



Marico Limited
Q4 FY2019 Earnings Conference Call

May 06, 2019

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

ANALYST: **MR. ANAND SHAH – AXIS CAPITAL LIMITED**



*Marico Limited
May 06, 2019*

Moderator: Ladies and gentlemen, good day, and welcome to the Marico Limited Q4 FY2019 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Anand Shah from Axis Capital. Thank you, and over to you, Sir!

Anand Shah: Thanks. Good evening, everyone. And on behalf of Axis Capital, I would like to welcome you all to Marico's Q4 FY2019 Earnings Call. We have with us the senior management of Marico represented by Mr. Saugata Gupta, MD and CEO; and Mr. Vivek Karve, CFO.

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

With that, I would like to hand over the call to the management for their opening comments. Thanks, and over to you.

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

We would consider the overall performance in Q4 as reasonably satisfactory with volume growth meeting our medium-term aspiration and in-line margin delivery in spite of a sluggish March in India.

In the domestic business, while Parachute, Saffola Oils, Foods and Premium Hair Nourishment did well, Value-Added Hair Oils and Male Grooming disappointed, which I will address subsequently. We continue to bring new offerings to the market in Foods and Male Grooming and also forayed into premium skin care. We shall continue with the same fervor on investments, which increased by 29% this quarter, and focus behind innovation in the coming year in our bid to create categories of the future.

The International business also had a steady quarter, led by double-digit constant currency growth in Bangladesh and Vietnam. We feel more confident of building a far more predictable growth trajectory in International over the medium term. As things stand, we expect to deliver 8% to 10% volume growth annually in India and a double-digit constant currency growth in International in the coming year.

Let me give you a detailed insight into India business. Parachute grew in line and continued to enjoy market share gains. We believe it is firmly on track to grow at a 5% to 7% CAGR in volumes going into next year and beyond. With copra prices easing as anticipated, we shall maintain the competitiveness of the brand through some tactical interventions.

Value Added Hair Oils has been a clear letdown in Q4, while at a full year we delivered a high single-digit growth of around 7%. While some of it was on account of channel clearing prior to price decreases of around 5% in some of the brands from April in the new financial year, we also witnessed some sluggishness in brands like Hair & Care. However, we continued to register continued consistent gains in market share in both volume and value terms. We expect to resume healthy growth with pricing interventions playing out, stepped-up efforts at the bottom of the pyramid with Nihar Gold and Nihar Shanti Jasmine as well as premiumization through new launches aided by Modern Trade and e-com.

Parachute Advance Aloe Vera has been gaining ground consistently, while it is early days yet for Hair & Care Dry Fruit Oil, which aims to grab market share in the premium almond space, and Nihar Extra Care, which is an anti-hairfall oil. We continue to remain positive about the category and remain confident of delivering double-digit volume growth in the coming year, starting with a definite high single-digit volume growth in Q1.

Saffola had a relatively better quarter. A more competitive value proposition and impactful advertising campaign for Saffola Gold, “Saffola Wala Khana”, has been received very well. A high growth of 18% was also aided by tactical inputs run in the quarter. At a full year level, the brand has delivered 8% volume growth. We believe brand recovery is still WIP and may take one or two quarters before we up the volume growth guidance to consistent double digit. Having said that, we are confident about delivering high single-digit volume growth in the coming one or two quarters.

Saffola Oats franchise and Premium Hair Nourishment continued to deliver 20%-plus growth. We have launched some differentiated organic coconut-based foods under Coco Soul and a



*Marico Limited
May 06, 2019*

ready-to-cook breakfast range with millets and quinoa superfoods under FITTIFY Gourmet. We expect to build a critical mass over the next one or two years.

Male Grooming hit a minor bump in Q4, which is because of some baseline of Set Wet Blast, the Rs. 49 deo, which was launched in the same quarter last year, but closed the year with a 22% value growth. We have launched a Charcoal range under Set Wet Studio X besides expanding into waxes and expect to maintain the momentum of 15-20% value growth in the portfolio for the full year.

In terms of channels, Modern Trade and E-com continued to lead growth in urban. E-com is now around 4% of India business topline. CSD has also returned to some growth in H2. With a strong transformation and investment plan for both urban and rural GT in the works, we hope to do better in the coming quarters with better execution and agility. Given the healthy offtakes in this quarter, we expect rural to stay on a growth path in spite of the sluggish March subject to normal monsoons and post elections.

As regards the International business, we believe that we have the portfolio and organization capability to drive a predictable and profitable growth model. Our aggressive portfolio diversification in current and new categories in Bangladesh has been driving growth. HPC is growing in Vietnam, and we expect to capitalize on the same with accelerated innovation and requisite investment. MENA has been stable this year. Overall, we are poised for a double-digit constant currency growth in this business next year.

With the expectation of consumer sentiment in India improving and no adverse change in macros in key international markets, we are confident of achieving our potential in FY20. We anticipate a quick reversal in Hair oils, and we will stay focused on the task at hand in Saffola. Healthy Foods, Premium Personal Care and Male Grooming should deliver around 20%-plus value growth. In the process, the share of business from new products will see a visible rise next year.

We aim to revive urban GT on the back of improved in-store execution and ramped up presence in chemist, cosmetics, specialty foods and standalone open format outlets to support the premiumization agenda. In rural, we will focus on further strengthening infra and reach.

To sum up, we believe we are poised to deliver 8-10% volume growth in India, double-digit constant currency growth in International business, along with 18%-plus operating margin next

year after taking into account significant additional investments in A&P, digital and GTM expansion during the year.

Lastly, our focus on responsible growth means that we will continue to work on identified sustainability pivots of reduction in energy intensity, usage of renewal sources of energy, water stewardship and responsible sourcing. We are committed to making this Earth a better place to live for our future generations.

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

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

Abneesh Roy: Thanks. Good set of numbers. My first question is on Value Added Hair Oil. So this 5% price cut in part of the portfolio, post this, how is the profit pool of this segment? Have you seen the competitors also cut similar? And on market share, if you could comment because today one player said they will double their market share in the next few years, and Dabur has also said 70 BPS gain in market share. So wanted to understand in Value Added Hair Oil, are you seeing more competition from both Dabur and the other players?

Saugata Gupta: So let me first address the reason for the price reduction. We looked at the value-added coconut oils, Parachute Jasmine and Nihar perfumed coconut oil, and based on input costs and the fact that they are the first destination for upgrading consumers, given the view we have for input costs, we have taken a 5-6% reduction in prices effective April and therefore, cleared the channels in March. We expect that will also ensure that we boost growth. In conjunction with that, we have a far more aggressive play in the bottom of pyramid, which is Rs.10 packs in Mustard, Nihar Jasmine, and other brands. Now regarding market share, to give you a perspective, on a MAT basis, we gained around 0.4%, and on a year-on-year basis, we gained 1.1% in volume share. Obviously, we intend to continue to play aggressively in both premiumization and bottom of pyramid and as I said, we have launched dry fruit oil, which will certainly aims to take share from wherever we compete with.

Abneesh Roy: This dry fruit oil so how is your pricing versus the leader? And have you tried this earlier?

Saugata Gupta: We had tried earlier, but the mix was not good. We believe that this mix is right, and we are just prototyping it in one or two markets, but we will aggressively invest behind it. So current pricing

is tad lower than the market leader, but the entire proposition is a far more superior option to what is available today. So, it is more on product superiority and not just on pricing. We will aggressively invest behind it.

Abneesh Roy: Yes. Why I asked on pricing was, you mentioned premium almond oil. So I thought it is premium.

Saugata Gupta: It is premium, but premium to the base of value-added hair oils.

Abneesh Roy: Sir, last question on foods, very strong growth, 38%. So ex of all these new launches which you have done, so in oats, how much is the growth? So how much will be, say, the channel filling because of the new launches? Has that helped?

Saugata Gupta: There is hardly any channel filling because most of the launches are still happening. It is being launched only in E-com and Modern Trade. The foods-based business growth is 20%. Saffola FITTIFY range is available in significant amount of Modern Trade and E-com only as in April. So we started the launch, and it has been a soft launch. So now it is beginning to get traction. So going forward, we expect to be in a position where the Foods business will cross Rs.200 Crores this year.

Abneesh Roy: But what is the oats growth?

Saugata Gupta: 20%.

Abneesh Roy: One followup on this oats vending machine. Have you seen any traction? You are expanding. It is a tough thing because this is almost like creating this category. So what has been the initial response?

Saugata Gupta: Again, as I said earlier, it is not a separate business, but the objective of the vending machine is to drive trials and saliency. We have around 300 machines currently, which is dispensing this.

Abneesh Roy: You are doing this more as a brand activity.

Saugata Gupta: It is more for driving trials. It is not a separate business.

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

- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Good evening team. My first question is on Saffola. You have done a very good 18% kind of volume growth this quarter. So just wanted to understand what is the story behind the numbers? I mean, what suddenly clicked after so many quarters? What are the interventions you put, what went right? And what kind of guidance do we have for the medium term in terms of volume growth for Saffola?
- Saugata Gupta:** I think I addressed some of it during the opening remarks. But let me tell you that one of the key capabilities we have invested in is analytics-based decision-making. Therefore, a lot of inputs we use in Saffola, given the fact that Saffola has a significant portion in Modern Trade and urban, and we have technology coverage, we are able to isolate inputs in order to get results. So if there are, while I do not want to get into exact details because that is competitive information, suppose, six elements of spend, say trade spends, advertising, promotions, or incentives, we have managed to isolate one or two that gives the highest ROI. That is what we over-invested in and got this number. We now probably know what works in Saffola and what does not work in Saffola. I think given that, we are pretty confident of a very high single-digit growth. Let us wait for one or two quarters before we up the guidance estimate to a double-digit.
- Percy Panthaki:** Right, Sir. And this high single-digit, which you say, is for the Saffola oils portfolio only, right? It does not include...
- Saugata Gupta:** All these numbers are oils, yes. Foods, as I said, is expected to grow 20% plus.
- Percy Panthaki:** Sure, Sir. Secondly, on Parachute, although the 6% volume growth is in line with your medium-term guidance, it comes off a very low base, I think, of around minus 5%. So the two-year CAGR is still very weak. And in light of that, also, I think in your investor update, you mentioned that the growth in pouch packs was higher, which is a little surprising because I thought it is a non-focus kind of SKU, and therefore the key constraint in those packs will be supply and not demand. So why produce and manufacture pouch packs to that extent and also, the overall your take on the volume growth?
- Saugata Gupta:** I do not know what you are referring to. Let me address the Rigids part. I do not know where you are deriving this pouch pack issue, but let me take it offline. But what we report is Parachute Rigids growth. Now you are right, in terms of what is the base of last year and, therefore, on a sequential two-year CAGR, it does not look good. I think the way to look at is the run rate of Q3

and Q4. I think as far as run rate is concerned, we have no reason for concern in spite of the fact that post the cyclone in November, the prices went up and then the prices started going down in February, towards mid-February to March. So I think as far as the run rate of Parachute is concerned, the full year Parachute growth is 8%, and we are pretty confident of continuing to deliver a 5% to 7% growth in Parachute in this year. And on the pouch query, I could not track it in our note, but I am happy to address this offline.

Percy Panthaki: So we can take that offline. That is it from my side. Thanks and all the best.

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

Arnab Mitra: Thanks for the opportunity. First question was on your commentary on the macro or the demand environment seems quite different from some of the other peers who have reported. In your commentary, you do not seem very concerned about the fact that growth has slowed down substantially. Most of your peers have raised concerns that June quarter could be even lower in terms of the macro. So is it because you have specific things like, for example, Saffola is a completely bottom-up thing from your point of view and other initiatives? Or are you seeing the macro demand environment not as challenging as it is being made out to be?

Saugata Gupta: So it is a combination of two. Firstly, yes, we spoke about the sluggish March. So if you ask me in relative terms is we did see some rural sluggishness in March which was not there in Q3. So we did see some while we exited the quarter. Having said that, if you look at our NPDs and the significant amount of investment we are making, they are all towards premiumization. And as you rightly said, if we can swing around Saffola and aggressively participate in the bottom of pyramid in Value Added Hair Oils, which we are not because of the fact that last year we did not have the resources. We are still on a wait-and-watch mode with regards to the trend in rural consumption. Having said that, if you look at our rural dependence it is 35%, which is slightly lower than some of the peer-set companies. So it is a combination of all this. I would say that as things stand, I think we should be at least trying to deliver 8-10% aspirationally. But a significant part of our growth is incremental growth from Foods, Premium Hair Nourishment, Male Grooming. Therefore, a significant portion is urban premiumization.

Arnab Mitra: Thanks for that. Second question was on the gross margin. So your gross margin this quarter has been about 49%, which is a big improvement from the third quarter. Now moving from here ahead, what are the moving parts here in terms of the input cost itself and your need to take down

prices in any of the other products versus what you have already done? And in that context, how would you look at the gross margin trend? I understand on EBITDA, you many want to invest back a lot of the gains, but just on gross margin, how are - what are the moving parts from here?

Saugata Gupta: If you look at it, I do not think there will be any pricing intervention in Value Added Hair Oils. As far as copra is concerned, we believe that the overall Y-on-Y, it could be anything between 15-20% lower in terms of the market rates. As of now, we do not see any significant pricing interventions to be taken in Parachute. Having said that, the reason we talked about a possible slight deflation in the note is that we have kept it open as far as some tactical interventions in Parachute is concerned. But we are actually happy. We would have been far more concerned if copra would have gone down 20-30% because it would have impacted volume growth. But since it is now 15-20%, we are pretty comfortable at this kind of pricing. Now coming to gross margin expansion, there will be a slight gross margin expansion, which will be around 200-250 basis points, yes, but we have taken some pricing intervention, so net maybe 150-200 basis point gross margin expansion.

Arnab Mitra: Why I was asking was that if I look at this quarter your RM cost is 51% of sales and through the first nine months, it was more like 55%-plus. So in that context, your 150 number looks significantly lower than what you would do if you were to hold your current GM. So are you building in that you will have to pass on some of the gross margin gain in pricing?

Saugata Gupta: No. We are taking the fact that there could be bullishness in crude prices, because that will neutralize some of the copra gains. Because, given the current view, there could be some pressure on the crude prices.

Arnab Mitra: One small question, the last one for me, is that on the Parachute Rigids, the value growth is 4% and the volume is 6%. So this 2% is some tactical thing, which you would have done?

Saugata Gupta: Yes. There were some tactical promos. As I said, at the current level of copra, and it is sustaining at this level, we do not expect any major reduction as of now, but it is very difficult to predict. We do not need to take a permanent pricing intervention in Parachute as of now.

Arnab Mitra: Thanks Saugata. That is it from my side.

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

- Aditya Soman:** Good evening. Just a couple of questions from my end. Firstly, in terms of Saffola, as you have noted at the end of your information update about promotions on some of the 5-liter packs and even Active, was that a big factor in the escalation of volumes? And secondly, will this be a strategy that you use, because even for the quarter we see that the volume growth is ahead of the value growth?
- Saugata Gupta:** No. I do not think there were any incremental promotions as far as Q4 was concerned. As I said, I cannot get into details, but using analytics, we did find one or two elements. It could be pricing, it could be the amount of A&P, or other things, which are sensitive to volumes. So ideally, we would not like to do tactical things, but long-term strategic things in terms of passing value onto the consumer and also investing behind Saffola. So, what we have done in effect is suppose we are spending on five different elements of spend, we have consolidated that spend into one or two elements and we have found out these two elements have the best ROI in terms of volumes.
- Aditya Soman:** Okay. No, because I have just picked this up from the information update, which states that...
- Saugata Gupta:** No. So these promos continue throughout the year. These are mostly Modern Trade promos.
- Aditya Soman:** I will take it offline. Secondly, in terms of the increase in the A&P cost, what proportion of it was for new products and what proportion would be for the existing portfolio, if you could break that out?
- Saugata Gupta:** Broadly, you can take a 35% number for new products.
- Aditya Soman:** So, 35% of the total A&P was for new products.
- Saugata Gupta:** Yes.
- Aditya Soman:** Okay. Got it.
- Moderator:** Thank you. The next question is from Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Thanks for the opportunity. Sir, my first question is on your overall coconut oil franchise and just wanted to understand that the low-margin brands, which you have, do they have a bigger role to play in the current environment where the competition might be a little intense? Because you

have highlighted that you have increased the tactical promotions there, and you have also seen market share reversal for some of these low-margin coconut oil.

Saugata Gupta: I don't think that this has been mentioned there. See as far as coconut oil is concerned, our year-on-year share gain has been 0.8% and our MAT share gain has been 0.4%. The entire gain has been in Parachute Rigids. We are investing in Parachute Rigids. As of this month, we are not actively investing behind the Bottom of Pyramid or price warriors to Parachute at all. We can use some of the flankers to basically protect it. So just to give you a perspective, with respect to the growth next year that is planned, we will continue to focus on driving 5% to 7% growth in Parachute Rigids. We will not excessively focus on these flanker brands as they are just for protection.

Amit Sinha: Sure. Okay. So there is no incremental strategy in any particular state for these flanker brands?

Saugata Gupta: Not really.

Amit Sinha: Secondly, on Saffola, I mean, your caution is on account of the competitive intensity or something else?

Saugata Gupta: We have just prototyped a model in terms of input. One quarter could be an aberration, two quarters will be a definite trend, and in three quarters, we will get into a predictable pattern. So we are just waiting for it instead of just declaring that we are past that problem. So while we have done it, and we are not sure because, as I said, it is based on certain experimentation and prototyping. Let us wait and watch for the next two quarters.

Amit Sinha: Got it Sir. That is all from my side. Thank you and all the best.

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

Ravi Srivastava: First of all, great set of numbers. I had two questions, one on innovation. So in the last one year, you had sort of done a lot of innovation in terms of entering new categories, subcategories and launching more brands. Historically, Marico has been doing more variant launches rather than brand launches, but this year, that has definitely changed. So what has been the reason for this shift towards more brands launches? And what is the thought process behind innovation?

- Saugata Gupta:** We have identified five vectors of growth namely, premiumization of hair nourishment, participating in Bottom of Pyramid, Male Grooming, Foods and Skin care. Therefore, for some of them, obviously, the existing brands could not be stretched, as even in premiumization of hair nourishment, one thing we have found out is that there are two vectors, one is on the sensorial vector and the other vector is on the problem-solving, which is basically hair fall, anti-greying and the like. In certain cases where there is an expertise involved, you need to have a new brand. In the case of foods, Saffola FITTIFY, ultimately FITTIFY is a sub-brand, and ultimately maybe we can migrate some day to FITTIFY. Kaya was already there in an existing group company. We believed Kaya was underleveraged since while the brand saliency is high, Kaya is not available. So how do you make it accessible in terms of both pricing and distribution. I think that was the thought. So Kaya, in some way, is not a new brand, Kaya Youth O2 is a new brand, which is franchised out to us, but I think that is how we are looking into it. And I think these five vectors which we identified has to grow 20%-plus if we have to achieve the aspiration of going to 13% to 15% topline growth over a five-year period, because the existing base business can grow only by 10%.
- Ravi Srivastava:** Second question was just on Kaya as to, what is the term of agreement in terms of the Kaya distribution? So how you and Kaya Ltd. are sort of - do you have an agreement? What is the agreement, if you can specify that?
- Saugata Gupta:** All I can give you in a macro piece, Kaya Youth O2 is perpetually licensed to us. We are not distributing Kaya products. These products are manufactured and sold by us. This is Kaya Youth O2. We are not distributing Kaya products.
- Ravi Srivastava:** Last question was on the distribution marketing side. So just wanted to understand what is really happening with urban GT. Seems to me that Modern Trade and E-commerce are doing really well, but is it a shift from urban GT to Modern Trade and E-commerce? Because I am unable to understand your products, which will do well in GT, are sort of very different from the ones, which will do well in Modern Trade and E-commerce. So just wanted to understand what is really happening there?
- Saugata Gupta:** Just to give a perspective, there are two things happening. In urban GT, especially certainly in top six towns, it is under stress. There are two reasons for it. One is, obviously, there is growth of Modern Trade and E-com. Secondly, I think what has happened is post demonetization and GST the entire wholesale business is not as stable as it was. In fact, it is shrinking a bit. Also, for the

the wholesale business, there are leakages from cash-and-carry to become the substitute distribution model. So for us, to grow urban GT, we have to focus on chemist, cosmetic and foods, which can carry our new portfolio. And that is what we are doing. And I believe that rural will continue to be a source of competitive advantage for people with high direct distribution, and that is why we have significant opportunities and headroom for growth because wholesale is also shrinking, and therefore direct distribution is the way forward in rural.

- Ravi Srivastava:** Got it. Thanks for that.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi:** Good evening everyone. Sir, I have one question on the domestic performance because if I look at the India EBIT, which has been like flat and if I look at the EBITDA margin also, it has only grown by 2%. So if I look at the gross margin expansion, which is at a consolidated level, the domestic gross margin expansion is only 100 BPS. So do you think that Bangladesh has supported a lot of the consol number?
- Vivek Karve:** So, what we have done is, we have invested behind growing our brands with a much higher ASP in the domestic business. You are right, the international margins have definitely expanded in Q4 as compared to Q4 last year and Bangladesh has made a meaningful contribution to it.
- Naveen Trivedi:** Considering the copra is still like softening and Saugata also guided for 150 to 200 BPS expansion at gross margin level, this is at the consolidated level or it is for the domestic level?
- Vivek Karve:** We would not like to get into so much detail, but what we can tell you is that we will stay on course as regards our medium-term EBITDA margin guidance is concerned, both for the domestic business, international business as well as the blended consolidated business.
- Naveen Trivedi:** Okay. So can we expect the kind of ASP which we have seen, the sharp growth in quarter four, in the coming quarter, it will be relatively softened?
- Saugata Gupta:** No, we will continue to invest. As I said that the three things we are investing behind in an aggressive way. One is ASP. Second is GTM expansion. After a hiatus of three years, we are going aggressively not only in urban, but in rural distribution expansion and quality of distribution. And the third thing we are investing is in digital capabilities. Having said that, we

also have far better spend effectiveness with more investment in digital capabilities and our cost management program. If you net out everything and then the copra and crude prices, we believe that we are able to deliver 18%-plus operating margin in this financial year.

Naveen Trivedi: Even at the high single-digit kind of revenue growth and this amount of expenditure you are doing on ASP, you believe that the EBITDA growth will still be healthy in FY2020?

Saugata Gupta: I am talking about EBITDA percentage of 18%-plus.

Naveen Trivedi: Ok. That is all from my side.

Moderator: Thank you. The next question is from the line of Ashutosh Cerla from Centrum Broking. Please go ahead.

Ashutosh Cerla: Sir, may I know the wholesale contribution before GST and demonetization and current year right now? So what is the wholesale contribution?

Saugata Gupta: Yes. There is a slight reduction in wholesale contribution. So it is a very marginal reduction.

Ashutosh Cerla: So what was the saliency of wholesale?

Saugata Gupta: We do not want to get into so much detail, but all I can say is there has been a slight reduction and also urban GT contribution has reduced as a result because of the fact that urban GT, both retail and wholesale has reduced and Modern Trade, E-commerce and rural have grown.

Ashutosh Cerla: That is all from my side.

Moderator: Thank you. Next question is from Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: One question on the CNO business. You have always mentioned that there is a huge opportunity for the CNO business in India by going from loose to branded. Now over the last 18 months or so after GST, you have tried doing that by keeping the prices lower and the margins have contracted as a consequence. But we did not see that volume offtake happen in the India business. And then when I compare that to Bangladesh, where the percentage is already higher, you are seeing a few quarters at least where volume for this is very, very strong. So what do you think about, A, this

loose to branded conversion in India? And secondly, how do you view margins out there? If the volumes have not picked up, is it a case for increasing the margins for CNO as a business?

Saugata Gupta:

Let us first address Bangladesh. Bangladesh, a significant portion of the volume growth is happening because of the diversification of the business. Few years ago, our non-Parachute business was 10%, today it is 30%. So, the entire thing is because of diversification. Actually, if we look at the three years CAGR of PCNO, it is flat. As regards India is concerned, I think compared to the medium term guidance of 5-7%, we have grown 8% this year. Now for a large brand like Parachute, the swing is not going to be very high. As regards margin, given the fact that there was this kind of an unprecedented increase in copra, you have to look at the absolute price the consumer might pay, otherwise the volume would have gone down. So, I believe that the switching that is happening from unbranded to branded continues and there has been a market share gain from the smaller players. So I do not think at 8% volume growth for such a large brand like Parachute, one needs to be very concerned. Maybe if nothing would have happened in terms of the GST and the demonetisation maybe the growth would have been 5% to 6%, that growth has been 8%. And I think a swing of 1% or 2% is big enough.

Nillai Shah:

Thank you very much.

Moderator:

Thank you. The next question is from Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra:

My first question is around your NPD. Would it be possible to share where does the contribution from NPD stand in overall revenue for FY2019? And how do you expect it to scale up over next two, three years given the strong focus that you have?

Saugata Gupta:

All I can say is that there has been a significant increase in NPD. The NPD contribution is going to double over the next two years, rather than getting into a number. And we will also continue to invest significantly behind the NPDs. To give a perspective, if we have to grow, say, over a three to five-year term, by 13% to 15%, it is imperative that the new set of things which we are doing, and I am knocking off the bottom of pyramid because the bottom of pyramid is essentially value added hair oils in Rs.10 pack, but the other four drivers of growth, they have to consistently grow at least 15-20%, if not 20%-plus.

Latika Chopra:

Secondly, e-commerce accounts for almost 4% of your revenue. This would be amongst the highest numbers amongst all your peers. I wanted to just check which product categories will be very dominant part of this E-commerce revenue for you?



*Marico Limited
May 06, 2019*

- Saugata Gupta:** We do sell Parachute and Saffola, but I think there is a significant skew towards the premium part of the portfolio.
- Latika Chopra:** So it is not like Male Grooming, a larger part is coming from that side, but it is across the different categories you are?
- Saugata Gupta:** So it is Male Grooming, Foods, Saffola FITTIFY, Skin Care, which is Kaya, then we have launched True Roots. True Roots, a significant portion comes from E-com. Then Crème Oil is another one, which is salient, and Livon. So these are the brands, which are distinctly salient in E-com, and we have to continue to create brands and assortment, which has a higher RSP because that makes sense. In the long term, we would want to sell not a cannibalistic portfolio, but an incremental or premium portfolio and that is the endeavor.
- Latika Chopra:** If I could just ask, what would be the share of CNO or VAHO or Saffola, which is coming from E-commerce? Is it like 1%, 2%?
- Saugata Gupta:** Yes. It will be in that range.
- Latika Chopra:** All right. Thank you.
- Moderator:** Thank you. The next question is from Kunal Vora from BNP Paribas. Please go ahead.
- Kunal Vora:** Thanks. Regarding the skin care entry, do you see a potential to scale beyond premium and get into mass market? And also how has been the response to the earlier premium launch of Bio Oil? That is the first question.
- Saugata Gupta:** We are just a distributor of Bio Oil in India. It is not our brand. The reason we acquired it is to get critical mass in chemists and also the fact that we believe that there is a lot of mutual learning from them because that was a problem solution global brand. As regards Kaya is concerned, I do not think Kaya, we would like to dilute the brand equity. There is enough opportunity in the mass end segment of skin care. Having said that, if we believe that there is opportunity at the mass end, it has to be with another brand and not so high end.
- Kunal Vora:** And on the revenue guidance like medium term, you talked about 13% to 15%, which builds in about 5% pricing inflation. And I think this year you are looking at deflation in VAHO. Are there



*Marico Limited
May 06, 2019*

opportunities to take price increases anywhere? Or on an aggregate basis as well, we should be assuming some pricing deflation?

Saugata Gupta: This year, you can assume a slight pricing deflation. But if you look at the long-term trend, I think the reason we have set 13% to 15% is a combination of some mix change over the long term and also some kind of inflation. Historic inflation has been 4% to 5% over a five-year period.

Kunal Vora: That is it from my side. Thank you.

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

Harit Kapoor: Good evening. Just had two questions. Firstly, on these four NPD pillars, which you spoke about, so what would be the contribution of these NPDs these four pillars now on the domestic portfolio?

Saugata Gupta: I think they are single digit still, but I believe by 2022 they will become double digits.

Harit Kapoor: So cumulatively, they are single digit, you say?

Saugata Gupta: Yes, around high single digits, but they will become significant like 15%-plus.

Harit Kapoor: Understood, Sir. Understood. Second thing was on copra. So you have mentioned in your press release that there has been a reduction of copra prices post the flush season. Are you indicating about the March reduction, or even post that you have seen a further reduction?

Saugata Gupta: It has stabilized to that level. So what had happened is we had seen a reduction happening before the cyclone happened in November, and then I think by February, end of March, it started reducing. Having said that, it is stable. So when I give a guidance of 15-20% lower Y-o-Y, it is a more annualized level, but as of now we are not seeing any further significant reduction in copra. We are actually quite happy at this kind of a slight minor decline because that is the best in terms of managing pricing and volumes.

Harit Kapoor: Thanks and all the best.

Moderator: Thank you. The next question is from Naveen Trivedi from HDFC Securities. Please go ahead.



*Marico Limited
May 06, 2019*

Naveen Trivedi: Thanks. Just need to understand why you have changed the tax rate guidance for FY2020 and FY2021 to 25% around?

Vivek Karve: There is no significant change. We are saying our tax rate will be about 25%. It is also based on the profits that accrued to us from our tax-exempt locations.

Naveen Trivedi: But if I look at the third quarter FY2019 press release, there the expected ETR for FY2019 was 26% to 27%. And if I look at the press release for fourth quarter FY2019, there you are saying that it settled around 25%, and it will be maintained for FY2020, which means around there is around a 150 to 200 basis points difference versus the previous guidance?

Vivek Karve: That is what I have said. It could be a combination of profits that accrue from tax-exempt locations or tax-exempt countries. So it is our current view. We will keep updating you.

Saugata Gupta: It is based on this year's growth aspirations, which we have finalized in Feb-March. So again, if the mix changes, every quarter we will give you guidance if it changes either way.

Naveen Trivedi: Okay. Thanks a lot.

Moderator: Thank you. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Vivek Karve: Thank you for joining this call and also for your insightful remarks and questions. As Saugata mentioned, Q4 was a reasonably good quarter, and we look forward to an exciting year ahead. We will invest behind our core and new growth engines to deliver robust top line and bottom line growth. Thank you all, once again, and good night.

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

(This document has been edited for readability.)