Marico Limited
Q4 FY2021 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Marico Limited Q4 FY2021 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 call, 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: Good evening everyone and I hope everyone is safe. On behalf of Axis Capital I welcome you all to the Q4 FY2021 earnings call for Marico. We have with us the senior management of Marico represented by Mr. Saugata Gupta, MD and CEO and Mr. Pawan Agrawal, CFO. Just a brief disclaimer before we get started I would like to remind you that the Q&A session is only for institutional investors and analysts and therefore if there is anybody else who is not an institutional investor or analyst but would like to ask questions please directly reach out to Marico's investor relations team. With that I would like to hand over the call to the management for opening remarks. Thanks and over to you Saugata!

Saugata Gupta: Good evening to all those of you who have joined the call. I hope all of you, your friends and family are safe and healthy. Given that we are in a state of lockdown again, we have logged on to this call from our respective residences. So, kindly bear with us in case of any technical difficulty, in case we have some kind of interruption.

The pandemic has taken a vicious turn impacting the community at large even more gravely than the first wave last year. Given the unprecedented surge in the number of cases this time around it seems we would all perhaps be associated with someone who has been directly or indirectly impacted. We have also had many of our own Marico members and their families who have been affected and this may be the case for a lot of you. Our thoughts and prayers go out to all of them. We would also like to extend our heartfelt condolences to the family and relatives of Mr. Shiladitya Dasgupta from ICICI Prudential Life whom my team and I have known personally and would be known to many of you on the call.

We, at Marico remained committed to our purpose of making a difference to every life that we touch. Given that members have always been at the forefront at Marico, we are focusing on the well-being of all our members and the extended force and taking all possible steps to provide the support required to cope up with these extremely difficult times. We sincerely hope that we can overcome this adversity and restore normalcy soon. We continue to stand by our philosophy of People First and Business and Profit comes next.

Coming to our quarterly results, as consumption trends continued to recover for most of the quarter other than maybe last three-four days, the company delivered a resilient performance in both the domestic and international business with each of the core segments and markets leading growth and new engines scaling up well. Consolidated revenue grew 34% on a back of 25% domestic volume growth and 23% constant currency growth in the international business. This is one of the best quarterly performances in terms of growth in recent memory. There has been a consistent uptick in input costs since the last quarter, which we have partly passed on to consumers through multiple rounds of pricing in some of the key portfolios. We have chosen to observe the balance to ensure that we do not upset the volume growth and market share gain momentum that we have been witnessing in the recent times. Advertising spends at 8.7% of sales, up 35%, with focused investments behind some of the core engines and the food innovations. Consequently, consolidated EBITDA grew 13% and like-to-like PAT was up 17% on a year-on-year basis.

In India business, the optical volume growth was also function of a low base (although last year Q4 decline of 3% was much lower than peer set companies) and a slight adjustment of the historical quarterly skew in our Q4 and Q1 revenues. Adjusting for these, volume growth would be in the range of 18% to 20% at least, which is also the highest quarterly volume growth in recent terms. We continued to gain market share in each of the portfolios on a MAT basis. General trade continues to have a good year with rural markets growing at 1.8x of urban. Over the last two years, Marico has identified rural as a growth engine given the increase in rural income driven by good harvest and government stimulus. In order to leverage this increase in rural consumption, Marico has invested to improve the rural GTM network as well as drive relevant pack and portfolio mix. In FY20, we expanded our rural stockist network by 25% while we took a pause in FY2021 due to the COVID disruption. In the beginning of Q1 we have restarted the task of further expanding our rural network by another 25% over the next two years. The rural contribution to the domestic sale has increased by 2% this year. E-commerce now 8% to our revenues continue to grow from

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strength to strength and modern trade witnessed a year-on-year drop due to the pre-lockdown pantry loading in the base quarter. CSD also grew on a low base.

Delving further, Parachute grew by 29% in volume terms although we pulled back consumer offers and increased pricing. Parachute has continued gaining share in the rigid packs during the quarter as well as MAT basis. While the increase in effective consumer prices of 9% in H2 was much lower than the rise in copra prices, the magnitude of the volume uptick is a sheer testament to the balance between pricing premium and volume growth that we have been maintaining in Parachute and also reimposes the aspirational value of the brand if the pricing is correct. As per forecasts at the time of the last earnings call, copra prices were to come down by 8% to 9% in February and March, but unexpectedly went up 8% during this period due to low off seasonal supplies initially and delayed seasonal arrival subsequently in addition to some localized issues. However, as anticipated, good seasonal arrival from the end of March have led to price correction in the past couple of weeks. Copra prices have corrected 15% to 16% in April from its peak in Q4 FY2021 and we are now at the expected levels, which we had earlier predicted, but with a lag of around 50 to 60 days. Therefore, margins we have foregone in Q4 will be gradually recouped in the coming quarters. The margin impact in this quarter is also a function of the significant pricing in the topline. As you would be aware, we maintain an absolute gross margin per unit, which is rupee per tonne instead of a percentage margin. Going forward given the improved productivity also leads to a 5% additional supply, we expect prices to remain subdued in the near term and flat to marginally higher in FY22 on an annualized basis, depending on monsoon this year and alternate consumption of copra. In a nutshell, the original forecast of copra, which we had talked about even in the last earnings call, of flat to marginal increase in the full year holds.

Value added hair oil posted a broad based 22% volume growth in Q4. After a near washout in April 2020 due to lockdown restrictions at the time, we have delivered 11% volume growth in the balance part of the year, which is the 11-month period. Having gained 200 basis points in volume share on a MAT basis, which is one of the highest in the last four years, Marico’s volume market share in VAHO stands at 37%. We believe we have now got the fundamentals right in most of the VAHO brands and we will focus on building a sustained double digit growth trajectory over the medium term on the back of strong equity and proposition of our brand portfolio that straddles the entire pricing pyramid.

Saffola edible oils have delivered 17% growth. The brand has grown in double digits for sixth consecutive year undeterred by the strong brace and price hikes to the tune of 30% in H2. In addition to the in-home cooking tailwind the brand has also seen a significant increase in household penetration with the growing relevance of healthy living and instructed health equity. The continued rise of more than 20% in key edible oil prices in March had necessitated pricing intervention in April. We have therefore taken further price hikes of 15% to 20% in two rounds of pricing in April as well. Given the growth has not let up even after substantial price hikes to the extent of 50% in Saffola from October 2020 to April 2021, we believe this is evidence of the extent of pricing power that the brand commands. That being said, as the pricing has not been commensurate with the cost push because we are chasing sustained price hikes with the three to four week lag, the value proposition has been attractive for new consumers that have always aspired to be Saffola consumers. While a variety of global factors have led to this persistent rise in edible oil prices, we expect prices to remain range bound in the near term before retracing back from sometime in June or July. We will therefore be gradually regaining the margin in Saffola from Q2.

Coming to the food business, the portfolio grew 134% in value terms with the base oats and savoury oats franchise registering 84% value growth and the new launches in this year picking up well. The Oats franchise has been growing from strength to strength on the back of increasing penetration and heightened focus on healthy snacking, Saffola masala oats now has 94% market share in the flavoured oats category. Coming to the launches this year, Saffola honey has fared ahead of internal expectation, the brand is just shy of a double digit market share in key modern trade chains and has crossed 25% market share in e-commerce. Modern trade and e-commerce contribute to nearly 40% of the total honey market. We expect to touch revenue run rate of Rs.100 Crores in the coming year. Saffola Chyawan Amrut has started on a moderate note. We have launched TVC campaign in Q4 and we will continue to invest in this franchise by tweaking some of the elements of the mix.

Saffola Mealmaker Soya Chunks has started off extremely well in GT in West Bengal and we have extended to MT and e-com. We have launched Saffola noodles with an interesting take on the instant noodles except that it does not contain refined wheat flour or artificial preservatives and instead brings the goodness of whole grain oats making it a perfect snack time option for all. Our strategy on foods is to enter sizeable categories with growth

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tailwinds that offer potential to build franchises with a quick scale and gain market share with a differentiated product. The existing health equity of the brand Saffola has allowed us to make a seamless foray into multiple categories this year, which has effectively expanded the brand's total addressable market of foods to at least Rs.5000 Crores. We are extremely confident of delivering Rs.450-500 Crores turnover in the food business this financial year.

Within personal care, we observed a gradual revival in demand in Livon Serum's portfolio by male grooming and skin care portfolios have remained soft .We expect discretionary categories to remain under pressure in the current context but intend to build these portfolios into growth engines once the macros stabilize, maybe in Q2.

The Beardo franchise has been gradually gaining traction so far; however, like in premium personal care we remain cautious on the near term outlook, but believe in the strong equity and potential of the brand from the medium term perspective. We expect the business to touch an exit run rate close to Rs.100 Crores this year unless the second COVID wave materially affects the business.

Coming to international business, Bangladesh delivered another robust growth with 20% constant currency growth with non-coconut oil portfolio leading the growth. The newer launches in baby care, skin care and Parachute Natural shampoo range have also seen encouraging trends, the diversification of the portfolio to the extent of 40% contribution from non-parachute CNO and the total addressable market expansion in personal care has set up this business for a strong sustainable profitable growth run in the future years. With the home and personal care category in Vietnam recovering on a year-on-year basis and the foods business continuing its positive momentum, South East Asia business grew in double digits after eight quarters. We have again focused on correcting the fundamentals in Vietnam and we are confident that we will be able to partially replicate the Bangladesh model of growth here. The MENA business rebounded to 62% growth on a weak base. The pace of recovery in the Middle East was faster than in Egypt. We are confident about delivering a steady growth in the business this year. The South African business grew 48% on a back of buoyancy in the healthcare categories and we will be in a position to deliver growth this year.

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On the overall business we hold our medium term aspiration of delivering 8% to 10% underlying volume growth domestic and double digit constant currency growth in the international business. Over the past 15 months, we have made substantial progress in both sharper choice making in our growth agenda and resource allocation, correcting some of our internal execution issues and substantially upping the execution quality and agility in the organization. We are also making significant progress in expanding our total addressable market by focusing on scale innovations in both India and Bangladesh and also in our digital transformation journey. Both of these will secure a future growth over the next three to five years.

The near term impact of ongoing second wave is difficult to foresee at this time, particularly in the domestic business, although we are much better prepared to tackle supply chain disruptions with our BCP processes, which is the hardware part. The impact on our members and on the extended ecosystem is far higher this time around (which is the software part of the business). We were able to extend the Q4 momentum in the first 20-22 days of April, but the last 10 days have been a little slow, having said that we had a very low April base, so we have clocked significant growth already in the quarter. A clearer picture will emerge sometime towards the second half of May. The situation in terms of case loads and the consequent disruption will be different across states as they experience the full cycle of rising, peaking and plateauing and we must have a differentiated approach in each area. Taking cognizance of the fact that the pandemic has severely hit the consuming class this time around, we believe it is the premium/ indulgence based categories that will be more affected this time than items of daily use. Over 90% of the Marico portfolio comprised daily use items, which could be relatively insulated in consumption terms. While prioritizing people safety, we will continue to drive availability of all these essential items strictly in line with the local government SOPs.

We expect the cost pressure to be transient and though our brands have exited considerable pricing power, we avoid taking price changes frequently and disrupting trade. In any case, our pricing has been chasing input cost because of this continuous and unprecedented inflation especially in edible oil. Also, we are conscious of the purchasing power of the consumers which has been affected during this time. Copra prices has already come under control, it has already fallen 13% to 15% from its peak in April. Edible oil price increases have been more supply and speculation led as opposed to demand led and they expected to

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cool down in the coming months. Since our reads were based on global forecasts that were estimating a correction in Q4, but instead has spiked up, our pricing interventions end up lagging the inflation. However, once prices cool off as expected, margins will perk up. We will continue to choose sustain volume growth and franchise expansion over short term margin since we are in the midst of a great volume and market share growth momentum. After executing Rs.150 Crores plus cost savings in FY2021, we are chasing another aggressive target this year; however, extremely fair about a philosophy of only attacking the flab and not the muscle in the business with respect to cost control so that the long term growth story is not impacted. While we will slowly go back to a medium term margin of 19-20%, we have prepared to take a slight short term hit in order to ensure that there is no interruption in this high velocity volume growth journey we are going through, based on strong execution, choice making and innovation. Having said that operating margin will improve sequentially from here on as we believe it has bottomed out in the reported quarter.

Last but not least, I would like to thank all the Marico members and associates for exhibiting tremendous resilience and grit through this year. While the context has not changed for the better yet, we believe that with the fighting spirit and agility together we will effectively cope with the current situation. The biggest comfort we feel is that the fundamentals of the business in both India and the key international markets are on a sound footing. Thank you for your patient listening and we will now take your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: While you have indicated that April has seen some impact, I just wanted to get a sense the initial trends especially in terms of in home consumption and in terms of oils, the way we saw it is similar to what we witnessed in the lockdown or is there a diversion versus that and secondly this weakness is this any geographical tinge in terms of cities that we are witnessing if you can share that part?

Saugata Gupta: The weakness we are seeing is not in offtakes or consumption. It is more of the supply chain disruption because as you know that each state is going for a sequential lockdown and there are lot of cases, the grocery store hours are limited, which led to some supply chain issues also. Some of the distributors are not well. These are just some supply chain

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disruption, but we are getting back on track. We do not see any significant consumption impact. If you look at the trends on food and other items, 90% of our portfolio is essentials. As you saw last year, in the beginning of April, as obviously we were underprepared in terms of logistics and other things. We believe that gradually things will get back into shape and we will get back to our run rate sometime in May end and June. But this time, people need deliveries or you want distributor stock points to open, there are certain interruptions because of government SOPs, or because people have been affected with COVID themselves, so therefore we are taking some time. As you know we tried out a lot of interesting things last year like telecalling, we have started scaling up those alternative options and we believe that things should get back into shape. As of now we dont believe that there will be any consumption related dip.

Avi Mehta: The supply chain impact is essentially from a distributor as well as from our sales end as well?

Saugata Gupta: We do not have any supply chain impact at our sales end. The issue that is happening as you know in most of the states the grocery shops have been allowed to be opened for a limited period and also there is a very limited window for delivery, so these are the kind of interruptions. In certain states, there has been a tougher lockdown based on local government SOPs. You must realize that at the end of the day the first priority of each of the government is to provide hospital beds and oxygen. Supply of essentials and getting them streamlined is secondary priority. So we are working with the local authorities and with other FMCG companies through FICCI-CII. Therefore things will stabilize, but as far as our supply chain is concerned or our factories to depots, there is no issue on that as I said it has been BCP tested last year and they are functioning very smoothly.

Avi Mehta: The second and the last question essentially on the input costs, I missed that comment you said input costs have moderated, if that is the case you are indicating that gross margins will improve and move more towards the level that we saw in the first three quarters of the year, is that to what you indicated or if you have if you could kind of share that and a related question is you have pointed towards moderation expected by June, July, if that were to play out as expected, is it fair to in turn kind of build in or expect you to reach the medium term?

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Saugata Gupta: I think two things let me breakup copra and edible oil and also there is other one which I did not mention the other unknown item is crude because crude has an impact on VAHO and crude has an impact on packaging so let me take one item at a time. In the case of copra as I said that the drop which we were expecting has happened with a lag of six to eight weeks. So, now we are back to what we were expecting in March, while we were expecting 7-8% drop it actually went up, but it has now corrected 15%, and we are back to what was the original estimate of the pricing as we stated in the last earnings call and therefore with the kind of pricing we have taken on Parachute we believe that slowly now we will recover the margins. As far as edible oil is concerned however, it is still high, although we do not expect prices to increase from here, there has been 50% increase in Saffola pricing. We took 30 in H2 and we have taken another 15 to 20 now. Now again as I said this is something subject to because in the last four months all the global forecasters have got interrupted, but we now expect that there is no fundamental major demand, it is our supply constraint and it is some speculation that is happening in the international global market. Now we expect however things should be cooling down in June-July, so as it happens then obviously we will start picking up the margins there. To answer your question on the gross margin it will keep on gradually improving as we move to Q2 and Q3 and we will obviously catch up the medium term as we move towards the second half of the year.

Avi Mehta: In Q1 also it would move up?

Saugata Gupta: It will move up because as I said that we have taken some price increases again in April and obviously in copra we have started seeing that decline happening, so the copra decline what we expect in March has now happened in April, thats about it.

Avi Mehta: Thank you very much Sir. I will come back in the queue.

Pawan Agrawal: Avi, just to add one thing over here, while there will be sequential improvement if we will compare margins Y-o-Y next quarter ,that of course we would be lower because last year base was pretty high on account of the rationalization of expenditure in Q1. It is from Q-on-Q perspective and not Y-o-Y perspective.

Avi Mehta: Correct, I was essentially saying that we will move more closer to the levels that we saw in the first three quarters of the year.

Saugata Gupta: In the first quarter, what Pawan said, was a very high operating margin because of a depressed topline and very significant cost saving, for example we had 6% A&P, we had huge savings in fixed overheads, which you are not going to see in this quarter, so it will improve from Q4 and it will gradually go into the medium term levels as we go into the second half of the year.

Avi Mehta: Thanks a lot.

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

Percy Panthaki: Congrats on a great set of numbers. Saugata you said that the copra is down 15%, 16% currently versus the peak, what I wanted to know is that how does the current price compared to the FY2021 average?

Saugata Gupta: I think it is slowly gearing towards the FY2021 average now.

Percy Panthaki: So the current price is close to the FY2021 average and basically therefore your assumption is that the current price is also the price, which will continue for the rest of the FY2022?

Saugata Gupta: I think there will be a drop going forward and then it picks up as you know the way it behaves is that it keeps on going down till June, July and then again it picks up a little in the second half. The best case scenario broadly will be around flattish to marginally inflation, but it could be most likely it will be flattish.

Percy Panthaki: Secondly I wanted to know Saffola you said you have taken 50% price increase, what is the corresponding input cost inflation in Saffola?

Saugata Gupta: With the current estimate we have broadly made up most of it, we have kept some of it but a majority of the increase has been absorbed..

Percy Panthaki: So the oil stable has also moved up by about 50% is what you are saying?

Saugata Gupta: Slightly more.

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Percy Panthaki: What happens if the oil table moves downwards because it has had such a sharp inflation lets say it moves downwards by 20%, 25% do you get to retain some of the margin benefits or it gets passed on?

Saugata Gupta: Little bit for sure. So what we will do is normally when we take up price increase, when inflation is there, we abosrb some of the cost push. Similarly, when there is a deflation we retained some of them that is how we normally operate. As you know now that we have a pricing model for both Parachute and Saffola we operate within that.

Percy Panthaki: Similarly you see for Parachute also while the cost will remain more or less flat or marginal inflation Y-o-Y your current price if it continues through the rest of FY2022 you will see a increase in the final product pricing on a Y-o-Y basis whereas the cost remains flat, so would I be correct in assuming that even Parachute should see margin expansion in FY2022 versus 2021?

Saugata Gupta: No, it wont. You will see a margin expansion maybe versus Q4 definitely.

Percy Panthaki: But where is the flaw in my maths here?

Saugata Gupta: If you look at the pricing, the commodity prices have increased in the second half and we took our price increases lagged commodity price increase. Now what has happened is that we have now got a price which is the fair price.

Percy Panthaki: Correct, but your current price is higher than the FY2021 average price.

Saugata Gupta: Last year, if I do Y-on-Y, H1 the prices will be higher than last year, little bit higher, while in H2 the commodity prices will be lower than last year.

Percy Panthaki: Saugata I do not want to get into detail, the only context of this question is I have spoken to a lot of investors and the key concern that people have is on your margin, but as I see it I might be mistaken and you can correct me, but there does not seem to be any reason to believe that FY2022 EBITDA margins for the company as a whole will drop Y-o-Y?

Pawan Agrawal: Overall margin for the current year is about 20% and the kind of inflation that we are seeing although we are expecting the prices to correct, expecting 19% to 20% operating margins

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for FY2022 may not be realistic and therefore what we are suggesting that at least we will try and deliver 19%. There are lot of moving parts, so therefore expecting 20% is not realistic and I would suggest that we should be stay with about 19% right now.

Percy Panthaki: Pawan, will take this offline. That is all from my side. Thank you.

Saugata Gupta: Percy just to add as I reinforce the fact that we will keep on gradually moving up the margins and in the second half we will get into 19% to 20%, but it might not be the case immediately.

Percy Panthaki: I got you Sir.

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

Vivek M: Good evening Saugata, good evening Pawan. Few questions, first on Saffola 50% price hike two things one is do you worry about any level of let us say downtrading in the context of the tough macro that you highlighted in the opening remarks and the second bit is what is the competition reaction at least on the organized side, have they also taken or let us say the Saffola's price premium compared to some of the other organized players is it kind of maintained or has it gone up?

Saugata Gupta: Actually Saffola pricing has been pretty competitive because as you know most of the other players have a cost plus pricing model.

Vivek M: They have been able to pass on everything..

Saugata Gupta: Yes, absolutely. So just to give you a context I think let me tell you typical Saffola consumer unlike average edible oil consumer in India actually consumes around two to three liters, so the incremental outlay if I take the peak price of Saffola will be around Rs.180 a month and if you look at the Saffola consumer profile I do not think Rs.180 to Rs.190 will be very tough.

Vivek M: You do not worry about any potential downtrading therefore?

Saugata Gupta: Not at all, I will tell you why also the fact that the current situation, we are back into for incremental home cooking actually and if you look at the current Saffola trends in April actually it is extremely robust. Anyway I guess one thing normalize I believe prices also will normalize.

Pawan Agrawal: Also just to add Vivek over there is if you look at our relative price index in fact we had become competitive because most of the players work on cost plus margins whereas our margins are far higher and therefore our ability to absorb the cost push should be higher as compared to any other players, So, therefore we have been more competitive in the recent few months as compared to what we were in the past.

Saugata Gupta: Just to give a testimony of that we had 25% bps last quarter Q4 and we have delivered this growth of 17, so 30% price hike was baked in Q4 already.

Vivek M: The other thing on VAHO this is the second quarter of very strong growth, now I know there is a base effect and the base effect has been there for a few quarters in fact several quarters for few years now and your opening remarks this time around also you are sounding very confident on the medium term, so can you just elaborate on what gives you that confidence and when you look back what could you have done better given that VAHO as a portfolio did not deliver to your expectations?

Saugata Gupta: I think two things, one we did not participate in the bottom of pyramid and number two out of the four VAHO brands other than Shanti Amla, we had some issues which we have corrected. Given that, there has also been a significant thrust on distribution expansion especially in rural and as I told we corrected some of communication/ mix/ pricing issues, which we have all corrected. So, this VAHO growth is a secular growth with all brands delivering double digit growth. We are therefore confident that we are in a position to deliver this 10% plus growth in the immediate and medium term. So, as I said that we approach the business looking at all the fundamentals in terms of whether pricing, penetration, growth, equity, communication, all are in place. In addition to that I think there has been a tremendous focus on rural distribution increase of 25% every year for the next two years, which has also helped because a lot of these are very strong VAHO markets, which are essentially in the north.

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Vivek M: Next year Rs.450 Crores to Rs.500 Crores guidance for foods, do you have a number for let us say where do you see this business in three years from now?

Saugata Gupta: By 2024 we are aspiring for thousand, but we should be at least hitting Rs.850 Crores.

Vivek M: 850 three years okay.

Saugata Gupta: 850 by 2024.

Vivek M: Lastly on Soya Chunks, you mentioned that you started with GT and then moving to MT or e-commerce, just curious why this way and lot of your launches have been first e-commerce and then move to GT, so is there anything specific with Soya Chunks as a category?

Saugata Gupta: So we are prototyping in West Bengal and as you know in West Bengal there isnt a very strong Modern Trade, so it is a primarily a GT market, West Bengal is the strong market for Soya Chunks, a lot of soya consumption happens there. So prototype the product in GT now we are extending it to MT and E-com and plus we will now start extending into other parts of east.

Vivek M: Okay and like honey you have mentioned let us say Rs.100 Crores FY2022 because given the Soya Chunks is a much, much larger market, what do you expect from this segment in the next two, three years?

Saugata Gupta: For all in the new foods, the strategy for any business has to be aspiring to hit at least Rs.75-80 Crores in three years if is not Rs.100 Crores, so I think that is the similar aspiration for soya. You are right the soya market is around Rs. 1800 Crores out of which the three big branded players at least occupy around Rs. 900-1000 Crores.

Vivek M: Got it. Thank you and wish you all the best Saugata.

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

Harit: My first question is on the hygiene opportunity, so last time you are fairly opportunistic in grabbing certain revenues in the first wave through hygiene product, just wondering how

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you are thinking about it this time around is that something we are going to look at or your focus is going to be on core and core innovations?

Saugata Gupta: I think last time was tactical we have now enough on our plate and as I said at this time while the hardware is in place, I think for all companies, given the people situation so we are focusing on the few things. The only thing is that whatever inventory we have in hygiene obviously we are ensuring that everything gets liquidated.

Harit: The second question is on direct distribution in your release you mentioned that now ahead of pre-COVID level so could you give us a sense on a little bit of numbers on the direct distribution and what you could look at from an expansion perspective over the next couple of years?

Saugata Gupta: We are focusing as I said on three areas primarily. First is rural, we are increasing the number of stockists so that we convert it from indirect to direct so that the quality of distribution improves and the range improves. As far as urban is concerned, our focus was entirely on chemist, cosmetic and food outlets, we had left the cosmetic outlets last year because there was COVID and the fact that discretionary was not doing well, we focused our entire energy on the chemist and foods channels, so we will continue to grow that and therefore we believe that our direct distribution will continue to increase every year, but again the focus is only on these. We believe in the rest of the places, we are fairly okay and in urban we are not focusing on marginal outlets, which are anyway indirectly served.

Harit: Got it and last question was on some book keeping on tax rate, so what is the expectation for you while you kind of end up in FY2022 and FY2023, this year has been a bit lower?

Pawan Agrawal: You could take about 22-23% at a consolidated level, which in the reported year was in the range of 21-22%.

Harit: This is for FY2022?

Pawan Agrawal: Yes.

Harit: Would it move up again a little bit going forward one year?

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Pawan Agrawal: Next three to four years, you keep it in the range of 22-24%.

Harit: That is it from me. Thanks and all the best.

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

Kunal Vora: Thanks for the opportunity. First is on the chemist channel you mentioned that there is a sizable expansion whatever the channel contribution to the sales, is it temporary replacement channel or do you like due to pandemic or can it drive incremental growth?

Saugata Gupta: There are two things. First, if you look at our portfolio which is premium VAHO, skin care and immunity products which is Honey, Chyawanprash, they have a skew in chemist channel, in addition to that we also have Bio Oil, Mediker and other products. So, what has happened now is that we now have a sizeable portfolio where we can make a difference to the chemist. This is independent of COVID, but yes COVID was an accelerator and a catalyst and the very fact that today chemists are opened for much longer hours than grocery stores and our distribution or availability of these products are far higher this year compared to two year ago is a distinct advantage and we will continue to drive this because whether it is male grooming, skin care, value added hair oils and immunity range especially Honey and Chyawanprash, all of these have a significant skew towards this channel.

Kunal Vora: Second is in Bangladesh your non-Parachute business is doing very well almost 40% now and you mentioned that you are looking at entering new categories, what are the new categories you are looking at and do you see non-Parachute becoming larger than Parachute in a couple of years?

Saugata Gupta: When I talked about new categories, the entire strategy is to ensure that with your strong master brand, we have a very strong equity of the master brand and we have a strong distribution, how do you extend this leverage the distribution and leverage the master brand and expand the total addressable market. So we have gone into baby, we have gone into skin care and shampoos, all these are delivering in line or ahead of our expectations and yes another two, three years there could be a situation where CNO to non-Parachute CNO business could move to 50:50.

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Kunal Vora: Lastly can you share thoughts on PLI in food processing, you are ramping up your food business, and do you see food processing is an opportunity for you?

Saugata Gupta: I think that is something we will explore but nothing to comment right now.

Kunal Vora: Okay, thanks Sir. That is it from my side.

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

Tejas Shah: Thanks for the opportunity. Sir, just one question from my side, inventory days seems materially lower in fact the lower in last many years, so any insight there?

Saugata Gupta: As I had talked about in the previous calls, we have significantly reduced distributor holding and today the distributor holding is maybe at 2015-2016 levels. In addition to that, we have rationalized 26% of the SKUs and also with the automation we have done in supply chain, our total holding whether it is in the depot or at the distributor end, both have been significantly reduced and we expect to maintain this in the following because one of the things we have learnt last year is the magic of simplicity and reduction of complexity.

Pawan Agrawal: Also, to add one point over there, Tejas, given the kind of cost inflation that we have seen we have not built significant position, but otherwise we would have built at this point in time.

Tejas Shah: My followup question was that only considering the inflation that you spoke about in volume terms we must be running one of the lowest inventories in the last many years?

Pawan Agrawal: Depending on portfolio, yes, at this point in time, it is on the lower side.

Tejas Shah: Going ahead should we build this number as a new inventory days guidance?

Pawan Agrawal: As I said inventory days will have a component of both the rate and the volume, so while volumes will increase as we get into the seasonal month and we build position but it will also get offset because of the rate in which we are expecting a drop, so at this point in time you could take slightly higher than the current levels.

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Tejas Shah: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: One question, the e-commerce share of your portfolio is at about 8% considering that the online channel will probably continue to maintain or rather even gain going forward, where do you see the share setting down with your focus for select categories more here and importantly how does that influence the margin profile, how do margins in this channel stack up with you versus the general trade channel for like-to-like brand portfolio?

Saugata Gupta: We believe that between e-commerce and D2C, as you know we have started a D2C business plus around 30% of Beardo sales also go through D2C, so combining these two it could be 10-12%, of our business by 2024. Now coming to this margin issue I think there are two things we are trying to do, we recently did a cost to serve and net revenue management exercise across the organization, so two things we have already executed in fact one is something which we executed around 15 months ago to prevent channel conflict. Even in our existing brands, we are now selling differentiated SKUs in modern trade and e-com as compared to GT, so that there is minimal margin dilution. The second thing which we are trying to do is tracking as a KPI for e-commerce that how much premiumization we are driving in e-commerce and modern trade where the percentage of non-core business has to be significantly higher and over the next 3-4 years we will try and increase the non-core business in e-commerce, which is currently higher than obviously GT right now, but it is not as high as we would like it to be. So, over the next 3-4 years, we will substantially drive this and that part of the business is the higher GM business, so even if there is a higher the higher cost of sale or ACOS in E-commerce, by selling a differentiated portfolio or a differentiated SKU within the existing core brands, we should be able to be margin neutral. So we actually have a cost to serve exercise, which we review every year, for each channel.

Latika Chopra: Thank you.

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

Abhijeet Kundu: Thanks for the opportunity. Good evening. My question was on value added hair oils as well as on Parachute coconut oil. In value added hair oils you said that increase in rural distribution has helped as well as you have been taking various initiatives, but just wanted to understand is it the case that both in Parachute coconut oil as well as in value added hair oil, our rural markets seeing some kind of market share based on smaller brands because in value added hair oil we have gained about 200 bps market share and Parachute coconut oil also has been doing pretty well all along, so is there a case that the smaller brands are losing share?

Saugata Gupta: You are absolutely right. I think although we must say that this year Nielsen took some time to stabilize, but now the data has got stabilized. We believe that initially especially when COVID hit that some of the smaller brands because of working capital, supply chain disruptions, they were unable to drive distribution. Sdditionally the fact that brands, which have a direct rural distribution, have a competitive advantage because wholesale as a channel has got disrupted due to COVID, due to GST and other factors. Also, there are lot of organized big brands who are participating in the bottom of pyramid in value added hair oils. Initially we were not, but now we are also participating. So, I would think that the smaller brands are getting squeezed out there and there is a sizeable market share which the smaller brands have and this share is definitely up for grabs.

Abhijeet Kundu: Okay and how much of the market share gain would be due to Shanti Amla?

Saugata Gupta: This year it as all the brands. That was the one thing that went wrong between 2017 and 2019. If you look at the period from 2010 to 2017 where each and every year we grew double digit, it was a reason was because all the brands, there are four big brands and some of the new brands, were growing in double digits. This year fortunately three of the four brands have gained significant market share, in addition to that Aloe Vera is doing very well and also the ayurvedic hairfall oil, which is sold in the south has also delivered double digit growth. It has been all round growth. If we have to grow double digits in VAHO it cannot be only which was Shanti Amla, while Shanti Amla has grown in double digits all the other brands have also delivered double digit growth this quarter.

Abhijeet Kundu: Any benefits from increase in geography, if you have been able to penetrate relatively unpenetrated geographies for you has there been a case of that, has that also helped?

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Saugata Gupta: That benefit will go to Shanti Amla first because that is the most distributed brand and it went to Parachute in the south and west. We obviously have a significant journey to cover in rural distribution in some of the states especially in North India. We still are not best in class and as you know we have now taken an ambitious target of increasing direct distribution through stockists by 25. There will be distribution gaps in some of these markets and I think we will get significant distribution led growth because we believe that while we are good in weighted distribution in a lot of categories, I think there is significant numeric distribution opportunities in VAHO and may be also in Parachute and also in Foods and some of the premium categories in urban over the next 3-4 years, which we are going to capitalize on. So direct distribution in urban, in chemist, cosmetic and food and rural distribution is a big thrust area for the organization.

Abhijeet Kundu: That is it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: Good evening Saugata and Pawan. Thanks for the opportunity and my heartiest congratulations for excellent volume growth. I have a couple of questions. The first question is on the distribution you just mentioned a little elaborative manner I would like to know, what is our current direct distribution assume that it is 1.2, 1.3 million and against that what is the food distribution because I would assume that there will be a common distribution point?

Saugata Gupta: In Foods distribution, two things. One, food distribution essentially have a significant skew towards MT, E-com and urban outlets, so I think I believe you need to focus on depth and we do not sell impulse food items. Even in Oodles, which we have launched, is priced higher than the other big large brands in the category at common price points. I think we are reasonably happy that if we continue for example that if we reach 300-400k direct reach in foods we would have covered a significant quarter.

Shirish Pardeshi: That is exactly the point which I was saying, if I look at the profile of your products whether it is oats or even premium you are charging on honey, so is that from the brand sale perspective do you think this brand can stand out when you have a revenue target of Rs.100 Crores and you will start generating money?

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Saugata Gupta: Oats make good money. It is very simple, obviously in the initial year there will be strategic funding because you need to have a certain advertising spend. The good things about foods is that with scale you get a tremendous operating margin leverage, so I believe that the model, which we are saying that entering categories and delivering Rs.100 Crores plus and that is a good enough for having a break even. In the case of oats, obviously, it took a little bit of time for break even to happen at around Rs.150-160 Crores mark.

Shirish Pardeshi: Thank you. Second question is on in your update price values you said that you have got cost saving about Rs.50 Crores in the international business, so would you be able to quantify what are the similar benefits you have got into the domestic business?

Saugata Gupta: Around Rs.150 Crores.

Shirish Pardeshi: Okay and any target you would like to share with us at this time for FY2022?

Saugata Gupta: No, we have a target, but well I said that these are aggressive targets. I believe the one philosophy which we are following is that we will do everything which we can to reduce wastages and slab, but we will not do anything that cuts the muscles of long term growth so we will not cut ASP, reduce investment behind innovation, leadership capability, people and digital.

Shirish Pardeshi: Just last question on VAHO part, I think we have done a very respectable commendable job on Nihar Shanti Amla and I think when I look at these two of Nihar Shanti Amla you had the issue, but now it was sorted out. Just more curious what could be the sales quantum in terms of revenue contribution in the domestic business for Shanti Amla say two years before and now?

Saugata Gupta: I do not want to get into individual components and as I said that the entire VAHO growth is now fueled by all the brands and Shanti Amla has been delivering double digit growth for most of the years and now all the other brands are growing, so we do not want to get into individual contribution.

Shirish Pardeshi: Would you be able to share at least into the Amla category what would be its share in terms of volume?

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Pawan Agrawal: It is in the range of 44-45% in volume share terms.

Shirish Pardeshi: Thank you Pawan and all the best to you and the team.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

Pawan Agrawal: Thanks a lot for listening on the call. To conclude, we've had a very strong Q4 performance and have ended the year on a good note. However, given the unfortunate COVID resurgence, we are cautiously optimistic about the outlook for the immediate future, while our belief on medium term prospects continues to remain strong. There are immediate cost pressures which are transient in nature, and we are already seeing correction in copra prices and expect edible oil prices to cool off once the supply situation in the global market improves. However, given that our priority will be to maximize volume growth and expand market shares, we have to be little patient with respect to recovery of margins and expect muted profit growth in the next quarter. If you have any further queries please feel free to reach out to our IR team and they will be happy to address the same. That is it from our side. Please stay safe and take care.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

(This document has been edited for readability)

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