to deliver the 5% to 7% growth for Parachute.

We had a satisfactory performance in Value-added Hair Oils in India. Foods, Male Grooming and Premium Hair Nourishment continued to recover and the traction is encouraging. Some of the new products like Parachute Advanced Aloe Vera and Value-added Mustard Hair Oil are doing well.



*Marico Limited*  
*May 03, 2018*

In terms of market share, we have gained 90 basis points in Coconut Oil and 70 basis points in Value-added Hair Oils on a MAT basis.

Our journey in E-Commerce and Digital brands is also gaining good traction. We firmly believe that we need to navigate the short-term cost pressure but we continue to be confident of delivering 8-10% volume growth for the Indian business this year. We will aggressively drive down fixed overheads and also drive spend efficiencies to combat the input cost pressure, but will not compromise on driving volume growth, defending and gaining market shares and investments on new initiatives where the confidence level in execution is much higher than before.

In this year, we have identified price point packs, Modern trade and E-commerce as big bets in shaping our growth for the future. We are gradually developing a bouquet of Digital brands and properties and creating a differentiated product portfolio for the new channels. In International business, most of the markets other than Vietnam did well, although the Egypt base was very low. We have narrowed down the Vietnam issue to solving for traditional trade GTM, wholesale and shampoo sachets while the rest is sorted out. We need one to two quarters to fix this balance issue.

We have been able to stabilize Middle East and, after having successfully accelerated the portfolio diversification in Bangladesh, we will embark on a far more aggressive innovation program in the coming years. All this should lead to a double-digit constant currency growth in the international business for 2018-2019.

To sum up, we have two big problems to solve, which is Saffola and Vietnam in the immediate term and tide over the short-term margin pressure. If we do this successfully, we can definitely deliver 15-20% top-line growth in the overall business, although the margin, especially in H1, will contract to a threshold level. As I have outlined earlier, we will not compromise medium term growth and market share aspirations for short-term margins, because we believe that we are now better prepared in execution capability both in the Indian and international markets. Also, would like to just reinforce that in the context of the 1% volume growth in India this quarter, except for Saffola, we strongly believe that Parachute had a one-time aberration, given the current visibility we have in this quarter.

Thank you and I am happy to take questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Sameer Gupta from India Infoline. Please go ahead.

**Percy Panthaki:** Hi Sir, this is Percy here. My first question is on Parachute and I am not really to focused on the quarter but on the slightly longer term in the past, so this year we have had about a 2% volume growth and that comes on a relatively easy base of about 2% to 3% volume growth last year and again we have seen in the past that when there is an inflationary trend in copra, Parachute tends to sort of grow volumes faster because the percentage increase in price that we take is lesser than the percentage increase in the other players or loose players so we tend to grow volumes faster. So this time that has not happened in FY18 despite an easy base in FY17, so just wanted to understand if there is something structural here and not just a quarter-to-quarter fluctuation?

**Saugata Gupta:** Okay, so let me just address that. In 2016-2017, the full-year growth in Parachute was 4% and this year is 2.2%. I don't think there is a structural change. If you look at 2016-2017, there were two aberrations. In Q2, we had taken an unprecedented price increase and the copra market did not go up and Q3 was a quarter of demonetization. This year again, we had two such quarters, -8.5% in Q1 and -5% in Q4. So, I do not see any structural changes in the market. Having said that, obviously, the fact is that inflationary pressures is something which were unprecedented this year and, therefore, you must also realize that there is also an absolute pricing which we have to be careful about. If we look at the H2 base of Parachute, we are at 5% and as also if you add Q4FY18 and Q1 which is this quarter, we should again be in the zone of 5%, despite a -5% of this fourth quarter. So, I do not think there is any structural change that is going to happen in terms of our ability to deliver the 5% to 7% volume growth in the medium term. And, if you even look at the last two years in terms of volume share, there has been a steady gain of around 80 to 90 basis points in both the years.

**Percy Panthaki:** Okay. Sir second question is I am a just little bit confused on the principle whether base effects matter or not. For Parachute you clearly said that this quarter had been low mainly due to a very difficult base. On the the other hand if I look at VAHO your base has shifted by 22% points so Q3 FY17 was minus 12 and Q4 FY17 was plus 10 so there is a shift of minus 20 or rather 22% points in the base and yet your sort of numbers this year have barely changed from Q3 8% growth to Q4 11% growth, so just wanted to understand how VAHO has sort of grown so well despite the base changing so drastically?

- Saugata Gupta:** We have to look both base and the run rate. As far as VAHO was concerned, if you look at the demonetization quarter of 2016-2017, Parachute was not that impacted. It was actually -1% in volumes, while VAHO was -12%. Also, the VAHO growth has been beefed up by the performance in Parachute Advanced Aloe Vera Coconut Hair Oil and Value-added Mustard Oil and obviously the category growth in Value-added Hair Oils is slightly higher than the Coconut Oil category growth.
- Percy Panthaki:** Okay because if I just look at your two-year CAGR in just Q3 FY18 on a two-year CAGR basis, you had negative volume growth and Q4 FY18 it's a 10% volume growth. So I mean your two-year CAGR would even out all your base effects and despite that if there is such a big swing from Q3 to Q4 just wanted to understand the reason for that?
- Saugata Gupta:** Again in run rate terms, the swing is not that high.
- Percy Panthaki:** Okay Sir, I do not fully understand but I will take this offline. One quick question if I might squeeze in, just wanted to understand your outlook for copra and what are the underlying drivers or factors which leads you to that conclusion?
- Saugata Gupta:** In Copra, as you know, given that some part of the demand is not so elastic, a little bit of a supply demand gap leads to a significant inflation or deflation. We believe that given the current outlook on the crop, the inflationary pressures will continue to be there in the first half of the year.
- Percy Panthaki:** Okay. So when you say inflationary you are talking about on Y-o-Y not from the current levels right?
- Saugata Gupta:** No. Not from the current levels. I am saying that it will continue to be at high level before softening. I think the softening will be more in the second half than the first half.
- Percy Panthaki:** Okay. So do you expect that in the second half on a Y-o-Y basis this might actually go into a deflationary scenario?
- Saugata Gupta:** Potentially yes, towards Q4 may be.
- Percy Panthaki:** Okay and that is just because of the base effect, it is not as if the price will be any different from what it is today in Q4 right I mean as per your expert assumption.
- Saugata Gupta:** No. It will go down certainly. It peaked and current prices are slightly lower than the peaks. It went down for some time between February end and March. We believe that obviously towards

the second half of the year, it will start softening, and definitely Q4 this year versus Q4 of last year, there could be deflation.

**Percy Panthaki:** Thanks a lot.

**Moderator:** Thank you. We will take the next question from the line of Arnav Mitra from Credit Suisse. Please go ahead.

**Arnav Mitra:** Hi Saugata, question on the value added oils business so you put in these few initiatives in the last couple of years mustard, aloe vera which was not prototype, ayurvedic has been there for a while. Out of these three how are you seeing the traction and does any of them promise to be as important for you as let us say Amla did for the last five six years over the next two three years?

**Saugata Gupta:** So, Amla was a standalone disruptor. But if you ask me between these three, definitely Aloe Vera and Value Added Mustard Oil will significantly contribute to becoming volume drivers for the value added hair oil business, so that we continue to deliver a double digit volume growth over the next couple of years.

**Arnav Mitra:** And in terms of the geographically where you are and how much you plan to spread, how are these two right now, mustard and aloe vera?

**Saugata Gupta:** Aloe Vera is now concentrated only in some southern states and we have just done Maharashtra and Karnataka in the last one or two months. It is still in only four states. VAMO again is primarily in the 4-5 northern states. We are gradually doing it because if you look at the size of the category, it makes much more sense to get scale in individual markets, make a meaningful difference and scale up. That is a far better way of doing it.

**Arnav Mitra:** The second question is on Saffola, you obviously highlighted that this has been area of concern and actually in the past there has probably never been a full year when you had almost a flat to a decline in Saffola so at least as we stand today is the diagnosis clear internally as to what is the issue there and therefore is the next year's pick up more of hope or it is actually based on something you have seen on the ground working as we speak now?

**Saugata Gupta:** So as I have said, there will be a gradual recovery. We believe that there will be some recovery in the first half. We are putting in place the communication, our promotion strategy in some of the focused channels and areas of the market. I don't think this is based on hope, certainly some recovery we will see in the first half and based on that we will be able to give a far better picture

of what will be the growth rate in the second half. But you are right. Because Saffola grew 8% full year in 2016-2017 and it was full year -1% as far as 2017-2018 is concerned, this is certainly concerning. Some of the issues will be fixed in the first two quarters and some of the issues are that need to be fixed over the year. So, I do not see a full recovery in the first half but, in the second half, you will certainly see a far better recovery.

**Arnav Mitra:** Right. Just last question on EBITDA margins, you said you are now kind of at the threshold level of margin, now obviously right now there are inflationary pressures but if the copra cycle were to reverse does the management want to take this margins higher up, how do you think off margin from a two- to three-year view at whatever stage the cycle does reverse?

**Saugata Gupta:** Given the current input cost pressures and while we are determined not to compromise on volume growth and market share, this forces us to take long-term measures in terms of cost management and spend efficiencies. Constraint forces you to think out of the box, and as and when the deflation cycle occurs, these efficiencies will help us in perhaps lapping up a little more margins.

**Arnav Mitra:** Okay. Thanks. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

**Shailesh Kumar:** Thanks for the opportunity. Saugata I wanted to focus on this small segment Saffola Active Slimming Nutri-Shake which we have launched I believe in Q3 so how has been the response if possible if you could put some numbers to this. Also, this has been followed by your agreement to acquire 22.5% stake in Revolutionary Fitness Private Limited. So what is the bigger game plan and how do you see this segment evolving over next three to five years?

**Saugata Gupta:** So, let me first address the query on Nutri-shakes. It is only available in E-commerce and in some pharma chains in Mumbai. I think most of the segment is in MLM. As far as retail is concerned, we are already emerging as one of the leaders in E-commerce. So, it is doing well but it cannot be a standalone. We just use this as a prototype to understand it. We have a bigger game plan in this nutraceuticals/functional foods area. This is one of the reasons for taking Revofit. As you know, we also have a website called Saffola Fit Foodie. In the years to come, for health products you will need direct consumer contact or direct consumer engagement. This offers that engagement, and tomorrow, this set of consumers and the channel will offer perhaps more e-commerce opportunities to have a larger play in the nutraceuticals/functional foods space.



*Marico Limited  
May 03, 2018*

- Shailesh Kumar:** So I mean what is the current market size of the segment and what kind of revenue we are targeting over next three to five years?
- Saugata Gupta:** I am not in a position to give you a business plan at this stage but, as I said, these are part of our Engine 2. Things like Beardo, Revofit, investment in nutraceuticals. Out of these, I think there would be one or two emerging big bet growth areas that could come. I do not think right now in the first year we will have any kind of a business size aspiration. All I can say is that these are segments of the future and, as far as Nutri-shake is concerned, if you go to some of the e-commerce sites, it is I think performing pretty well there.
- Shailesh Kumar:** And these things are done in-house or it is outsourced?
- Saugata Gupta:** In terms of manufacturing?
- Shailesh Kumar:** Yes.
- Saugata Gupta:** Development in-house and manufacturing outsourced.
- Shailesh Kumar:** Okay, thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Mike Sell from Alquity Investment Management Limited. Please go ahead.
- Mike Sell:** Good afternoon. My question is in two parts, firstly in India could you please talk about the competitive environment at the higher end example, first company such as Bajaj and then secondly in terms of your Bangladesh business I am surprised how low the volume growth is, given that your very successful premiumization strategy and growth of the normal coconut oil business, could you give us some thoughts about your volume growth in Bangladesh over the next 12 months.
- Saugata Gupta:** Let me first address the question on the competitive environment in India. Obviously, I think the competitive environment in the Value-added Hair Oils space is slightly higher in the price point packs. Having said that, I think our growth will be broad-based where we will continue to participate, defend and grow market share in price point packs in Value-added hair oils as well as drive premiumization through some of the new initiatives. We are looking at both volume share and value share gains in the Value-added hair oils business over the next few years. Even last year we did gain around 70 basis points in Value-added hair oils. As far as the Bangladesh



market is concerned, I think there is saturation in Parachute, which is 85% plus market share in the branded coconut oil market, which is around 80%. There is hardly any unorganized. Therefore, we are aggressively diversifying the portfolio. If you look at the value growth that has happened in Bangladesh, it is a combination of inflation and premiumization. Now, the non-Parachute portion, was 10% a few years ago, is now at around 25% and will be 30% by the end of this year. The non-Parachute business actually is growing around 30-35% in volumes, so I do not think we have too much of a growth expectation out of the Parachute portion. Our job is to continue to grow double digits in constant currency by growing the non-Parachute portion by 25%-30%, holding Parachute steady, and getting growth through premiumization and mix. In addition, you will see us perhaps entering some new categories in Bangladesh and aggressively driving the new product innovation program over the next 12 to 18 months. Therefore, in Bangladesh again, we are expecting a double-digit constant currency value growth in the coming year.

- Mike Sell:** And in terms of margins in Bangladesh, how do you see that open in couple of years?
- Saugata Gupta:** I think we are a reasonably profitable business in Bangladesh. We have scale and enough opportunities to manage cost and drive efficiencies of spends. I think we will create enough resources to invest behind new engines of growth without any dilution of margins.
- Mike Sell:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bhavesh Shah from CLSA. Please go ahead.
- Vivek Maheshwari:** Good afternoon Sir, this is Vivek. Two quick question, one your India advertisement is up like 27% on a like-for-like basis I mean in the context of volume growth you know that the volume you have reported I mean how to think about this A&P spend was that skewed towards one particular product or category?
- Saugata Gupta:** I think the way to look at it is from an annualized basis. Directionally, we will continue to invest behind A&P and A&P will go up by 100 basis points over the next two years. We will continue to invest behind some of the new areas of growth. Having said that, our current input cost pressures has forced us to really aggressively look at fixed overheads and spend efficiencies in both A&P and sales spends and therefore we will be driving down cost there. However, we will not compromise on investment behind talent, capability and innovation.

- Vivek Maheshwari:** Okay and if A&P spends were to move up the Q4 exit margin is where you think, I know this question has been asked but next year, how you know... ball-park... should margin be around the same level at which the Q4 number has been?
- Saugata Gupta:** The operating margins?
- Vivek Maheshwari:** The consolidated margins.
- Saugata Gupta:** It would be perhaps little better in H2 than H1 but I think we will work around the threshold level of margins which we are committed to.
- Vivek Maheshwari:** Okay, I mean straight point 17% is what you have reported in the Q4 is that what the full year FY19 number should look like?
- Saugata Gupta:** Yes, around that definitely. But as I said, it is very difficult to give an outlook for H2 but at least for H1 I think you can look at that.
- Vivek Maheshwari:** Okay. And second question Sir on youth portfolio Paras, you have taken Rs. 105 Crores write down could you elaborate on that?
- Saugata Gupta:** When we acquired the youth portfolio, we had an individual valuation for each of the segment. This just reflects our performance of Deos. We believe that the rest of the portfolio is doing reasonably well, especially in H2FY18, and in this year too, there will be significant traction.
- Vivek Maheshwari:** So all of this Rs. 105 Crores is because of just Deos, the other two segments are pretty much on track?
- Vivek Karve:** No it is not like that. At the end of the day, it is an impairment assessment on the investment that Marico has made in MCCL. What Saugata wanted to say was it would have been primarily on account of a subdued performance in the deodorant business.
- Vivek Maheshwari:** Yes, so that is what I am saying so impairment basically you would have future forecast, the forecast would have primarily changed because of deo, the other rest of the portfolio would have been performing in line with your expectation, is that how it is.
- Saugata Gupta:** Yes, this is impairment based on the past performance as opposed to the future, in the sense of what we know about the performance of deos.

- Vivek Maheshwari:** Okay, thank you and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi:** Good afternoon everyone. Sir considering 21% price hike which you have taken on Parachute this should ideally be sufficient to cover around 40%-50% kind of a copra inflation so with that assumption ideally the next even first half gross margin where you also have a favourable base should expand?
- Saugata Gupta:** Not necessarily so. Because, I think at the end of the day, you cannot look at a margin based on actual price of the input as opposed to the consumption. Sometimes there is a difference between the consumption cost and the actual input purchase cost. So, I think you have to look at it in that way.
- Naveen Trivedi:** So can we assume that we have copra the raw material finished inventory levels are very high which basically can impact our Q1 margins?
- Saugata Gupta:** No, I am not saying that. I am talking of the last year base.
- Naveen Trivedi:** But I am talking about the inflation I am comparing Y-o-Y only know?
- Saugata Gupta:** No, in the last year base, in consumption terms, we might have had advantage versus the market price. Therefore, you cannot look at YoY point-to-point raw material prices and then infer on the margins. So, in the previous question, I did give a guidance and given the fact that margins are likely to be a bit suppressed in H1, for H2, we will get a view depending on how the copra prices workout.
- Naveen Trivedi:** Okay, so you mean to say that last year real consumption rate for the copra lower than the at the time of the availability. Saugata I asked you the H1 because I understand your point for the Q1 FY19 performance but there can be a chance where your Q2 number should be in favour to the expansion?
- Saugata Gupta:** I think you should look at it from overall H1 perspective. I do not think we can look at Q1 or Q2 because as I said that the consumption benefit could have flown through even in Q2.
- Naveen Trivedi:** Okay, fair point. And like since Saffola we have been witnessed that the growth levels are relative to our historical levels has been tapered down so if you can just give some perspective of

about the how has been the premium share is growing overall in the edible oil market and what are the share of the premium edible oil in the total market if you can give some perspective with regards to the total market?

**Saugata Gupta:**

I think the premium market is small. While we are performing well there, I do not think it is a matter we should be happy about at all. As I have as said on the last call and earlier as well, we are attracting a set of consumers who are not heavy consumers because they are very health oriented. Also, because of the varianting strategy did not go well in terms of the kind of variant which we are supporting. Perhaps there would have been a dilution in terms of the positioning of Saffola. Thirdly, what happened is that during certain times in the year, the price premium went out of the zone which has now corrected. So, the promotional strategy has been revised. We have revised the kind of input in each market we are concentrating on. There is no point trying to have a national footprint and investing nationally because it is a very niche brand. So, we have revisited the promotional and the varianting strategy and we are supporting both the variants in different parts of the country. We believe that we have identified and sorted out for half of the problems definitely in the immediate two quarters. There are one or two areas, which are to be solved for the long term, which is with respect to growing the super premium category per se.

**Naveen Trivedi:**

Yes, thanks a lot for the answer. If I could ask last question like, our CSD this quarter has grown by around 32% and most of the brands has relative to this quarter has been lower now, so especially where Saffola has higher contribution from CSD so which product has been benefited out of this special growth in CSD, is it VAHO?

**Saugata Gupta:**

So let me just give you a perspective. CSD has a very low base last year. As you may recall, CSD had started stopping orders last March so it is because of that base. If you look at CSD last year, I think I it started giving us issues only from Q4 of last year. So there is no need to look at 32% directionally. CSD, in terms of stock keeping and other things, will continue to be perhaps a little soft for the FMCG sector in the coming year also.

**Naveen Trivedi:**

Okay fair one Sir and thank you and all the best to the team.

**Moderator:**

Thank you. The next question is from the line of Ekta Mehta from Vallum Capital. Please go ahead.

**Ekta Mehta:**

What is the strategy to increase the market share in the rural market?

- Saugata Gupta:** So, we will continue to focus on price point packs and also if you look at it, our value-added hair oils in terms of Shanti continues to gain share and also we have offerings like Nihar in East as well as Parachute Jasmine which is present in most of the markets. So, it will be a multi-brand strategy and at the same time, we will have significant push and focus on the price point packs which is Rs.10 and Rs.20.
- Ekta Mehta:** Okay and also in competition to Kesh King, what are your offerings and how is it ramping up?
- Saugata Gupta:** We participate in the hair fall only in the south. We do not participate in a hair fall offering in the rest of the country as of now.
- Ekta Mehta:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** Hi my first question was on your foods portfolio. If you could share the FY2018 revenue and growth numbers for the oats portfolio and also any early readings from the launch of soups?
- Saugata Gupta:** Still early days in Soups because even our supply chain has not stabilized. But, so far, it has been satisfactory. We are restricted to Mumbai, in modern trade and in specialty food outlets. So, we will take a call on soup scale up only after the next six months because normally our prototype lasts six to nine months. Therefore, we will take a call in the next 4-5 months on the scale up once we meet action standards. So far, as far as soups is concerned, there is no cause for concern. Regarding foods, we had a double-digit value growth for the full year and we are in the zone of 125 cr. plus.
- Latika Chopra:** Alright and secondly, on your... any thoughts on your NPD pipeline, how is it looking like for FY2019 and on your distribution initiative, anything to call out for?
- Saugata Gupta:** We will prototype a couple of things in FY2019 and I think continue to scale up on Aloe and Value-added mustard Oil. Maybe you will see some NPD in the hair nourishment and food space that we will prototype. As far as distribution is concerned, I have already called out that the two channels we will focus on as big bets over the next years is Modern trade and E-commerce. As regards urban, I think we have a job to do in chemist, cosmetic and specialty food outlets. In rural, we will continue to expand on a regular basis as a part of our long-term strategy and focus on price point packs there.

- Latika Chopra:** And just lastly, you talked about your focus on low price plan. What is the contribution today of this in your overall VAHO portfolio?
- Saugata Gupta:** Around 20%
- Latika Chopra:** Okay and if you want to scale this up, you would have, it would not affect your profitability metrics, economics in any meaningful manner?
- Saugata Gupta:** Not really, because we will also continue to drive premiumization and large packs in parallel. We will obviously have a threshold level of margins to drive it because we would like a sustainable growth in these packs.
- Latika Chopra:** Sure. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ishan Daga from Microsec Financial Services. Please go ahead.
- Ishan Daga:** My question is basically on the margin side. Just wanted to understand that when we are posing the increase in advertising and promotion expenditure around 100 basis point and innovation is our key focus, so what would be the levers, which will be like compensating for these types of increases, and help us maintaining on these margins?
- Saugata Gupta:** So I talked about a 100 basis point increase over the next two-three-year period and not just this year. And I think what we have said is that we are aggressively looking at cost efficiencies in terms of fixed overheads and also efficiencies in sales and marketing spends. And I think that should be able to fund it. Also, if you look at our international business, I think we do not have scale advantages in terms of fixed overheads. The fixed overheads of the International business is significantly higher than the India business or our Bangladesh business. Therefore, we are taking concerted steps into driving that. So it will be more from cost and spend efficiencies which will fund that increase in A&P over the next two to three years.
- Ishan Daga:** Okay so on raw material front also, we are not expecting any kind of large increases in this year going forward?
- Saugata Gupta:** Obviously, year-on-year, in copra, liquid paraffin and others, there is inflation. But having said that, whatever inflation has happened has happened, while crude is a joker in the pack. I mean that nobody can predict that. As far as copra is concerned, I think we have reached the highs.

- Ishan Daga:** Okay and what would be the capex for FY2019, capital expenditure?
- Saugata Gupta:** It will be in the zone of INR 125 to 150 crores.
- Ishan Daga:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.
- Aditya Ahluwalia:** On the medium-term margin guidance when you said 17% to 18%, does that imply a 50% gross margin or what is the implied gross margin assumption?
- Saugata Gupta:** I think it is in the same zone. As I said, even if there is some slight depletion in the short term, we will make it up in fixed overheads.
- Aditya Ahluwalia:** I see any guidance on the gross margin because that has come down to like 47% levels from higher levels in the recent past?
- Saugata Gupta:** It will be very premature to give you a guidance on gross margin. We would rather look at the operating margin level, which as I said, in the first half will be around the threshold. And maybe, we will see an outlook once we get a fair picture of the second half. Also, gross margin can improve by not just by input cost, but mix also.
- Aditya Ahluwalia:** Right maybe supply efficiency as well. On the rates of the raw material and the basket at the moment, can you just tell me how much is copra or coconut oil based and liquid paraffin, HDPE and Kardi?
- Saugata Gupta:** We will not be able to get into specific breakups, please.
- Aditya Ahluwalia:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.
- Amit Kumar:** Quickly on the domestic business. If I look at the VAHO segment over the last couple of quarters, there has practically been no pricing inflation out there, negative 1% to positive 1% but when we look at the raw material pricing, it has started to move up. So I do not know about vegetable oil, but LLP and HDPE both of them sort of started to move up quite significantly in

double digits now. So do you see any sort of pricing coming through and we have seen this in coconut, but of course, the pricing levels there has been, raw material pricing there has been massively very different sort of level of inflation. Do we see in VAHO portfolio also next year any sort of pricing actions?

**Saugata Gupta:** You are not seeing any inflation because of the fact that we have passed the benefit of GST last year. We might consider pricing in the coming quarters, which depends on the market situation and the visibility of the input cost for the rest of the year.

**Amit Kumar:** But Sir you are basically saying that fundamentally pricing power is there, it is just that you have not been sort of taking a call on that at this point in time because raw material was they were?

**Saugata Gupta:** Yes, I believe some players in the market have taken some price increases in some packs. But, as I said, we will wait and watch to get a very clear view and we will have a very reasonable clear visibility in the coming one or two months.

**Amit Kumar:** Alright understood Sir secondly on the Vietnam, this X-Men male shampoo, the volume declines that we have been seeing for a couple of quarters now. And is this an issue with the shampoo category overall or just the male shampoo sub-segment, because your market share sort of still seems to be flattish to positive. What is really the challenge here because it is a fairly stable category, right? So I am not sure I understand the volume challenge here fully.

**Saugata Gupta:** The male shampoo category growth has been sluggish. We are market leaders and have not been able to perhaps grow the category that much. I think the biggest impact has been the sachet pricing, when we took a 50% increase and then took another reduction back to old levels, coupled with the weakness in our traditional trade GTM. This is the biggest brand that goes into traditional trade. In modern trade, which is 20% plus contribution, the large pack sell far more and sachets do not sell so much. So, I think it is a question of both our internal execution ability, where we have failed and also the category. I do not think it is just a category issue. A significant portion is our internal execution failure, which we are trying to correct.

**Amit Kumar:** When I look at it from a consumer perspective because it is a fairly staple category, they sort of still are consuming shampoo in some way or the other, so we are sort of gaining. Is that in Vietnam is it like the family shampoo brand which are sort of gaining I mean what is happening at the shampoo category overall in terms of volume growth, if you can give us a little bit of a picture there?



- Saugata Gupta:** So the conversion from unisex usage to male has slowed down. But the category penetration of the overall shampoo category is pretty high in any case. We have also lost significant STRs in wholesale definitely because of our inability to execute the price increase and then rolling it back, which has actually impacted us substantially.
- Amit Kumar:** Okay. Understood. I appreciate that. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Amit Sinha from Macquarie Group. Please go ahead.
- Amit Sinha:** Just wanted to understand very broadly that because of the price differential coming down between coconut and some of the value-added hair oil, is there a case for volume shift from coconut oil franchise?
- Saugata Gupta:** I think as far as Value-added Hair Oils are concerned, I think there are different benefits that are offered by different brands. We have a broad spectrum play that covers the lower end to the premium. Therefore, I think the way we look at it is that people are upgrading from an Amla to Anti-hairfall and some of the offerings like Hair and Care and Aloe Vera or some of the hair fall offerings which are offered by competition. So, I think that is where the upgradation is happening, from the base benefit oil like an Amla into higher order benefits like anti-hairfall or those which offer better sensorials.
- Amit Sinha:** I mean I think part of that upgradation was always happening. My question is that because of the steep price increase in the last one year, is there a case and I am not necessarily talking about this particular quarter, but is there a case that the coconut oil volume growth might come down? Have you seen anything on the ground?
- Saugata Gupta:** The biggest driver of the coconut oil is loose to branded conversion and also the market shares shift from smaller brands to larger brands. These are the dynamics of the coconut oil market and that is the reason that while Parachute grows during inflationary times, we have to be mindful about the absolute price increases and the absolute price points.
- Amit Sinha:** Secondly on Saffola, is the lower growth at the premium end also impacting your overall gross margin? And will some of the new strategy, which you plan to employ and have already employed, will it put pressure on the overall margin of the company?

**Saugata Gupta:** Saffola's contribution in terms of profitability to the organization is not that significant. Having said that, I think our job within the foods portfolio is to keep growing the portfolio because in the medium term, foods will deliver higher margin than the edible oil part of the Saffola portfolio. That is the way to look at it, that you keep diversifying and grow the foods component of the Saffola master brand.

**Amit Sinha:** But on the edible oil side, there will be some margin in the near term... some pressure on the margin in the near term?

**Saugata Gupta:** I think you have to look at in a different way. As you know, Saffola is one of the few brands in that segment which is on an A&P based model. We believe that once we keep on expanding the Foods, there will be amortization of A&P. Therefore, you have to look at from a net contribution and not from a GM perspective on the Saffola margin.

**Amit Sinha:** Thank you Sir. That is very helpful.

**Moderator:** Thank you. The next question is from the line of Prasad Deshmukh from Bank Of America. Please go ahead.

**Prasad Deshmukh:** Just one question. A couple of times you have mentioned in the call that you are trying to drive cost efficiency in terms of overheads and also in terms of sales and distribution. Can you put some number to it as to... typically companies have a target of this much cost saving we are expecting in this year and so on? So is there some number that you can share for FY2019 and 2020? Especially in the context of post-GST, most of the companies are talking about same warehousing rationalization or warehousing consolidation or vendor rationalization and so on?

**Saugata Gupta:** We would not like to put a number to this. I think the way to look at it is that, in the last 4-5 years, we have invested behind capability and initiatives in IT and other areas. We want to now sweat this and also ensure that we get economies of scale. I think the efficiencies on supply chain and all, which you mentioned, is only a part of it. We are looking at the entire gamut including marketing spend, sales spend efficiency, fixed overheads as well as overall our employee costs. So, we should sweat the entire gamut much better. That should be able to fund my increased A&P over the next one or two years.

**Prasad Deshmukh:** Just one more question on your food... the plan for your food business. Suppose I have to... as a... if I have to take a call on the company as to five years down the line, how much can food contribute to the overall sales especially in India? Is there any way to look at it because right now

it is very small, but again this is an opportunity, which probably is right for a lot of organized growth taking place? So is there any plan that you can share or some indication that you can give here? Not short-term.

**Saugata Gupta:** I think the first port of call is that this current business becomes profitably scaled up at INR 200 crores. So, our first port of call is to get that. We would rather not fragment our efforts at this point in time, but we need to have a proven profitable scale-up model with what we have and that will happen once we hit the INR 200 crores mark. Then, I think we will have far more confidence and willingness to invest behind the next level of growth.

**Prasad Deshmukh:** Got it, okay. Thanks a lot.

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

**Tejas Shah:** Thanks for the opportunity. Just one question. It has been 9 months now in the GST regime and the key benefit which was envisaged for GST was formalization of demand. Now as you highlighted on today's call as well that the key hunting zone for coconut hair oil category was to convert unorganized loose hair oil users. So should we see that - should we conclude that GST has not benefited us much from demand perspective or the benefits are yet to kick in?

**Saugata Gupta:** I think we have been converting unbranded to branded over the last 10 years. Now, one of the things, obviously, post DeMon and GST, there were some temporary benefits. Having said that, we believe that organized players will be in a better position in the long-term. Compliance levels will keep on increasing over the medium term. Over the long term, both in terms of getting supply chain efficiencies and getting a level playing field in terms of gradual compliance, organized players will be in a better position. I think what happened is that immediately post DeMon and post GST, there was perhaps a short-term gain to some of the organized players. Now whether that immediate gain has sustained is very difficult to say because the unprecedented increases in copra input cost also perhaps was a dampener for the conversion. Having said that, I am pretty confident that in categories like coconut oil and some basic other categories in the sectors, organized players over the long term will benefit.

**Tejas Shah:** But Sir, looking at last 9 months scenario, all the tailwinds, so these are the two major ones such as one copra price inflation, which has historically helped us to gain market share from unorganized players. And second obviously, there was a GST kicker which would have taken them more by surprise versus us because we are much more efficient and settled supply chain in

distribution setup. So in this environment also if you have not seen that kind of delta, so was the benefit of GST conversion at least for this category was overstated or you believe that that will slowly gradually trickle down in our numbers and come in through this?

**Saugata Gupta:** So let me try to put in our understanding. I think we, and not just us, but some other categories as well, did get temporary benefits in the immediate aftermath. We are pretty confident that further gains will come, but it will be a much slower gradual process which is a function of increased compliance and the organized players' ability to extract efficiencies out of the ease of doing business which GST has brought about.

**Tejas Shah:** Thanks Sir. That is it from my side.

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

**Abhijeet Kundu:** Thanks for the opportunity. My question was on copra again. Primarily you said that guided towards Q4 you expect that there could be a drop in or a deflation in copra prices. So what I understand is copra procurement majorly happens during April to June. So what are the on-ground expectations now which are building in a sense that... would it be clear by Q2 or I mean post June would it be clear that there is some sort of softening in copra prices? What is your view on that basically? Because you said ideally copra prices should start - the inflation should start subsiding by August, September, right? So there should be some amount of gains even in Q3. What is your view on that?

**Saugata Gupta:** As I said, that while we have reasonable levels of sophistication in terms of forecasting accuracy, forecasting raw material prices is very difficult. Our current estimate, which is our best guess estimate, there is more certainty of a drop in Q4. It is too early to talk about anything in Q3. Also, given that we have positions in raw material and package materials, so that benefit takes a couple of months to translate after the actual drop happens. That is why we are talking about more certainty in Q4 than in Q3 at this point in time.

**Abhijeet Kundu:** So essentially there would be as had happened last year that you had a higher raw material inventory and that really had to be taken care of before getting into the lower prices, so..

**Saugata Gupta:** Even if there is a price drop, say in September, your benefit will start in 2-3 months because that is the kind of a holding you have between raw material, finished goods and the entire system.

- Abhijeet Kundu:** Okay, got it. Thanks. That is it.
- Moderator:** Thank you. The next question is from the line of Kunal Vohra from BNP Paribas. Please go ahead.
- Kunal Vora:** Only one question Sir. How is the competitive pressure in the Parachute category from organized players? Are you seeing any impact of Dabur and Patanjali in the category? And also is the 5% to 7% volume growth for Parachute subject to copra based cooling off or even at best price you do not see any issue with demand coming back? That is it. Thank you.
- Saugata Gupta:** Let me address the competitive scenario. I think there is competition from some players in the low price segment in certain states of the country. Our estimate is that perhaps some players are selling at a negative minus 10% to 15% gross margin, which we believe is not a sustainable proposition at current copra prices, which is happening in some states of the country, which might lead to temporary increase in market share. Now, our stated position, is that we have gained, in MAT terms, around 90 basis points market share. We have not lost share and we perhaps will not go down that path. However, there are alternative strategies to defend market share. The 5-7% growth rates on the annualized basis, given our current inflationary scenario and perhaps a little bit deflationary in Q4, takes into account a full year outlook for this year.
- Kunal Vora:** Sure, understood, so do you think the other organized players could also have gained market share and like the loss of an organized could be larger but it is shared by multiple players instead of you alone?
- Saugata Gupta:** Yes, that could be, because as I said, we have not lost share.
- Kunal Vora:** Understood. Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Kuldeep Razdan, an individual investor. Please go ahead.
- Kuldeep Razdan:** Thank you for taking my question. I have just two very quick questions. The first one is about debtors. If you think the March 31 situation for FY2016, FY2017, FY2018, right from Rs.250 Crores, it has gone up to Rs.340 Crores, from a 15-day debtors to about 19.5-days debtors. What is the reason for this debtor increase of 33%?

- Vivek Karve:** There could be two reasons. The first reason is definitely the skew. At times, the skew also affects the way we calculate the number of days. And, at times, it could also be a function of the sales mix and given the inflation, it could have also impacted the debtors skew. However, I can assure you that the debtor levels have continued to be under control.
- Kuldeep Razdan:** I have just one thing if you can negate my statement. There is no attempt to have greater sales through benefit of giving credit. That strategy has not been taken?
- Vivek Karve:** No, certainly not.
- Kuldeep Razdan:** Thank you very much for that. And a second one, a quick one. You mentioned about the Rs.104 Crores impairment charge on Marico Consumer Care, which essentially is a company, which has intellectual property rights. And I mean this kind of impairment Rs.104 Crores over a quantum of profit on a standalone basis of Rs.246 Crores is a big hit, I am saying can you visualize something like this in the next one year let us say, is it possible that something like this can again happen? Because it is a big hit, that is the reason why I am worried about it.
- Vivek Karve:** No, I completely agree with you and you have a right to be concerned. But, when we took this particular impairment hit, we definitely considered our ability to grow in the future in the context of what we have done in the past and we believe that if we are able to execute our strategy well, there would not be any further impairment.
- Kuldeep Razdan:** Thanks a lot. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to the management for their closing comments.
- Vivek Karve:** We thank all the investors and analysts who joined the call. We are looking forward to a much better year ahead. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.

---

(This document has been edited for readability.)