



Marico Limited
Q4 FY20 Earnings Conference Call

May 4, 2020

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MODERATOR: **MR. ANAND SHAH - AXIS CAPITAL LIMITED**



*Marico Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Marico Industries Limited Q4 FY20 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 phone. 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: On behalf of Axis Capital, I welcome you all to the Marico’s Q4 FY20 Earnings Conference call. We have with us from the management, Mr. Saugata Gupta – Managing Director and CEO and Mr. Vivek Karve – CFO.

Before we get started, I would just 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, you can reach out directly to the Marico’s investor relation team.

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

Saugata Gupta: Good evening to all those who joined our call. I hope all of you and your friends and family are safe and healthy. FY20 has ended on a rather unpredictable note where we have been left contending with a human adversity that has covered the globe. The COVID-19 outbreak has been especially harsh on certain sections of the society, who have been worst affected in this crisis, either due to employment loss or unavailability of daily necessities.

Marico has partnered with various government organizations and have been able to provide meal for migrant laborers, the police force, health workers and the disadvantaged during this time.

We have also been able to distribute safety and hygiene kits to primary health care workers, police force, emergency service staff and later to our Suraksha Stores. We are committed to

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providing the support that we can to help our community to alleviate the hardships posed by this crisis.

I would start with a quick brief for the year and the quarter gone by and the future outlook before I leave the house open for questions.

With COVID-19 turning into a pandemic, each of our markets have been impacted, and local governments have responded with varying degrees of stringency to combat the crisis. In India, while the macroeconomic situation prior to the COVID outbreak was particularly challenging, the disruptions leading to and during the national lockdown over the last fortnight of March, brought it to a near standstill. Bangladesh and Southeast Asia were relatively less impacted due to restricted lockdowns imposed in the last few days of the quarter. On the other hand, MENA and South Africa, where macros have been uninspiring, witnessed considerable impact. In this context, the company ended with a flattish topline in FY20 with an underlying volume growth of 2%. Domestic volume growth was 1% and international constant currency growth was 5%.

Benign input cost environment in key markets led to 200 basis points improvement in operating margins during the year. As a result, EBITDA grew 11% to Rs. 1,469 crores and PAT excluding one-offs grew 13% to Rs. 1,043 crores.

In FY'20, free operating cash flow stood at Rs. 1,040 crores, up 10% year-on-year which is testament to the financial discipline we have been able to exhibit in an otherwise subdued and volatile environment.

Now coming to a quarter gone by. In India, we started on a positive note and were trending better in Jan and Feb as compared to the previous two quarters. However, the early signs of improvement across categories seen until early March were more than offset by disruptions in the second half of March, due to restricted movements in some states culminating into a national lockdown in the last week.

In this context, it is also pertinent to note that we could mainly bill some quantity of Saffola edible oil and foods in the last 7 days of the quarter, especially in modern trade and some urban outlets. As a result, we ended with a 3% decline in primary volume terms.

We draw encouragement from the fact that secondaries grew in low single digits during the quarter and had COVID not happened, we were on course to deliver mid- single-digit volume growth in primary terms.

There has been a reduction in inventory at both distributor and retailers as of March end. We continued to experience healthy offtake growth and market share gains across 90-95% of our portfolio. As regards to the 110 basis points drop in A&P, it is mostly due to the NPD spend in the base in the previous year in India. As you know, we had launched Creme Oil and True Roots. Else, the spends were more or less at similar levels of last year till March 15th while we withdrew advertising only in the last week of March. There was no significant reduction in A&P in international.

Let me delve deeper into the India business. Parachute has a decent start to the quarter with a low single digit growth in the first 2 months after the pricing intervention got implemented from the beginning of the quarter. However, due to much reduced sales leading to the lockdown period and the near secession of sales in the last week, it declined by 8% in primary terms. Our off takes grew healthily, and it gained market share of 250 basis points in the last quarter, which is a manifestation of the strong brand equity. Secondary growth for the full year stood at mid-single digits. In the current environment, Parachute is well placed to accelerate the conversion from loose oils and mop up shares from marginal players who will be under pressure both from working capital constraints and access to distribution. We remain focused on providing a more aggressive value proposition on recruitment packs, especially when consumers are going to have lower disposable income in the coming quarters. During these times, consumers will prefer trusted brands, especially which are manufactured under world-class hygiene standards untouched by hand.

In VAHO, we were experiencing better trends, flattish to mildly positive growth in the first 2 months as compared to the previous 2 quarters. However, with consumption trends in the premium segment of hair oils continuing to be a dampener, coupled with zero sales in the last 7 to 8 days, VAHO declined 11% in primary terms. However, secondary declined in low single digits. We continue to do relatively better in the bottom of Pyramid segment at Nihar Shanti Amla, consolidated the market position with 90 basis points increase in volume share. As

consumers are likely to be more value seeking post COVID, we will have a stronger play at the bottom of pyramid and the core segment to drive volume growth and garner market share. Having said that, we will continue to have a three-pronged strategy in VAHO over the medium term, gaining market share in the premium segment led by Aloe Vera and dry fruit oil, where we have seen healthy traction at the top end, especially in Modern Trade and E-com, drive value in the mid segment packs and aggressive participation in the BOP packs.

Saffola continues its healthy run from the previous quarter and delivered a stellar 25% on a very strong base of 18% growth in the same quarter last year. It was partly aided by the pantry loading in households in the early stages of the outbreak, which accelerated the already strong performance in Jan-Feb. Given the increased awareness towards health, Saffola seems to find itself in a sweet spot. Resurgence of in-home cooking will lead to a trend of eating healthy and higher consumption of healthy and trusted brands. Saffola is well placed to ride this wave of health awareness and should continue to consolidate its position on the health platform. Backed by media investment, effective brand communication and shifts in consumer behavior especially among top end loyal consumer households, whose in-home cooking occasions have nearly doubled.

We are extremely confident of driving double digit growth for Saffola in the near term. In food, the oats franchise had a very good quarter with a 23% value growth. We will drive innovation through new flavors in Masala Oats to suits various regional palates and continue to build the brand relevance with health at its core. We also see opportunity for FITTIFY and Coco Soul in their respective niches and will continue to innovate in packaged foods to serve healthy in-home consumption needs of our consumers in the post-COVID world.

Our discretionary personal care portfolio of serums, male grooming and skin care were understandably not favored as consumers prioritized essential items of daily use in the days leading to the lock down. These categories have been under stress since they are relatively non-essential and are trending at low run rate even in April.

We are mulling over a low-value small pack strategy to allow consumers to access some of these offerings in a slow economic environment in addition to focusing on e-com and chemists outlets to drive consumption at the top end.

Therefore, we will reduce our investments in these categories and channelize our energies towards aggressive share gain in our core categories along with focus on health hygiene and nutrition which consumers are strongly gravitating towards in the current context and will continue to do so in a post-COVID world. We have launched Mediker Hand Sanitizers and Veggie Clean in April and we are looking to broadening our play and build a sustainable portfolio in the near future. A similar initiative in health and hygiene is also being driven in Bangladesh and some of the other key markets.

Coming to International business, Bangladesh was able to post growth since it was impacted only once the lockdown in the country was imposed in the last 4-5 days in March. The business continue to perform healthily led by the non-coconut oil portfolio. Vietnam also ended in the green as the country had limited restrictions during the quarter. We have launched hand sanitizers in both markets to help consumers fight against the pandemic.

Both MENA and South Africa had a tough quarter given the already struggling macros and severe impact in primary due to COVID led restrictions. I must add to the secondary decline in the Middle East is actually in mid-single digits as compared to the huge primary decline because we could not export and transfer the stock in primary terms towards the last few days.

We are optimistic of a recovery on ground in Bangladesh, Vietnam and the Middle East over the course of FY21 as per initial trends, which should enable the International business to stay on the growth path from quarter 2 onwards.

Now let us give you a flavor on how consumer behavior and demand patterns may be shaped by this unprecedented crisis. I will cover some of the key shifts in in consumer behavior which we have been agile enough to effectively respond to. The rising consciousness towards Health, Hygiene and the need to boost immunity. High incidence of in-home cooking or gravitation towards healthy ready to cook and ready to eat. Cut back on discretionary categories during

rather prolonged macro slowdown. Consumers are likely to be more value seeking but will still prefer trusted leader brands. And lastly, further acceleration in online shopping and online media consumption and the recovery and the growth of the kiranas.

Therefore, we need to focus on 5 things to come out unscathed from this crisis and actually turn it in to an opportunity. Firstly, we realign a portfolio to capitalize on changing consumer trends and preferences with launch of products catering to the needs of nutrition, hygiene and well-being in the current environment.

Secondly, the severe disruption in supply chain has given rise to a number of alternative last mile logistical options and the new operating models. We have been proactively prototyping these in addition to introducing direct to home delivery portal for edible oils and foods in select cities and partnering with food aggregators to ensure uninterrupted supplies of food and grocery items of daily use to our customers across all channels. We will continue to test these various emerging delivery models to ensure where you can hit the ground running with those that prove to be sustainable for scale up.

Thirdly, we will be selective on A&P while we reallocate spends from non-media to media channels in the near-term to drive share of voice in the core. Spends on the digital platform will continue to rise to further boost our e-commerce business, which currently contributes to more than 5% of our sales already.

Fourth, we have been aggressive on managing costs across the organization where we are challenging every cost element and applying a zero based lens to each expense head.

And last but not least, transforming the workplace and being future-ready is key. We are already exploring aggressive work-from-home and automation programs which complement the new millennial ways of working.

With some of the restrictions in the areas that are not identified hotspots and away from city centres, the availability of manpower and supply chain operations has improved over the last few weeks. Production has resumed in all our manufacturing units although at a reduced scale. We are focusing on movement of food and grocery items of daily use to the consumers subject

to necessary approvals from local government authorities. We are back to recording 70% to 80% of our normal monthly run rate of FY20. However, in the near term, demand and market growth is expected to be volatile and it is difficult to have a view for the coming year just yet, until more clarity emerges in rest of Q1 and Q2. With tight cost management the company would like to maintain the operating margins in FY21 at FY20 levels of around 20%. Before I conclude let me say that we have had two relatively uninspiring quarters between Q2 and Q3. We were on a turnaround trend before COVID hit us and our grit, agility and execution focus within team Marico has only accelerated during the last few weeks.

Therefore I strongly believe that our coping ability has increased tremendously which will help us in navigating through this crisis. Thank you for your patient listening and I am happy to take questions and stay safe.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Congrats on a good come back in the Saffola portfolio. So that is my first question. In the first 2 months, how was the growth? How much of that growth is because competitive intensity from Emami, which is struggling as a group in the unlisted entity and some of the other players, it has come down? Because in the first 2 months, my sense is not too much a panic buying happened because awareness, et cetera, might have been low. So could you comment on that bit?

Saugata Gupta: If you look at it, in Saffola, our growth trend had already started in quarter 3. In fact, if you look at even the last full year also, Saffola growth rate was overall 8%. We had a relatively modest quarter 1 and quarter 2. We grew 11% in quarter 3. And even if COVID had not happened, we would have delivered a double-digit growth in Saffola in quarter 4 also.

Abneesh Roy: And edible oil raw material is inflationary and you have become much tighter and more attractive to customer in terms of value. So how is the margin here versus, say, what it was one year back in this part of portfolio?

Saugata Gupta:

So I would have mentioned it even last year that we had done this exercise in Saffola, which comprised two things, one is re-channelize all our spends into giving consumer value, therefore, taking out money from some of the TOs and COs we used to do and give it to the consumers in pricing. Also the fact that we also promote, if you notice Gold and Total, more than the entry point packs because we realized that when we used to promote Active it led to a reduction in realisation. So our focus is actually to ensure we promote Gold and Total, which has higher realization. So I do not think there is anything to be concerned about in Saffola with respect to margins. Having said that, for every company in this last one month, obviously, supply chain costs would have gone up a bit. But then, obviously, it is made up by the reduction in A&P and other spends.

Abneesh Roy:

My second question is on the distribution. So this telecaller facility with 80,000 top retailers, have you done that before and how is the cost structure and response? Similarly on the portal delivery and direct-to-home delivery portals, these are really good innovation you have done and some of the other companies have done. How much is it working in terms of response? And if you could discuss a bit on the cost structure?

Saugata Gupta:

Our immediate endeavor is to ensure that consumers get availability. Because at the end of the day, consumers are searching for trusted brands. Consumers are doing some kind of loading and we realize that availability is the most important thing. So we are experimenting with different models. There is a telecaller model. There could be an app model. There could be one with retail aggregators. And even we have started our in-store, which is a brand.com, saffolastores.in. So if you do not get your Saffola, please order through it. So, right now we are ensuring availability. Give us three to four months. We are doing 9 or 10 experiments. Maybe 4 or 5 will deliver value. These are the ones we will scale up and then the other ones we will slowly withdraw. But it is too early right now. Our entire focus is to make the product available. Because for me availability is going to lead to market share and sales at this point in time.

Abneesh Roy:

And last question on VAHO and hair oil work-from-home. There is much lesser need in terms of grooming, et cetera. A lot of Indians use hair oil for grooming, looking better also. So do you see that as something which would have impacted in April and see last 10 days, not looking into

the supply side? And is that a risk? Because then it becomes a habit, right? You do not completely shy away from hair oil, but you reduce the consumption.

Saugata Gupta:

See, if you look at what are the occasions, if you do not go out, maybe you will wash your clothes less, you will wash your hair less and you will use non-sticky hair oil less. Now the core hair oiling, which is pre-wash, I do not think it gets impacted. I would think the premium non-sticky hair oil portion, in which our participation is slightly lower, that is where we have done some consumer checks. That is what the indication is that a lot of male consumers use non-sticky hair oils for hair setting and grooming when they go out. That occasion would be less. But I do not think work-from-home will be a perpetuity, the large mass of Indian population someday has to go out and work. This work-from-home could be maybe for the top 2-3% of the population or 4% of the population. I do not think it is for us. So I do not think the core hair oiling as a habit is not going to sink. But at the top end, I see some change, especially in non-sticking hair oils, which are priced at a much premium. The non-sticky hair oils which RPI are 1.1 or 1.2 are not likely to get impacted, but there could be certain brands which are priced slightly premium, non-sticky hair oils. They can get more impacted.

Moderator:

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

Kunal Vora:

In your outlook, you mentioned that you are looking to enhance value proposition of recruitment packs in coconut oil. Can you provide some more insights? Are you looking at price cuts? Or is it driven by your outlook of lower raw material prices? Yes, along the same line, your views on copra price, I read somewhere that it plumbed meaningfully in the current lockdown? So yes, that is it from my end.

Saugata Gupta:

So in the last quarter I had indicated that the price could be slightly inflationary. But now it would be slightly deflationary and it could even further go down. People are not going to temples offering coconut. There are lot of coconut chutney and everything as you know used in lot of restaurants which is not happening. So a lot of coconut demand has gone down. Obviously there are supply constraints in the sense that because of logistics and all. I believe it will be mildly deflationary right now and we now know we have just done a market mix modeling and category growth driver exercise on which are the recruitment packs and therefore we will ensure that we

will price them right. This is a great opportunity to take market share and ensure that people do not either downgrade or have the attractiveness to upgrade with the pricing. You must realize Parachute is one of the very few brands which are manufactured very hygienically. People want to use brands which are trusted, untouched by hand and therefore this is a great opportunity and of course to grab share in terms of distribution and in terms of the fact that there could be competitors with working capital constraints, unable to procure or unable to actually distribute. So we compete with a lot of smaller players and therefore we will be aggressively pricing and fortunately for us, earlier, as I said the indication that there would be slightly mild inflation, that is not the case as trends are now.

Kunal Vora:

Sure. Just one more question. In Bangladesh, non-coconut portfolio is growing at a very impressive 25% plus. What is driving this kind of growth? And how sustainable is this? And how is the impact of COVID in Bangladesh? Yes, that is all.

Saugata Gupta:

So Bangladesh is going to likely to open up while the situation is slightly better than India. They want to approach. They want to use the Indonesian model, as you know, which they is basically want to balance the issue of trying to get the economy rolling. And given a very young population, they believe that they can. They need to balance both. So Bangladesh is most likely to open up. The lockdown was less stringent. The thing is not only value-added hair oil has grown. Some of the new products categories, skin care is doing well. Foray into baby is doing well. You must realize that in terms of sheer strength as an FMCG player, especially in personal care, we will be number 2 to the main giant leader in Bangladesh. Our relative position is much stronger. And therefore, we intend to continue to leverage our distribution and brand equity to grow and given the fact that our experience in diversification and also, some of the learnings, which are there in India. On NPD, we have been able to use this in Bangladesh. And given the fact that our strength is higher, we will continue this journey. We started two years ago where non-Parachute was 10%. It is now more than 30%. And hopefully, in another 2 years, the non-Parachute component will become 40%. So we have entered various categories, and we will enter into one or two more categories in the next one or two years. Having said that, just one word of caution in Bangladesh is that obviously, one of the biggest growth drivers in Bangladesh is the RMG business. And they will depend on the Europe and the U.S. recovery. So therefore the high growth rate that was witnessed in Bangladesh GDP might not happen this year but

having said that given our competitive position if the category growths are little lower we can gain market share and number two also continue to operate in to diversification criteria. But the Bangladesh economy growth is likely to be lower than what it was last year.

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

Percy Panthaki: My question is on the hair oil category in general. See hair oils, we have about 4 or 5 listed companies having some business of hair oil or the other. So we have a very good understanding of what the growth trends are in this category. And over the last few quarters, we have noticed even I mean, keep COVID aside. Last few quarters, hair oil growth has been slightly weaker than the general FMCG growth. General FMCG growth itself has been weakening continuously over the last 4, 5 years except for the spike during GST, et cetera. So I just wanted to understand the overall view you have on hair oiling for the next 12 to 24 months, already weak category seeing further weakness on the back of COVID, not because of supply chain disruptions or something. But because of slightly longer-lasting income or wealth impact that the consumers will see, which, of course, will affect all other FMCG categories, but also hair oils, which is not seen as such an essential category when consumers are cutting down their spend. So some thoughts on that, please?

Saugata Gupta: So, I am happy to share the recent growth in Hair oils. VAHO has not behaved so differently from shampoo, soaps and skin care in the last three quarters. So all the personal care, especially in rural, has got impacted. And in the case of VAHO, what has happened is that the market has moved towards slightly to the bottom end. So I do not think in terms of penetration if you look at the household data there is any significant change. So there are two drivers of growth. One is, of course, the top end which has been driven by Modern Trade, E-commerce, the problem solution and the good sensorials and at the bottom end which is there. You must also realize that hair oils also will get advantaged by the fall in crude and the packaging there is a lot of crude VAHO is linked to a lot of crude. So therefore the ability of the players to pass on pricing and make it attractive so that people do not consumers do not downgrade. That is the issue and the second think in VAHO we must say it is unique is that a lot of people might have the option of moving in to smaller brands and downtrade unlike other categories where the category is concentrated in two or three brands. It is little fragmented, there is a long tail. And therefore if

the value proposition is not right, there could be a situation where people can downgrade. So we will ensure both of them are not happening but what I want to assure you is that there is no concern, if you look at penetration, usage and also the fact that the category has not behaved, VAHO has not behaved any differently from some of the other large personal care categories in the last two or three quarters.

Percy Panthaki: Understood, sir. Also coconut oil, there also is an option for consumers to go into smaller brands or even go into loose as down trading. In Parachute we really do not have that kind of a laddering. So how do you plan to sort of protect your franchise in that segment?

Saugata Gupta: I would not like to get into details of it in the sense that our endeavor is to ensure that for all the segments in which we participate in this year, we will try to we cut all possible costs in the system and pass value to the consumer so that consumer gets value. We agree that the disposable income of the consumers will be challenged and therefore it is our endeavor to ensure that even if some of the category growths in all the categories we participate in are lower, we will ensure that we continue to gain higher market share by providing by driving pricing and the second thing is by also continue to drive aggressively rural distribution because, I believe two things are going to happen. One is the wholesale channel will be further challenged because of the fact that there will be people wanting to travel to urban areas to buy retailers coming because or whatever COVID and other fear and travel will get restricted. So therefore companies with direct rural distribution is likely to gain. Number two, as I said, the return of the kirana. So therefore, companies with direct distribution in urban are going to gain. So, at the end of the day, our job is to ensure that we provide value, we continue to make it accessible and start gaining share even if category growths are low.

Percy Panthaki: Understood. Second question, sir, on costs. Apart from advertising costs, which I am sure most companies would look at scaling down, can you give some more details on what kind of cost restructuring you are looking at?

Saugata Gupta: I cannot get into details. All I can say is that we, of course, are a company which is cost conscious. Even our cost structure compared to others are relatively smaller. Having said that, what happens is whenever there are constraints, you get with the best ideas. So we are doing a zero-based

costing project. And it is just we are doing anything which are nice to do, we are cutting, and we are looking at it very, very aggressively. I do not think advertising costs are going to reduce more than maybe 100 basis points. And that is because with 100 basis points, we can also maintain share of voice. And also, I believe given other categories are likely to other sectors going to advertise much lesser, our CPRPs and impact will be similar, even if I reduce it. So I see an A&P reduction of maybe 100 basis points, but we are looking at all costs. And the exercise has begun. We are seeing early gains even in quarter 1 as we speak. And it is an organization-wide program, which we are looking at, including ideas and looking at even the way we can save costs. Having said that, our first duty to ensure is that we protect jobs. And that is something which is important for us, but there are a lot of other costs, which we can look at.

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

Vivek Maheshwari: My first question is on the current utilization rate. When you mentioned 70% to 80% and you also mentioned that fourth quarter had a channel destocking. So this 70% to 80% factors in that? Or is there some bit of restocking, which is also taking place, which means the real manufacturing number on a sustainable basis will be lower than what you called out just now?

Saugata Gupta: I do not think we have been able to do any restocking, to be fair. And the reason is very simple. If we look at it, I would say the Saffola STRs will be half day almost. What has happened is, I believe till now, especially in rural, we have in a lot of cases not been able to reach in a lot of states, as you may be knowing, there are very stringent rules during lockdown, which reduce the supply chain availability. So to give you a perspective, if you look at there is a primary-secondary gap, which was there in March, have we been able to do more primaries than secondaries? The answer is no. In fact, I would think, as I said, that is on the Saffola and food part of the portfolio and similarly some of the high velocity Parachute packs, the STRs would have gone down also in April. So I do not think that there has been any restocking. And I believe we have seen this in GST. We have seen this in demonetisation. Some of the stock reduction that happens, especially in wholesale channel and all, are sometimes permanent. You only recoup half of it. So I believe that the distributor stocks have gone down and even now in April end is far lower than what the distributor stock was maybe in February or January. And the retail stocks, especially some of

the retail outlets have not even opened. And I am very clear that in rural and wholesale, the stocks have gone down.

Vivek Maheshwari: And in April, the trend that we saw in March let us say for the fourth quarter pretty much are those how is the category mix? Basically, is it stacking up in the same way that it was in the fourth quarter? I know typically you do not comment about quarter numbers, but any sense on April in terms of Parachute and VAHO will be very helpful?

Saugata Gupta: I would not like to.

Vivek Maheshwari: I mean given that these are exceptional?

Saugata Gupta: It is but all I can tell you is that other than the discretionary part of the portfolio, the core part of the portfolio is trending more or less okay. Obviously, Saffola is far higher, but there is no concern on the core part of the portfolio. There is no concern on some kind of habit change, as I said.

Vivek Maheshwari: So second question, since you mentioned about consumers will be more value-seeking and foods is rightly placed over there, how do you think about the foods business? And does this crisis change your launch activity in the foods? That you spoke about FITTIFY, but if consumers are more, let us say, value seeking, is there a case to go more mainstream line of margins for an issue in foods generally, but how are you thinking about this given in the context of crisis? And any sense on or any thoughts on going mainstream rather than just catering to the top end of the market?

Saugata Gupta: So there are two kinds of polarity that is going to happen as far as the consumer is concerned. At the top end and which will be primarily driven by e-commerce, there will be a huge focus on buying something on health and well-being and immunity. And mind you, there will be shift of spends because the top end consumer is not going to travel to Europe twice a year. They are not going to go eating out or going out for entertainment. There is enough disposable income available to get into the best quality of nutrition, well-being. And E-commerce is making that product available. So at the top end, FITTIFY and Coco Soul, as you know, Coco Soul virgin coconut oil has very strong immunity properties as we have heard from various readings in

international literature. So they are immunity properties. So that will continue. As regards to the mass, you are absolutely right. As the in-home usage occasions or consumption occasions will increase, which is could be ready-to-cook or ready-to-eat, people also look at healthy and trusted brands for it because the number of occasions will increase. And therefore, if there are opportunities in scale in food, we will do that. And the way we look at food margin is always as long as it is better than Saffola Edible Oil, it actually is accretive in our food business.

Vivek Maheshwari: And my last question is on A&P, 24% decline in India or at the stand alone level. I mean, is this just due to the lockdowns from whatever you did in those 7, 8 days because this 24% drop looks too much given that it was a sudden lockdown and you would have had contracts with the agencies? And also can you elaborate on the 24% decline, please?

Saugata Gupta: So I alluded to it during my opening remarks that last year, in the base, we had done the prototype of Kaya, and had done True Roots and Crème Oil. So a significant portion of the reduction in spend was actually on the NPDs, which are not there. There was no NPDs this year this quarter. Secondly, you are absolutely right. By the time the lockdown accelerated, and we started getting a feeling post the Holi break, which was 10th and 11th, in any case, only towards the very end, the fag end of the quarter, whatever could cancel got canceled. So most of the reductions are in the base of the core. There are hardly any decrease as far as core is concerned in terms of spends both in international and in India.

Vivek Maheshwari: Okay. And just a follow-up to A&P. When you say 100 basis point adverse decline in FY21 that is on a full year basis, full year?

Saugata Gupta: Yes. That is on a full year basis, and I believe the first run, the modeling, which we have done is that even at 100-120 basis points, you can actually maintain SOVs and you will get a reduced CPRP and impact. There will be no problem. I will give you some examples. A lot of money spent on promoters in Modern Trade, where will be the promoters there today? Anything with a social distancing, a lot of spend. Can you shoot a film? The earliest film shoot will happen, I guess, 6 months later now. Who is going to do a film shoot today? So there are a lot of costs which will anyway go down. I mean, physical consumer research will go down. We have moved to digital research. So there are a lot of marketing spends, which are automatically not going to

happen. So I mean, there is this getting out 100 basis points will not lead to any share of voice. In fact, I can still manage some share of voice increase.

Vivek Maheshwari: Sorry. My question was exactly opposite, Saugata. I thought that 100 basis points should be the minimum because I mean, while you are talking about SOV, but I am guessing that given the context that we are in, the savings could be far higher.

Saugata Gupta: Again, it is very early to say, but in fact, I alluded to participation in foods and health and hygiene. If there are opportunities, why shouldn't I invest?

Vivek Maheshwari: Sorry. But at the same time, VAHO will go down quite a bit, right? If the consumption is as much lesser then the savings will also be that much higher, right?

Saugata Gupta: VAHO, it is still early. I mean, again, if you look at the pyramid. Let me just address this again in VAHO. The core of VAHO is not going to go down drastically at all. That is the non-sticky part of it. And if you look at the non-sticky and the premium part of the business, we have a disproportionately lower share. So our initial trends suggest that anything which is 1.3 to 1.6, the impact and especially if it is non-sticky products, the impact is far higher, which are used primarily for post-wash. So I mean, if you are asking me if Amla is significantly impacted? The answer is no.

Vivek Maheshwari: Okay. And just to conclude this point. Basically, does that 100 basis point in a way signals let us say you eyeing market share gain and therefore, the number is because I would have imagined that number being down by like 200, 300 basis points on a full year basis?

Saugata Gupta: It is very early, it is very difficult now to say. I cannot model it right now. I just gave you a number. Our initial trends indicate this. Now quarter 1 the drop could be higher. I am assuming things will be partly normal. And therefore, I am putting a number. Now it could be 150-200 bps. In my initial going in position, it could be 100 to 150 bps. It is very difficult to say at this moment, but there are 3 things we are going to definitely do, continue to provide value to the consumer. I would rather go for fixed overheads than getting on A&P, and I will spend money far more on non-media than media. And our objective is even if category growths go down, can I maintain my volume growth by gaining market share.

- Moderator:** Thank you. We will take the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman:** Sir, both of my questions are on Saffola. Firstly, did you see a disproportionately higher sales for your larger SKUs for Saffola? When you talk about the material hoarding in particular, was this one of the trends that you saw?
- Saugata Gupta:** Yes. Absolutely right. This is the time to actually ensure that the existing loyal households continue to get Saffola and consume Saffola. I can tell you from my own experience. The number, the consumption in terms of eating at home has actually more than doubled. And therefore, your existing households consumption is likely to get doubled. Obviously, we have capacity constraints, which we are trying to unlock. And therefore, it makes much more sense to drive growth in the large packs. This is not the time to drive penetration of small packs in Saffola. But to ensure that your existing loyal households who are consuming much more get their Saffola. And therefore, the growth and it also helps in productivity in the plant. As you know, that at the end of the day, we are operating maybe with 30% people because of social distancing, etc. to produce 5-liter as opposed to 1 liter, your productivity drastically improves.
- Aditya Soman:** Fair enough. It completely makes sense. But is there a risk because of this that then the demand sort of is a little bit lower given that there is probably even a little bit of pre-selling demand going into 2Q, say?
- Saugata Gupta:** That pantry-loading happened in March. Now I now think it is a kind of a rotation sale that is happening. So I do not think right now. You see panic buying or the pantry-loading that happened that pantry-loading happened more in the second and the third week of March. Right now, we are not seeing that panic buying because at the end of the day, as I said that people in a lot of red zones are not necessarily going out. They are obviously ordering the larger pack sizes because they do not want to increase the trips frequently. But we are not seeing significantly any pantry-loading as such. As you know, we have e-com, you can take daily trends and analytics in terms of the people who are the existing consumers. So we think that panic buying is over.

Aditya Soman: And just last question here. In terms of price of competitive edible oils, has there been any sort of sharp differences there between Saffola and any of your competitors? I mean and not just the like-for-like oil, but even different types of edible oil in more or less your price point?

Saugata Gupta: In December and January, there was a subtle inflation where there were some price hikes in some of our competitor brands that time. So, the ballpark premium actually may have reduced but I believe over the long term, this year, given the supply demand situation, input costs will be mildly bearish. As of now, obviously, given the fact that there is a scampering for raw material and other things, there is slight bullishness marginal in the procurement and supply chain maybe. But in relative terms, our premiums are reduced because we have not changed our pricing, and we have kept the uniform pricing for the last one year, actually.

Aditya Soman: Fair enough. And this would be largely rice bran oil, right, which is competition?

Saugata Gupta: Look, it could be anything. People upgrade from sunflower; people upgrade from different brands I mean different other species here.

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

Tejash Shah: Saugata, you called out that the missing rural growth has been the problem area for personal care category for quite some time. Now if we see last year's on most rural macro tracker points, in terms of rainfall, increased MSP, direct benefit transfer like PM-KISAN and all, they all suggested that rural has to perform better. Now, in spite of that, the deceleration continues. So in your prognosis, what is keeping rural consumers away from personal care category?

Saugata Gupta: If you look at it that the rural the benefit of whatever the government has done or the produce that happened, good rainfall was supposed to start some recovery trends, which we are noticing. In fact, if you ask me, our Jan-Feb trends were not that bad. So there was some improvement. So I believe that the overall disposable income has not significantly altered, and they were about to alter when COVID happened. Going forward, I would say that it will be stressed, although I must say, I believe that the unemployment or lowering of activity will be more happening in urban than rural in terms of economic activity and, therefore, disposable income. The issue in

rural will be slightly different. According to me, if you look at the rural as one, the wholesale as a channel will become difficult, the entire supply chain mechanics of it. And therefore, direct rural distribution and value will be the two drivers of growth in rural. Having said that, obviously, we have to be very, very watchful. We do not know exactly what has been going to be the impact in terms of consumption going forward. But whatever indications are, according to me, and whatever crop and whatever information we have. I would think the Bottom of Pyramid growth in the urban poor will be much more impacted because if we look at migrant labor, they have returned. I do not know how many will come back to urban and actually consumption might grow in rural. So I would be more concerned about urban Bottom of Pyramid than rural in the immediate couple of quarters.

Tejash Shah:

Okay. Second question is, in last 40 days, we have seen a lot of disruption in terms of supply chain distribution and even in the consumption pattern. And then Indian businesses, like always, have used all the jugaads possible, if I may call it, to service the consumer. So out of all the changes that we have noticed in the last 40 days, which you believe will stay with us for a slightly longer period even after normalcy comes back? And which are much more transient, like Kirana gaining market share, is it a structural change? Do you think this will redefine the Kirana's market share in the game or these are all transient and there are very few structural changes, which will emerge out of this?

Saugata Gupta:

There are clear three structural changes I see happening. One is Kirana plus e-com, that is the fact that I see Kirana is coming back in terms of people going to because at the end of the day, a quick shopping trip with social distancing, that is an important thing. The second is e-com. And therefore, I see a lot of Modern Trade players moving to doing both online and brick-and-mortar. And this will happen. The third thing, there could be significant changes in urban GT, the fulfillment as well as the order taking. We have seen a lot of changes and a lot of experiments that are happening. The traditional order taking, which is distributor order taking followed by delivery man of a distributor fulfilling it. Today, there are multiple models. In fact, there are certain cases I mean it can go to I mean from a C&FA directly to certain the way the Modern Trade is serviced. So tomorrow, there could be multiple ways of fulfillment. And there will be structural changes in that. The last change I am seeing, which is noticing. If we look at a lot of these beauty outlets and premium personal care. In the premium personal care, there is still a

pent-up demand, okay? And while the occasions, people moving out has gone down. But still there is some demand, whether it is some of the premium we see a transfer of that demand and that could be transient, not necessarily permanent, from beauty outlets which are currently not open to chemist. Anywhere the chemist guy is opened, the chemist guy is servicing you, he is doing a home delivery of the medicine, he is also doing the premium personal care there. So that is one more trend which we are noticing. So therefore, a lot of brands which are unable to sell-through, say which we were selling through cosmetic wholesale or beauty outlets, are actually selling through chemist today. And maybe the last structural change that will happen is some of the salon brands, which are sold. Today, people will take time to be comfortable visiting salons. As you can see a lot of DIY personal care salon brands at home.

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

Harit Kapoor: So two questions from my end. So just want to just a little better understand the situation over the last 5-odd days. Within your entire India portfolio, you would be now running at about 75% to 80% capacity utilization. Is that correct, you said?

Saugata Gupta: Yes.

Harit Kapoor: And in terms of touch points, you have 5 million kind of touch points. From that standpoint, how much progress do you think you have made in the last 40-odd days? I mean, would that also be 75%, 80% or would be probably a little lower?

Saugata Gupta: It will be lower. Again as I said that it depends also on the situation with respect to the number of distributors and the outlets in the red zone. In a lot of cases people are coming to a distributor point to pick up or we are using some other alternate delivery points because the distributor is not ready. So in terms of capacity of distribution, obviously it is getting channeled may be a little bit through high throughput outlets.

Harit Kapoor: Okay. And safe to assume now that technically, you are allowed to make and sell everything, but you would take your pick depending on how the market is responding?

Saugata Gupta: Yes, obviously. The issue is that wherever ultimately it depends on the local government authorities. At the end of the day whatever they permit we strictly follow that and number two is for us what is most important is people safety and in the factory and obviously as you know that if you operate these strict measures including people staying within the factory premises, maintaining social distancing, the capacity of the factories today they are working at a lower rate obviously. So which means that they have low stock in the channel, low stock in the depots, low stock in the factory. But we are ensuring that we maximize on it and therefore I believe that the entire stocks in the pipeline right through the system has thinned completely.

Harit Kapoor: Got it. My last question is on the Foods portfolio. So for FY20, could you give us a number on how large the portfolio now in terms of size?

Saugata Gupta: Around 200.

Harit Kapoor: So you ended at close to 200 for the year?

Saugata Gupta: Yes.

Moderator: Thank you. The next question is from the line of Aman Rathi from Morgan Stanley. Please go ahead.

Aman Rathi: I have two questions. The first one is basically based on the COVID situation. How do you see the next year business plan? And what are the growth estimates you have, maybe if you could walk me through the quarter-on-quarter basis? And second, what all issues have you actually faced with respect to the logistics part in delivering the products or in receiving the raw materials, et cetera?

Saugata Gupta: So it is very difficult to, as I said, to give you a view on quarter-on-quarter, and I am not going to give you a guidance. All I can say is that we are 70% to 80% of our annual run rate. Our objective and we hope things will normalize. Our objective will be to ensure that we maximize our availability, we gain market share in places where even the category goods goes down a bit, we provide value to the consumer and participate in new categories in health and hygiene, and maybe a little grow more in food. So I do not think we can give you a number right now our

guidance. And of course, I said that we will maintain our EBITDA percentages and have a high cost, this one. So while these pointers are right, we do not it will be more, , fair to give a number, look at an outlook, how let things pan out over the next 2, 3 months. The next 2 months are extremely crucial as India eases its lockdown. And also, we have had a situation where Bangladesh and other some of the international markets have eased the lockdown, so we will see how that pans out. And maybe we will be in a better position in end July when we have the next call in terms of the next quarter to give a broader outlook.

Your next question on the supply chain. Can you just repeat the question, please?

Aman Rathi: Yes. So what all issues have you faced with respect to the logistics part, both in terms of supplying the finished goods as well as receiving the raw material given that are you facing any driver availability issues or lockdown measures, restrictions, et cetera?

Saugata Gupta: Yes. So it started off. Obviously, there was a truck availability issue, inter-state transfers, availability of labor and C&FA or labor to load the stuff. Things are progressively improving, with the fact that the government, the ministry, Home Ministry coming with different advisories, notifications in certain most of the states, there is either the central or the state e-passes, which are there. Things are improving. But just to, we are very comfortable as far as all the RM and PM is concerned for this quarter. More or less, we do not also have too much imported material. We do not use too much of imported where supply chains could have got disrupted. And we also and as you know, most of our suppliers and the vendors are reasonably medium to large size suppliers, and they have also started, what I say, they have started very at least by April 10, a lot of them had started, and some of them started after April 21. So we are okay as far as RM and PM is concerned. The only issue, as I said, is that as far as Saffola is concerned, obviously, we are almost selling day-to-day.

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

Karthik Chellappa: Two quick questions. Firstly, apart from normalizing inventory at the distributor level, are you providing any other form of support to them to optimize their ROI at this point?

Saugata Gupta: Our obvious objective is to ensure that we will support them. There is selective credit extension. Also what we have done is we have ensured that we for all the distributor sales force and all the third party, we have given them COVID insurance. We gave them a 1-month some kind of a support in terms of cash payout to all these people who are in the third-party and in the distributor sales force. And we are also ensuring that we invest and train them on all the entire health, hygiene & sanitation practices. And we are going to ensure that we continue to support them as we move. And also we have given them a lot of support in terms of delivery to the final since they could not manage to open their delivery points. In a lot of cases, we have helped them in supporting through third-party delivery systems.

Karthik Chellappa: So most of these seem transient. So once the COVID impact wanes and we start to get into some sort of normalcy in 2Q, can we say that, by and large, it will be back to the original terms?

Saugata Gupta: Well, during this, and as I said, there are certain cost-efficient models. We have looked at and some of the efficiencies, which could have scaled, which you could have automation and other opportunities. So we will definitely work with our distribution partners to ensure that they are profitable because, as I said, that one of the things we were grappling with last year was this urban GT ROIs. I am glad to say from quarter 3, when we started implementing the minimum operating price and different assortment across channels, those channel conflict issues went off. We took a hit in quarter 3 in terms of, as you know, in e-com and Modern Trade. So supporting our distribution fraternity is topmost in our minds. And I believe this COVID, post that some of the experiments which we are doing, once we scale some of them up, it will be actually efficient from both the points of view, from the distributor and from the company, and it could be a win-win. Lastly, what I mean there has been a certain stock correction in the system. That itself their investment would have gone down. And we might not want to beyond a point pump that also. I mean we might say that it is an efficient system, we can operate with even lower stocks.

Karthik Chellappa: So basically, the inventory level will become the new normal, right?

Saugata Gupta: Again, it depends. I mean at the end of the day; we have to balance inventory and also fill rates. So we have to see everything.

- Karthik Chellappa:** Okay, great. My second question is on VAHO. So we have a three-pronged strategy. But if we look in the mid-segment and premium segment, where Marico is kind of underrepresented, do you worry that if the growth slowdown prolongs, the category growth itself may come under pressure, which means that the propensity to the experiment is low, which makes it difficult for a challenger to gain share?
- Saugata Gupta:** All I can give you is strategic premise that in case there is a challenger who can cause disruption, especially when disposable income is low, the challenger can certainly cause price disruption. But I see that there are two things which are going to happen. I do not see too much problem. I mean in the problem-solving segment, people are buying it for efficacy, though they will continue to buy for efficacy. the vulnerable portion of the portfolio in the VAHO, we are least impacted simply because our presence in the premium non-sticky is far lower than some of the other players.
- Karthik Chellappa:** Okay. But you would still believe that the share gains in that segment will still be possible even if the category growth is under pressure?
- Saugata Gupta:** That is because the share gain is happening mostly in Modern Trade and e-com where our strength amongst all the players in this segment, as you know, our Modern Trade and e-com component of business is very high. And therefore, our strength in these two segments are very good and our ability. So we would like to premiumize and participate in that category.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.
- Prakash Kapadia:** Thanks. My questions have been answered.
- Moderator:** Thank you. The next question is from the line of Pranav Tendolkar from Rare Enterprises. Please go ahead.
- Pranav Tendolkar:** Sir, just two questions. How much of your own distribution, direct and indirect, you are able to reach right now after the 3rd May step down on the lockdown has happened? That is first. So that is the bottleneck, as you highlighted previously, that bottleneck is the availability of the

stock in the distribution systems. That is one. And second is your FITTIFY, that is the food portfolio, how is the overall acceptance as compared to any brand's journey life cycle? Is it like, if you compare a successful brand and its life cycle, do you think that FITTIFY can turn out to be a big thing in the next 5 to 10 years?

Saugata Gupta:

So, in theory 70% to 75% of the distributors are open. Now at what capacity they are functioning, it could be slightly lower. And sometimes it is a function of their location, whether they are near a containment zone and especially in some of the red zones. Rural also I must say that beyond the top rural towns, the visibility in terms of our sale right now is slightly unclear because beyond stock it, how much actually vans are running, billing is still erratic. They might not be running the vans. And as I said, that the last mile is still a little dark because they are not necessarily uploading everything on our system right now because in a lot of cases the salesmen are not coming. So I would say that is the broad this one that in theory, 70%, 75% of the distributors are open. And when I mean open, they are not necessarily open on all the working days, but sometimes the local authorities close down an area. So this is how it is operating. And maybe 50-60% capacity they could be working in terms of servicing the outlets, okay? With regards to your second question, FITTIFY has been only 1 year and has it been a grand success? No, but some of the things like green coffee and protein shake, I believe, has potential. And we will see how the brand stands now. And, as I said that we have to be agile to the new consumer needs, and we will see how it pans out. We are I would say if I had to rate the FITTIFY performance, I would say it is average plus in the first year.

Pranav Tendolkar:

Right. Sir, just last question. Sir, in terms of distribution, what is the number for direct and indirect in your retail outreach?

Saugata Gupta:

We reached indirectly, totally, 5.1 million and 1 million direct. And we have been growing in the last one year. And, we are giving a huge thrust on two areas, and we will improve that thrust on direct rural distribution. And the second thing is urban, in which we have been growing in chemist, cosmetic and food. We have to relook at cosmetic, but certainly we will continue on chemist and food.

Pranav Tendolkar: Sir, just one clarification. When many companies say that we reach directly into this retail outlets, it can mean various things for various companies, operationally. So when you say that I reached 1 million outlets directly, that means that your company has all the data related to that guy and your company is?

Saugata Gupta: With third-party sales force of anybody, the data is there, so it could be third-party sales force, either of a distributor or a super stockist, who is billing to that outlet. Secondary is happening from us. That is the definition.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan Sambamoorthy: Given that you mentioned that there has been a selective credit being extended to the trade and there is also been a relatively sharp increase in the proportion of Modern Trade to total sales, would you be satisfied with the fact that your receivable days increase was limited? And how do you see this metric going forward?

Saugata Gupta: Can I ask Vivek to respond to this?

Vivek Karve: Yes. Sure. Krishnan, so as you know, towards the end of March, we had to extend credit to some of our distributors, both in the urban as well as rural. But I guess, once normalcy returns, we will be back to our own credit cycle of the past. Also, given the fact that the salience of last few days sales was more in favor of Modern Trade, that is another reason why you will see the distributor days going up towards the end of March. So barring a few things, we receive our collections as planned from the Modern Trade. The CSD outstanding have also been on the rise, not just for us, for most of the FMCG companies. Hopefully, once normalcy returns and CSD gets its allocation from the center, we will get our money back. But having said that, it has a sovereign guarantee, so we do not have an issue on the credit quality.

Krishnan Sambamoorthy: Okay, fine. And on Saugata's point on Modern Trade possibly seeing a lower salience over the next few months as Kirana as well as online increase, e-commerce increase, do you therefore also see some moderation in the credit period of the overall receivable days as well?

- Vivek Karve:** Very difficult to say exactly how it will pan out. But if e-commerce were to become larger, e-commerce receivable days are more or less in line with the Modern Trade receivable days.
- Saugata Gupta:** And just to clarify, what I said is that kiranas which were declining, might go up. So not necessarily, we do not have an idea of how it will interplay between channels. And as I said that brick-and-mortar Modern Trade also could do home deliveries and do online. The only channel which is definitely going to get impacted according to me it is wholesale.
- Moderator:** Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** I just have one question. This pantry-loading that you saw in Saffola, can you explain broadly what part of the March did it start? And was it mainly in Modern Trade? Was it in general trade? Around when did it actually start?
- Saugata Gupta:** I would say towards 17th to 18th, it could be, if not before that. It is mostly concentrated in high throughput retail outlets and Modern Trade.
- Amar Kalkundrikar:** And you're billing continued till what date?
- Saugata Gupta:** Billing as in primary got impacted immediately after the lockdown. It was mostly some billing we could do to Modern Trade. We billed Modern Trade till before the cutoff, but we were billing only essential goods like Saffola and some others. Largely it was Saffola, but Modern Trade had stock to sell because immediately after the lockdown, for the first few days, there were very few other outlets which were sporadically open and distributor points were also closed mostly.
- Amar Kalkundrikar:** GT was practically sort of not happening from maybe 24th?
- Saugata Gupta:** It is very difficult. Regular GT never happened. So now if some distributor was open and somebody went there. Largely, I would say that GT distribution activity was almost shut in the last 7 days. These people going into the market that had stopped. Only towards the end, the passes happened and it started improving from April, the GT part of it, from 2nd or 3rd April.

- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Just two questions. Have we taken any pricing action in Jan-March quarter or April?
- Saugata Gupta:** In Jan-March, we took some pricing action. Jan-Feb, we took some pricing action on Parachute, yes, which was the last of the Parachute pricing action. And one pricing action on Jasmine, some VAHO pricing. But largely, the Parachute because, as I said in the last call, because of stocks of old Parachute, old price stocks lying in the system, so we were sometimes given as consumer offers, but effective pricing, we took on Parachute.
- Shirish Pardeshi:** Yes. So what I wanted to understand, as you said that the discretionary part is going to have a disruption. So you alluded that you need to do some action in terms of packs. So do you think a PCNO would require some more price point correction or would you think you will need to have the recruiter pack? Because you somehow, I hate saying that downtrading, I am saying the consumer's skewness will be happening for value for money. So is that the correct assessment?
- Saugata Gupta:** If you look at quarter 4, there is a 4% already pricing built in, minus 8% and minus 12%, the value growth. So that will continue to flow through. There could be a play between consumer offer, trade offers into end pricing. Our endeavor is to ensure that we drive consumer value. And number two, as and when the things open up, there could be a situation where I can grab even retail share of shelf through actions. So, through these two, my objective is, can I make my product available at an attractive this one? Because in this segment, I can have a competitive advantage in terms of gaining market share independent of the category. Even if there is a category it does not grow as expected, can I make up the volume growth through market share? And I would think that there has been a change in our outlook towards copra. I was saying mildly bullish in the last call. I would say now it will be mildly bearish.
- Shirish Pardeshi:** Exactly. That is what the point which I was saying, right. So when you have a cushion, would you think the consumer demand can happen in rural, as you said that, you need a pricing action?

Saugata Gupta: Yes, we could. I mean, as I said, I am open to temporary. For us, as I said, I will do everything possible to give consumer value to grab market share and maintain volume growth independent of category growth. Cost savings can come from somewhere else.

Shirish Pardeshi: I got it. Just a quick question on the new products what you have launched. So like I was reading, Veggie Clean is one of the product of its kind. Not getting in too much on hand sanitizers. But could you say in a medium to long term, how big is this opportunity? Or do you think there are some more products can come on hygiene or health platform?

Saugata Gupta: So again, let me tell you, we do not want to just jump into the bandwagon just because everybody is doing it. And we want to create a differentiated brand. And therefore, we believe that, obviously, health and hygiene is here to stay. Having said that, once the ramp-up of production of the big brands happen, only brands which will survive are brands which are a little differentiated and brands which are known. I mean, otherwise, there are maybe some, as per Nielsen, some 200-odd people have launched hand sanitizers. What we intend to do is we believe that this is a trend. We believe Mediker is a brand, has legs and, therefore, we will participate in maybe a little bit. We were wetting our feet, but we want to be a little more serious in it. But if we are serious in it, we want to first ensure that there is a differentiated positioning or something is there. Just because I mean it should not be a fact that everybody is launching it. As regards to Veggie Clean is concerned, it is an innovative concept. Again, the need will be there and the need is going to be here to stay. In the post-COVID world, people will be very, very concerned about the health and hygiene. Yes. I mean even if a vaccine is developed or whatever, people's attitude towards health and hygiene will be significantly permanent, I would say. And this is an opportunity which we have to invest behind in terms of category creation. And therefore, again, as I said, that we will use digital as a media, and we will invest behind this. And we believe this category, both the overall health and hygiene and Veggie Clean in particular has legs, and we will invest in it.

Shirish Pardeshi: Just last quick question on the distribution front. I got what you are saying direct and indirect. And you also said the wholesale is not coming back or probably after demonetization, wholesale is crippling. I was been given to understand that cash and carry is also picking up its own route in the modern cities, say, maybe top 40 cities. But in the rural, when you say that the wholesale

decline is going to be there or it is eminent, would you say that the other legs or other distribution delivery models which are evolving will be sufficient for us to penetrate those rural markets?

Saugata Gupta:

No. I talked about direct distribution. when I talked about wholesale and I mentioned, traditional large wholesalers in the urban. In rural, there are a lot of these small quasi wholesalers, which we deals directly. And the question is that how much of the throughput you do through large hub towns where traditional, this one is there, but feed semi-wholesalers do much more vans and distribute. See, the rural payback is around 2.2 to 2 years, payback. I believe that anyway with GST, obviously, GST compliance was not that high, but as GST compliance increases, the arbitrage model will reduce and, therefore, the wholesaler versus the cost difference between direct rural versus wholesale will actually reduce. Number two is, and if you do direct distribution in rural, you can do much more in selling. So having said that, we are now far more determined towards aggressively distribute or to engage in rural distribution. And some of the places where we have done in the last 6, 7 months where we have expanded rural, we were seeing dividends.

Shirish Pardeshi:

So when I am saying wholesale, I understand your explanation in the urban market. But in rural, the feeder market or feeder wholesale is still under our control, and we are servicing them?

Saugata Gupta:

Yes. So what we will do is, we will take far more accountability in direct distribution of it. And I believe that it is important that we invest behind that rather than. So therefore and reducing our dependence on the urban wholesalers.

Moderator:

Thank you. Due to time constraints we will be able to take the last two questions. We take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

Two quick follow-on questions. What portion of your portfolio will be discretionary? I understand these are all very strong brands. But in the current context, what will be discretionary in your mind?

Saugata Gupta:

I would not call it discretionary plus semi-essential, it would be about 10-15%. See you must realize we do not have institutional business. A lot of players also have institutional businesses. We have zero almost institutional business.

- Abneesh Roy:** Correct. Second question is not on Marico specifically, more on sector. You are an expert and have been in this industry for so long. So compared to, say, a GST crisis or, say, a demonetisation crisis, obviously things are looking far worse here. So in the full year of, say, FY '21, the entire sector, could it see a high single digit or even double digit decline? One month is already gone and there is still no clarity. I am asking not as a guidance for Marico at all. This is more as a gut feel on the industry. How bad can it be for the entire year?
- Saugata Gupta:** It will be very difficult for me to guess. I am neither an economist nor a forecaster, neither an expert. I do not do podcasts. So very difficult for me to actually give a number. What I can say is that the staples, food what I know is the winners in the sector is food, health and hygiene, what are regularly used. Anything which is used out of home impulse or which are used in terms of what I call people trading up into premiumization will likely to reduce. But you never know consumer behavior. If you see the luxury revenge buying in China or today the queues in terms of liquor shops in India, you cannot predict the consumer.
- Abneesh Roy:** Right. And the vegetable wash, was it planned before the corona because it seems quite innovative and such a short time in planning, et cetera?
- Saugata Gupta:** I complement my team. They came up with the idea. We run an innovation bank and it was an idea which was there. And to be fair, this was one of the brands which we had in before we purchased the brand in Vietnam, he had similar kind of a product. So we had this idea in the innovation bank. And sometimes when you have pain, you tend to innovate more.
- Moderator:** Thank you. We take the last question from the line of Harit Kapoor from Investec. Please go ahead.
- Harit Kapoor:** Just one question. On the hair oil side, so any anecdotal evidence you can share that you are picking up from the market that you are seeing kind of smaller players already struggle through this process over the last 1.5 months? Are you already seeing that? Or is that more of a fairly educated hypothesis that you are building on over the next 12 to 18 months?
- Saugata Gupta:** I cannot get into specifics of it. But if you look at some of our stronger brands' performance in April, is especially where our distribution is reasonably active and as I said that we have been



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able to run some part of our rural distribution, some part of our urban distribution inspite of the wholesale channel being largely closed in urban centers. we have done well and as I said this is independent and actually I will give you a funny strange correlation. People think people are struggling in red zones. Actually stronger brands with better distribution are doing better in red zones. Because green zone is at a level playing field in some extent.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team, for closing comments.

Vivek Karve: So good evening to all of you and thanks a lot for listening in on the call. We wish all of you a safe stay at home during the lockdown and we are quite hopeful that the economy will come back and with adequate resilience Marico will be able to post a better performance in the quarters to come. So that is it from our side.

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

(This document has been edited to improve readability)