“Marico Limited – 1QFY14 Earnings Conference call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1FY14 Earnings Conference Call of Marico Limited, hosted by Ambit Capital. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shariq Merchant from Ambit Capital. Thank you and over to you, Sir!

Shariq Merchant: Good evening everyone. We welcome you all to the conference call of Marico Limited. We have with us the senior management team of Marico led by Mr. Saugata Gupta, CEO; Mr. Milind Sarwate, Group CFO; Mr. Vijay Subramaniam, CEO - Kaya; Mr. Chaitanya Deshpande, Executive Vice President and Head of M&A and IR; and Mr. Vivek Karve, Executive Vice President and Head of Corporate Finance. I will hand the call over to Mr. Milind Sarwate to give you an overview of the quarterly performance and then we'll open the call for Q&A. Over to you, Sir.

Milind Sarwate: Good evening, everyone. Welcome to the Marico earnings call for Q1FY14. We have already shared an information update on the quarter's performance that would have been there with you for some time now. I will, therefore, share only a few highlights before we get into the Q&A session.

The Group posted a topline growth of about 9% over Q1FY13. The growth in PAT after excluding all exceptional items was 24%. The topline of our FMCG business, which comprises the India business and overseas business, grew by 9%. PAT grew by 14%. Kaya business grew by 8% and continued to report same-store growth. It also recorded a profit for the quarter.

The domestic FMCG business recorded a volume growth of 10%, while the international FMCG business posted a volume growth of 9%. There was market share gain across the categories. The youth portfolio, which is represented by the brands, Set Wet, Zatak and Livon, clocked a turnover of Rs55 crores. That is a growth of about 40% over the immediately preceding quarter. The deo portfolio gained 100 basis points in market share on a sequential basis. The gel portfolio and the post-wash hair serum segments continue to hold their market shares in terms of leadership position.

The overall margins were healthy during the quarter. Margins in both the domestic business and the FMCG business expanded as compared to the corresponding quarter of last year. The overall FMCG margins were 17.2%. This was about 160 basis points higher as compared to the same quarter last year. The margins in IBG were 13.3%, which is also a significant improvement over what we saw during the last quarter of the previous year.

We had announced the demerger of the Kaya business in January 2013. There has been considerable progress on that front. There was a court-convened meeting of shareholders on July 30th 2013. The shareholders have approved the demerger scheme. We have now filed the scheme with the High Court. We expect that by late September or early October, we will receive the court approval. As we have already mentioned, the scheme is effective April 1, 2013, whenever it is approved, we will relate back to this date. The next step would be to list the shares of Marico Kaya Enterprises Limited, which we will shorten to MaKe. So, shares in MaKe are expected to be listed by November or December of 2013, depending upon how swiftly we get the subsequent approval. So, with this briefing, I open the call for questions from all of you.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. First question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: Congrats on a good set of numbers. Sir, my question is, on Saffola, basically two sub-questions there. One is, in the 10% volume growth; how much of it would you attribute to some promotions in the sense of extra volume or something like that? Second question is, you have lost some market share there. So what is the reason for that market share loss and do you think that you can recover it and if so, what are the steps taken for that recovery?

Saugata Gupta: In terms of Saffola-promoted volumes, there was no significant difference between the promoted volume in the previous year quarter-on-quarter. So, the promoted quantities remain the same. Yes, we have lost a little bit of market share in super-premium ROCP. However, we believe that we would be able to maintain the Saffola market share in a range of 57% to 58%. Having said that, I think what is more important is to ensure that the super-premium ROCP category grows. Given the little bit of economic slowdown and the fact that this is a top-end category, there would be certain challenges in the growth; having said that, we are pretty confident of maintaining double-digit growth of Saffola this year.

Percy Panthaki: Also another thing I wanted to know is on the copra prices; it is up some 8% to 10% YoY, and correct me if I am wrong, your pricing versus YoY on Parachute, I mean, there is no significant change. The price would be more or less the same on a YoY basis. So how has the margin expansion come out there?

Saugata Gupta: It is based on consumption and not based on actual market prices or input cost. So that would be the reason, and as far as Parachute pricing is concerned, if you look at quarter versus quarter, there would be some reduction of around 3.5% in average pricing of Parachute.

Percy Panthaki: No, I am saying YoY, and so Q1FY13 versus Q1FY14?

Saugata Gupta: There is a 3.5% reduction in the pricing of Parachute.

Percy Panthaki: So the prices have come down, the commodity has gone up, but yet on a YoY basis, the margins have expanded?

Saugata Gupta: As a company we take some strategic positions and the cost booked is based on the consumption and not the actual prices in the market.

Percy Panthaki: So in which case, this gross margin expansion that we have seen, should we say that it is probably short-lived or not going to be sustainable?

Milind Sarwate: We will ensure that we maximise volume growth and maintain margins, which is on a sustainable basis.

Percy Panthaki: Sir, my last question is on the other hair oil portfolio. I should congratulate you guys; you have done very well over the last two or three years. Having said that, and I know I am being a little greedy here, your volume growth is 16%, which has fallen. I mean, if you see the trajectory over the last 2-3 quarters, it has fallen; it used to be 20% plus. So, do we see that falling trajectory being arrested at 16% or could it like slide further down?

Saugata Gupta: We have given a broad indication that we will continue to grow in the range of 15% to 18% over the next coming quarters and we will maintain that. Now, obviously, there would be a blip in a quarter here or there, but 15% to 18% kind of a volume growth rate is imminently achievable over the next upcoming quarters.

Percy Panthaki: And you are maintaining that in spite of whatever macroeconomic slowdown, etc., there might be?

Saugata Gupta: The way to look at it is that, as an organisation it is important for us to continue to exhibit volume growth in spite of the macroeconomic condition. I think that is a challenge for any management. Having said that, we were seeing very significant double-digit growth across all the categories. I would say going forward in the coming year, I think a 10% volume growth is imminently achievable in the overall FMCG business, with the India business doing 9% to 10% and the international business perhaps doing a tad over 10%.

Percy Panthaki: Right sir, that is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, congrats on a good set of numbers. My first question is on the youth brands; you have said that finally market share loss seems to have been arrested. But if I see the advertising, there is no difference in terms of positioning of most of them, except one or two players. So, what gives us the confidence that finally we have cracked this apart from say the distribution synergy or the new ad? In terms of sustainable market improvement, what is the confidence you are getting in the deodorant especially?

Saugata Gupta: I think it's a combination of all three. I would perhaps beg to differ with you a little, because our advertising positioning as far as Zatak is concerned, is a new advertising positioning which is completely differentiated from the rest of the pack. As far as the Set Wet is concerned, also it is a little differentiated and there are certain finer nuances. But what is driving the growth are three things. One is a continuous innovation. If you notice, we have come up with a lot of new variants in the Set Wet portfolio. We have come out with a new pack, which is priced at a lower price point, which is a smaller pack, and finally, I think we have also revitalised the entire Zatak portfolio. Distribution is another area where we have started our journey of expansion. I strongly feel over the next few years there will be consolidation as far as the deo market is concerned between organised players, because at the end of the day, yes, there may be 150-200 players, but the power of distribution and the power of disciplined reach and selling will obviously play in the long term. So, we are extremely confident that over the long term, the organised players will consolidate their market share.

Abneesh Roy: Sir, my second question is on your new businesses. Skin lotion, the market leader is saying there is a huge slowdown. So what is your take on the industry? Second is, sir, oats, our market share seems to be stagnating and second, the new entrant there, in this quarter's concall said that they have gained market share. So if you could share insights on oats market share, where do you see it stabilising from a longer perspective, and how has muesli done, sir?

Saugata Gupta: So, let me address the body lotion first. Yes, as far as the skincare category is concerned, there has been a little bit of a slowdown. Even then in this quarter there was a 20% plus growth in the category in off-take terms. There has been a little bit of a slowdown especially in the top-end urban and modern trade, but given the category penetration, we see huge opportunities in middle India and that opportunity will propel the category. Having said that, there could be certain moderation in the kind of growth that you perhaps would have seen in the category in the past two years. Oats, in spite of the competitive pressures with three or four players in the fray, is maintaining a 13% and 14% market share. We intend to continue to be number 2 and our focus will be more on a differentiated part of the portfolio, namely the Masala Oats, which is where innovation plays a big role rather than the commodity part of the oats. So in these two categories, we expect to continue to grow in a certain manner and be on track. So far, it is on track, but the growth rates that was there in the preceding two years for both the categories has been lower this year, at least in Q1and significant portion of that slowdown has happened in the more urban and little bit in modern trade. In oats, we have actually gained value share of around 2%.

Abneesh Roy: And muesli?

Saugata Gupta: The category is still small. So we have not supported the brand. We are around 8% to 10% in market share, but we have taken a conscious choice first to grow the Masala Oats into certain critical mass, because in food, as you know, that scale is a very important factor.

Abneesh Roy: My last question and a small follow-up. Sales in modern trade, I couldn't understand; 29% growth seems very high. If I see your category growth, Saffola 6%, hair 19% versus 29% in modern trade, obviously youth might be helping. So is there an inorganic element of youth?

Saugata Gupta: Significant portion of youth, as you know, that Paras and obviously during the intermediate transition Reckitt Benckiser; has not been strong in that segment. Also, the food portfolio continues to grow aggressively in modern trade.

Abneesh Roy: Okay sir, thanks and all the best, sir.

Moderator: Thank you. The next question is from the line of Ashish U from Elara Capital. Please go ahead.

Ashish U: Couple of questions. Firstly I wanted to understand on the international business. Your commentary suggests that there is some sort of basically lack of confidence as far as predicting the overall movement as far as sales growth is concerned in most of the international geographies. So, if you could guide us a bit on how do you see the topline progressing for key international geographies for you and the business as a whole?

Saugata Gupta: Maybe that is a misplaced perception.. What we tried to articulate is that given the political situation in Egypt and sometimes in Bangladesh there could be uncertainties which could lead to a certain short-term impact. As far as the international business is concerned, I think I will cover it country-wise. As Bangladesh volume growth is back on track especially, Parachute, which is growing around 9%, we are also going to aggressively diversify the portfolio in value-added hair oils. We have already introduced some of the products of India. We believe that Bangladesh can be leveraged with India arbitrage model in terms of having a common portfolio having synergies and we are much better positioned in Bangladesh in terms of competitive intensity and in distribution strength to leverage that. So, we will be aggressively diversifying the portfolio. So, getting double-digit growth in Bangladesh over the full year, we are extremely confident of.

Vietnam continues to crack 20% plus growth and here also we intend to continuously innovate and strengthen our competitive position. Obviously in both these markets, we have a very strong presence in one particular category which gives us the potential to open up our second leg of portfolio. Egypt again has done quite well. However, as you know that there is a political disturbance in Egypt, and so while we continue to grow and gain market share, it will depend on how the political situation pans out. Gulf, our performance was impacted largely because of internal execution issues. We are slowly overcoming all that. In terms of distribution and getting some of our things right, we believe Gulf will go back on track in the second half of the year. As far as South Africa is concerned, it does not contribute significantly to our overall topline. There is an economic downturn in South Africa and GDP growth is flat to negative and the entire CPG sector is almost flat. So, that is something, which is going to be a little bit of a challenge. Having said that, one of the biggest things which has gone for the International business is that we have got back volume growth on track after a couple of quarters. We have got double digit top-line growth, and therefore a 15% to 20% top-line growth in the balance year is imminently possible and realisable in the international business.

Ashish U: Secondly, taking this forward just to understand the overall margin profile of the business. International probably this year margins should be better than what we have seen in the first quarter maybe reflecting in the rest of the year. Secondly as the question was there earlier that copra is moving up and your prices or realisation on Parachute is going down and some other products as well. So does it make up for the picture that YoY our gross margins may be a bit similar to last year or it might be a bit down compared to last year? Is that a fair take or you would have other thoughts?

Saugata Gupta: First let me address the international margin. The international margin last year was around 8.5% to 9%. We are pretty certain that it will stick around 11.5% to 12% for the full year and our journey to hit 14% to 15% over the next two years is eminently achievable given the fact that what we have realised so far is the intangible synergies of common strategic framework and we have not yet realised the tangible synergies in terms of costs and other things, which will start playing only towards, quarter three, quarter four of this year. So once those synergies will come in, we will be able to also plough back a significant portion of that savings towards growth. As far as the gross margin is concerned, I think our entire endeavour given the fact that there is an economic slowdown in India and some of the other markets, is to ensure that we continue to have a double-digit volume growth and gun for a 10% volume growth and we believe that margins can always come back over the medium term, either through cost management or economies of scale. So I would not be very concerned about margins, because we believe that the current operating margin of the FMCG business is around 14% to 15% which is the right margin for sustainable volume growth.

Ashish U: Just a small thing on the Bangladesh business, the growth that we are seeing in volumes, is it more to do with the bad base of last year or is it something which will be in a continuous 10% plus volume growth that you see?

Saugata Gupta: I think we expect the volume growth of 10% in Bangladesh over the full year and that will happen because of two reasons; one is the Parachute growth is back on track. However, given the fact that we have 80% market share and the branded to loose is 80%, our entire endeavour will be to aggressively grow the other business, which will be value-added hair oil. We have also introduced Livon, and we will see an aggressive innovation programme in Bangladesh in the next 12-24 months.

Ashish U: Thanks a lot.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from I-Alpha Enterprises. Please go ahead.

Prakash Kapadia: Congratulations on good margins. Thanks for taking my question. Broadly, I have three questions. If I look at the consolidated results in the last eight years, we have seen the lowest sales growth at around 9% in Q1, but we have seen the highest gross margin. So, if you could give me some sense of how much of this is due to the turnaround in the international business and to Kaya, and we have always maintained, we will focus more on volume growth for the longer term for most of our products. In the near term, are we okay with higher volumes and lower margins for the rest of the year? That was my first question. Secondly, on Saffola, given the one-litre promotions on Saffola Gold and some of the promotional themes in terms of the Rs2 off in the Oats, so, are these across India or they restricted to modern trade, and if you could give a sense on what is happening on the CSD side of Saffola?

Saugata Gupta: Answering your first question, you have to look at what I call the volume growth and not just the value growth, because if you really look at it, I think in an emerging market what is important is the volume growth. The value growth is a result of inflation and deflation. Now, in Parachute, we had taken a 32% price hike two years ago. So, we have just corrected something to ensure that we make a margin which is sustainable, which does not provide an umbrella for others to get in, and number three is, we want to ensure that we optimise the margin over volume growth. Now, the 10% volume growth is not the lowest as you see over the last couple of years. Coming to the gross margin expansion, obviously there has been a little bit of advantage on the input cost. In addition to that, it has been better, in terms of cost management; we had undergone a cost management transformation programme in the India business last year and we have started a cost management programme in the international business this year. So, the company is doing an enterprise-wide cost management programme across the businesses. So, therefore, some of the improvement we will be seeing is due to that and not necessarily commodity prices.

Over the medium, short and long term, we will prioritise volume growth over margin; however, we believe there has been a threshold level of operating margin and that is what I have indicated that for the FMCG business of 14% to 15% is a certain threshold level of margins we would like to operate under. There could be certain quarters of higher margin, certain quarters of lower margin. Similarly, A&P of around 12%, and so there would be one quarter maybe 13%, but an A&P of 12% and an operating margin of 14% to 15%. So, I think that is something which is an articulated thing, and therefore in the short term, we will ensure that we do not lose out an opportunity. If you look at other statistics, we have gained market share in 90% to 95% of the portfolio in all markets. So, therefore, we have maintained our competitive position. We have maintained volume growth and we have, at the same time, expanded operating margin. So, I do not think we have compromised on anything. The top-line growth is something which is a result of the inflation or deflation that is completely incidental. Coming to the CSD numbers, in Saffola, we have got a double-digit growth in CSD, but an overall CSD growth is around 5% this year. With this, the base corrections would have happened; the base correction would have taken place mostly in quarter one and quarter two. So in quarter two, you will see slightly higher CSD growth, because the base would have corrected.

Prakash Kapadia: And, sir, on the promotions on the Oats and Saffola Gold?

Saugata Gupta: As I said, the promoted quantity is not entirely different from what it was last quarter. Certain modern trade schemes, obviously, could have certain special promotions. The total quantity of Saffola promoted last year and this year is almost identical, because 8% of the total volumes have got promoted. Now, Oats and all you could have seen some localised promotions and there could be certain modern trade having special promotion, but there was no promotion in one-litre. There was a five-litre Saffola promotion. We have not run any one-litre promotion in Saffola.

Prakash Kapadia: What I meant was one-litre in addition to the five-litre?

Saugata Gupta: That is the promotion we ran, but that is a national promotion.

Prakash Kapadia: If you might permit I might just ask. As on FY13 we had a debt of Rs439 crores payable in one year, which was largely foreign debt. Any impact to the P&L on account of the rupee depreciation this year?

Milind Sarwate: No, because all short-term foreign currency debts are fully hedged.

Prakash Kapadia: So no real impact. Okay sir, thank you and all the best.

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

Nillai Shah: Taking Prakash's question forward. The same question on margins and gross margin versus volumes, in your release you mentioned that Saffola with just 2% or 3% price cut has been able to catalyze significant volume growth. Is that understanding correct?

Saugata Gupta: We did take some price drop, because our growth depends on people upgrading from premium to super premium. So, our competitive pricing had gone a little over the top. Number two is also if you look at Saffola, the input costs have also come down, in the sense that especially rice bran, which has come down around 20%. So, we have passed that to the consumer and we believe that this is an optimised pricing to ensure that we maximise volume growth. Last year we were having single-digit volume growth, and so we had problems at retail and CSD. So, this will ensure and we are fairly confident of delivering double-digit growth for the balance quarters in Saffola.

Nillai Shah: What my question really is just 2% or 3% price cut in at that level of consumption for super-premium edible oil, is that enough to catalyze a double-digit volume growth?

Saugata Gupta: See, 2% or 3% is across the board. We have taken selective SKUs. So, if you look at 2% to 3% price cut, maybe 5% to 7% price cut in a 5-litre Gold pack could be 25 bucks or 30 bucks, which is substantial. The 2% to 3% is a weighted average price cut, and it could have been 5% or 7% in one or two packs. We have taken it in larger packs, because that is where the heavier consumers come in.

Nillai Shah: So, on a similar line, then in Parachute, correct me if I am wrong, but you are probably operating at this point in time, say the last quarter, you were probably operating at close to peak gross profit margins and you always maintained that you want to operate in the band. So, at least on my calculation this is close to the peak gross margins in Parachute that you have been operating at. So, was not this an opportunity to pass through some of those gross margins flexibility and get higher volume growth? I appreciate that some of the volumes this quarter has got impacted because of the LBT, but even that notwithstanding, I mean, you could probably I mean, what is the thought process out there? That is just it.

Saugata Gupta: You get a fair view although it is very difficult to predict commodity prices. I think given the seasonality you get a fair view of the commodity prices for at least six-month because of the season for copra starts in. So we had a fair view of the commodity prices sometime in April, and therefore we took some price cuts, as you know, in the 175ml pack sometime in June. Now, let me give you the LBT perspective. Compared to a lot of FMCG companies, Maharashtra is our largest market. Also Parachute's biggest market is Maharashtra, and so our impact compared to other CPG companies have been higher. So if you knock off April and May, Parachute has been back into that long-term growth, which is our long-term guidance in June and July. Now, we waited to get a view of the commodity price and the GMs, which we are now fairly certain about for the next, say, six to seven months, and then we took those pricing decisions. So, we have taken two pricing calls—one pricing call we have taken in June and another pricing call on one of the 100ml packs we have taken just now, which we believe is fairly competitively priced at the same time our gross margin has been optimised. So, this will ensure that we go back into the 7% to 8% growth for the balance of the year.

Nillai Shah: The last question is basically on Bangladesh and Parachute out there. Can you just tell us exactly what steps the company has taken to suddenly move from flat volumes to near double-digit volume growth out there?

Saugata Gupta: I think what was happening if you notice Bangladesh last year, there the GDP growth was low and there was inflation. Both these things have stabilised a bit, and perhaps there was some kind of erosion in terms of the upgradation that was happening. I think what we have done is through a lot of marketing programmes we have ensured that we get back some of that in terms of growth which we had lost to loose or to unbranded. Also we would be happy with the 5% to 6% growth in Parachute in Bangladesh going forward. But in Bangladesh one of the biggest things which we are driving is actually reducing the dependence on Parachute and the entire journey on value-added hair oils and other categories and in this context we will be having huge synergies with the India portfolio. There may be certain categories where penetration is lower. But I think it makes sense to go in early and grow those markets. So the entire journey will be to continue to grow double digits and volume in Bangladesh but a significant portion coming from the new initiative going forward, but we would definitely try to drive a 5% to 6% growth in Parachute in the Bangladesh market over the next few years.

Nillai Shah: Thank you very much sir.

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

Arnab Mitra: Good evening, couple of questions—one on the international margins at 13%. You said that, we should probably look at something like 11% to 12% for the full year. Now my question is with GCC possibly going to turnaround in the second half and the base should be quite bad. Why would you not be able to hold this 13% margins if not improve it or are there investments planned because of which it is more of 11% to 12% range?

Saugata Gupta: What I gave you is a rough number. So, it will be more 12% rather than 11%. Two things will happen, one is we intend to invest a significant portion of this one to drive long-term growth in some of our core markets. And obviously, the gross margin in Q1 also would be higher because of a little bit of benign input costs especially in copra, which will not play out in the second half of the year especially for Bangladesh. But as I said that 11% to 12% is a guidance which we are giving but 12% is a more likely number. And again, there also as I said we will rather focus and channelize some of our savings into investment behind long-term growth.

Arnab Mitra: Sure and on the GCC business itself, what is your confidence level on the turnaround given that there were internal issues and you would have put in corrective steps? Are you already seeing signs which make you confident that in the second half there is a high possibility of a turnaround?

Saugata Gupta: See, if you look at it there has been a shift in quarter one itself in terms of getting the basic building blocks in place in distribution and other execution issues. Quarter two, also we see a significant improvement, and that gives us the confidence that in the second half it will be back in a certain number, and obviously we need to evaluate the right portfolio and business model to set ourselves for growth in the future. As of now, I think we have got most of the issues rectified. As you know that there are certain things like stock correction and other issues, which we are now grappling with. That process will be completed in the next one or two months. In secondary terms, just to give a perspective in quarter two, there would be growth, but there will be certain stock corrections so that will translate into automatic growth in the second half.

Arnab Mitra: Just on the India EBITDA margins which were around 20% FMCG margins. And you have written in your press release that you expect 17% to 18% in the medium term. So, is this more likely in FY14 itself where margins would now go down because you've further taken cuts in the 175ml SKU, or this is more of a medium-term guidance of over three to four years that those are sustainable margin?

Saugata Gupta: I think it is a medium-term guidance. It can vary from quarter-to-quarter because of input costs, but I think what we are saying is that at the end of the day, if you are going to maximise volume growth and market share gain, 17% to 18% operating margin for the India business is something which is sustainable and which is the fair margin for us to maximise volume growth and market share.

Arnab Mitra: And just one housekeeping question. On Parachute I saw that the value growth on rigids is minus 3%, but the volume is plus 4%. So, is there a 7% difference in value and volume, because I heard around 3.5% in your initial comments?

Saugata Gupta: 3.5% is the price correction point-to-point .and also in June we have taken on more price correction

Arnab Mitra: Thanks so much.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: I just wanted to understand you mentioned that 17% to 18% operating margin for domestic business, this you are saying ex-corporate cost, right?

Saugata Gupta: Yes.

Sanjay Singh: This 14% to 15% EBITDA margin you mentioned as sustainable, is this for the overall business or again only India business?

Saugata Gupta: FMCG business which is Marico Limited post the demerger.

Sanjay Singh: Marico ex-Kaya, right?

Saugata Gupta: Yes.

Sanjay Singh: Will you be able to quantify the Maharashtra impact? If everything being normal, what would have been the Parachute growth or overall?

Saugata Gupta: Maybe we lost around 2% of volume growth in Parachute.

Sanjay Singh: So normalised volume growth would have 6% to 7% probably?

Saugata Gupta: Given whatever the June trends are, that is the kind of a number I would say.

Sanjay Singh: Okay and lastly, you mentioned that you want to move across the sub-segments of hair oil. One thing which has been missing has been almond oil on a like-to-like basis, although with natural we have been trying to do something, and I know which is in the probably almond oil space. But on a like-to-like, almond oil is something which interests you or is too small a category to look at?

Saugata Gupta: I think consumers go for benefit. Almond oil provides us a very nice balance between nourishment and sensorial. So we need to go and chase that benefit and fight for the share of benefit as opposed to the ingredient base. Because ingredient-based strategy is a kind of 'me too' and perhaps does not have a long runway in terms of sustainable growth.

Sanjay Singh: That is it from my side. Thank you very much.

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

Aditya Soman: Good evening. Actually I have couple of questions. Firstly, on the overall sort of domestic FMCG volume growth of 10%; now if I were to go back and see the FMCG volume growth, the last time you reported 10% was in 2QFY13 and 4QFY12, but in those quarters, the volumes of Parachute was specifically higher at 9% and 11% and yet this time, even with 4% Parachute you have delivered a very high volume growth. Is this because of these new product businesses kicking in and overall Parachute share reducing or what was that?

Saugata Gupta: One is new product, and also you will see that Saffola growth has been higher. Saffola growth has been lower other than in Q1. So, Saffola has gone 10% and plus the new product I think the growth in Paras, the growth in food then they also contributed to that growth. Also, if you will see the proportion of Parachute because of the disproportionate growth in hair oils and other is correspondingly reducing in the total basket and so that is also another factor.

Aditya Soman: Could you tell us what the proportion of Parachute would be in the domestic business?

Saugata Gupta: It is 35% now in the domestic business.

Aditya Soman: My second question is on the tax rates; you have mentioned that you expect the tax rates for FY15 and FY16 to go up to 30%. This is for the overall FMCG business and includes the international business as well or that is…?

Vivek Karve: It is for the FMCG business as a whole.

Aditya Soman: Because on the last call, one of the things you mentioned was that the overall tax rate was higher because you had losses in some of the other businesses so, now?

Vivek Karve: Yes, going forward there are certain tax exemptions, which will be either over or get reduced.

Aditya Soman: Okay. Just to understand this better, there should be some tax exemptions in India because some of your facilities are moving to a lower tax holiday and then you will also lose some of the exemptions on the international businesses, is it?

Vivek Karve: Yes. You are right. I think you are right on both the parts.

Aditya Soman: Thank you.

Moderator: Thank you. The next question is from the line of Harshad Desai from B&K Securities. Please go ahead.

Harshad Desai: Just one more question on your international business. If I look at your Bangladesh margins, they are currently probably the highest in the last 4-5 years. Could you give us some clarity as to the sustainable level of margins that you expect for the rest of the year, and also what the benefit that you have received from the shift in crushing from third party to own factory that you've mentioned?

Saugata Gupta: Yes, I think our entire endeavour in Bangladesh will be to ensure that we plough back some of these margins into growth, and growth in diversification of the portfolio. So, we would like to transfer these margins towards growth and strategic funding behind new initiatives in the coming quarters. There would be 2% to 3%, difference in gross margin by shifting to the own factory. Also, it has been better in terms of procurement and other things; we would have got benefits.

Harshad Desai: There is no pass-through to the consumer that you have had?

Saugata Gupta: At this point no, because if you really look at it going forward, there would be some increase in input prices. And number two is, it is better to convert that into high share gain in the value-added hair oil space and get into strategic funding behind new stuff.

Harshad Desai: You have also mentioned about adding 1,000 feet on street to expand your direct rural reach. Any targets in terms of the direct rural reach expansion?

Saugata Gupta: Three and half years ago, rural contribution to domestic sales was 25%. We have moved to 32%. We will continue to be bullish here, because we believe that will have a significant impact on our growth. Also what we are seeing in the last couple of quarters, rural growth is outstripping urban growth, monsoons continue to be good and monies are pouring in into the rural sectors through government funding and MSPs continue to move higher. The rural market is poised for higher growth, and so this will translate into better quality distribution, better reach and higher growth. So, we are betting on the rural market in the immediate term, because that will also somehow neutralise the sluggishness, which the entire CPG sector is facing in urban.

Harshad Desai: What would it translate in terms of the number of outlets?

Saugata Gupta: Again, we would not be able to share that, but I have said that it is 32% of our direct contribution to sale; it should move to 35% very soon.

Harshad Desai: Just one more question; you have talked a lot about cost saving measures, margin improvement and improving volumes through price and all, but any measures that you are consciously taking to improve working capital or RoCEs?

Saugata Gupta: Working capital improvement is something, which we are focusing in the short and medium term. However, if there is an acquisition opportunity, which is strategic in nature, we will definitely do that. But in the immediate term, we expect that there would be some improvement in RoCE and working capital.

Harshad Desai: Thanks and all the best sir.

Moderator: Thank you. The next question is from the line of Hemant Patel from Axis Capital. Please go ahead.

Hemant Patel: I just have two quick questions again on Saffola. I just wanted to understand, is the growth in Saffola, which we have seen this quarter more like broad-based across the board sub variants that we are actually seeing or is it because of one variant where we have taken over 12% price decline in this last month. I think it is Saffola Tasty Blend?

Saugata Gupta: No, the answer is no. It is a fairly broad-based growth and it is the growth which we are focusing on. Tasty is just an entry point. Saffola, this one is our long-term strategy obviously to drive growth in gold and that is where the essential growth is coming from.

Hemant Patel: In terms of the pricing where we are in terms of MRP, if I were to look at relative competing brands, has the premium expanded or come off across the board for Saffola variants?

Saugata Gupta: It is lower, and so we are relatively more competitively priced this year at this point in time versus the corresponding period last year.

Hemant Patel: Fair enough sir. Thanks a lot that is it from my end.

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

Percy Panthaki: Sir, just on follow-up hygiene question. Basically in the information update you have said that your other expenses, two-thirds of them, are actually variable and that is why your other expenses both are low at about 7.5%, but if I apply that same logic to the standalone books actually your other expenses in the standalone books is up about 17%. What is the reason for that?

Vivek Karve: If you look at the standalone business, the logic that we have given in the analyst update as regard as the variable portion, it holds good; however, in the first quarter there have been expenses incurred on some initiatives, which we have classified as fixed. As a result of that, there has been an expansion for other growth in the fixed other expenses portion; however, when it comes to the group in quarter one last year there was a one-time expense of 4.5 crores embedded in the group not in Marico Limited. So if you were to remove that I think you will see a little more normalised growth at the group level as well.

Percy Panthaki: So can you give some colour on what these fixed expenses are in the standalone books?

Vivek Karve: I think Saugata some time back had explained about various cost initiatives, which we are taking up. So there is an external head that we are seeking in this regard. So some of these are in the nature of consulting charges and there are also certain CSR initiatives that we have taken in the first quarter. Those have also contributed to fixed increase.

Percy Panthaki: So this 17% growth would actually moderate going ahead?

Vivek Karve: You are right. I think quarter-on-quarter you may see some peaks and some troughs, but I think 17% is not indicative of the long-term average that we definitely are targeting.

Percy Panthaki: Just wanted to confirm this once more, the tax rate on the consolidated books would be 30% in the next year in FY15?

Vivek Karve: FY15, no I think what we have talked about in the analyst update is that it will inch towards 30%.

Saugata Gupta: It will take a couple of years.

Percy Panthaki: But this MAT credit that you have, that will not bring down the tax rate?

Vivek Karve: No, I think MAT credit is an issue of cash flows and it does not really impact the effective tax rate.

Percy Panthaki: That is all, sir. Thanks.

Moderator: Thank you. The next question is from the line of Kulbhushan Kalia from Canara HSBC Life Insurance. Please go ahead.

Kulbhushan Kalia: Good evening. Would you be able to share how much inventory we have of copra as of now?

Saugata Gupta: No.

Kulbhushan Kalia: We do not share that?

Saugata Gupta: No.

Kulbhushan Kalia: Okay so, but we do expect RM cost to actually start moving up in the second half?

Saugata Gupta: Yes, that depends on the RM.

Kulbhushan Kalia: Fair enough. I think that is it from my side. Thank you very much.

Moderator: Thank you. As there are no further questions, I will now like to hand over the floor back to Mr. Shariq Merchant. Over to you, sir.

Shariq Merchant: On behalf of Ambit Capital, I would like to thank the senior management team of Marico Limited as well as the participants on the call. I would now like to hand over the call to Mr. Sarwate for closing comments.

Milind Sarwate: Thanks, everybody for participating in the call. We had a fairly detailed querying and I hope that the information, which Saugata gave, has met with your expectations. If there are any balance queries, you could always contact our Investor Relations team and you could log on to our website for more detailed information. So, thank you and I look forward to seeing you at the next earnings call in October. Good night.

Moderator: Thank you. On behalf of Ambit Capital that concludes the conference. Thank you for joining us. You may now disconnect the lines.