



Marico Limited  
Q4FY23 Earnings Conference Call

**May 05, 2023**

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CHIEF EXECUTIVE OFFICER, MARICO LIMITED  
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MARICO LIMITED**



*Marico Limited*  
*May 5, 2023*

**Moderator:** Ladies and gentlemen, good day, and welcome to Marico Limited Q4FY23 Earnings Conference Call.

We have with us the Senior Management of Marico represented by Mr. Saugata Gupta – MD and CEO; and Mr. Pawan Agrawal – CFO.

As a reminder, all participant lines will be in the listen-only mode. 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.

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.

I now hand the conference over to Mr. Saugata Gupta for his opening comments. Thank you, and over to you, sir.

**Saugata Gupta:** Hi everyone, and good evening to all those who have joined the call and hope all of you are doing fine.

As FY23 has come to a close, I would like to reflect on the operating environment during the year and the quarter gone by, after which I shall touch upon our performance.

FY23 started with escalating geopolitical tensions in Ukraine leading to steep inflation and interest rate hikes globally. In India, this led to climbing food and retail inflation, which adversely affected the overall consumption sentiment. However, over the course of the last 6 to 9 months, there has been moderation in key commodity prices and retail inflation levels, which has, most likely, brought about a gradual recovery in FMCG consumption. Looking at FMCG volume trends in this period, we believe the prospects of a sustained recovery have strengthened. After 5 quarters of volume decline, the sector has posted volume growth. Urban consumption has been steady, while rural is also showing some convincing signs of having bottomed out. Foods continues to drive growth for the sector, while HPC has also entered positive territory after an extended slowdown. As we move forward into the next year, we believe that subject to a near-normal monsoon prediction, the certainty of a moderating retail inflation and less volatility in crude prices bodes well for a sustained reversal in the sector.

Page 2 of 20

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Coming to how we fared in Q4, we are continuing to see a sequential uptick in domestic volume growth and robust growth in our international business. If you look at our performance from a medium-term lens, we have delivered a 6% domestic volume growth on a 4-year CAGR basis, while sector volumes have grown between 2% and 3% correspondingly.

Similarly, even in our international business, it has delivered 11% constant currency growth on a 4-year CAGR basis and in the last 9-10 quarters, has been consistently delivering double-digit growth except one quarter which did an 8%. In terms of profitability, our gross margins have expanded both YoY as well as sequentially with moderation in input prices and a more favorable portfolio mix in the domestic business. While we have passed on the benefits of lower input cost to the consumer, we have maintained A&P spends, which has grown 8% on a 4-year CAGR basis, which we believe drives long-term growth and brand equity.

Delving deeper into the India business, we shall touch upon the key trends in each of our categories and our strategy and outlook for the period ahead.

Parachute had a strong quarter with a 4-year volume CAGR at 6%, driven by a pickup in loose to branded conversion and penetration gains. As we envisaged in the last quarter, we have started to see healthier trends in the branded coconut oil market after stability in copra and restoration in consumer prices beginning December '22. Parachute Rigids gained 70 bps in volume market share during the quarter. With copra prices likely to remain in a comfortable zone in the near term, we expect volume growth in FY24 to track in line with medium-term aspirations. The branded coconut oil category in Q4 turned back into positive, which is also a very good sign.

Value-added hair oils delivered double-digit growth after subdued growth in the last 5 quarters. The category continues to be directionally in-line with mass personal care categories and we expect a gradual uptick in growth over the course of the year ahead. In fact, towards mid-quarter, it started turning positive and even in March, we experienced positive category growth in value-added hair oils. Value growth in the VAHO portfolio was in mid-single digits on a 4-year CAGR basis, lower than our medium-term aspiration owing to the extended slowdown in rural and also affected by some other issues in terms of commoditization. While mid and premium segments continue to fare better, with lower inflation and reduced proclivity of competition to commoditize the category, we expect the recovery in growth to be more broad-based.

Saffola Edible Oils had a soft quarter, owing to a high-volume base of in-home consumption last year. However, we continue to witness healthy offtakes during the quarter. The brand delivered high-single-digit volume growth on a 4-year CAGR basis, which is in line with our aspirations.



*Marico Limited*  
*May 5, 2023*

With stability trends persisting in the global vegetable oil market, we expect the brand to be steady in the coming year.

The Foods business has delivered a high-teen growth during the quarter and ended the year close to the Rs. 600 crore revenue mark. The Oats portfolio continues to anchor the growth and maintain its strong leadership position with a 43% share. While Honey and Soya Chunks have been scaling up well, some of our new categories, namely Mayonnaise, Peanut Butter and Munchies are beginning to get traction. We expect to cross Rs. 850 crores in topline in Foods in FY24. This would be underpinned by expected buoyancy in urban consumption while we maintain steadfast focus on market development, brand building, Foods GTM expansion and sustained innovation to extend our addressable market in the value-added Packaged Foods.

Premium Personal Care has recovered smartly from the COVID lows with 40% growth this year. The portfolio closed just shy of the Rs. 350 crore revenue milestone and going forward, we aim to deliver a 20% plus growth consistently across the portfolio, which is a high-margin portfolio.

The Digital-First portfolio has been scaling up well in line with our internal targets. The current portfolio is poised to reach exit ARR of Rs. 400 crores next year, and this does not include any future acquisitions.

Moving to the International business, we have delivered another stellar quarter with each market playing its part, despite the macroeconomic situation and currency headwinds in some of the markets, which is reflective of the robust business models of our international franchises. Bangladesh has been resilient as ever amidst external challenges, which is testament to our portfolio strength, distribution power and consumer belief in our brands in the market and of course, our quality of leadership. The newer portfolios of Shampoo and Baby Care are gaining heft along the core portfolios. The Vietnam business further strengthened with both HPC and Foods delivering healthy growth. The integration of recently acquired brands in female personal care, Purité and Ôliv, has been completed. MENA delivered double-digit constant currency growth and is a market that presents a sizeable opportunity in terms of the addressable market share and topline pool. South African and NCD business also continued on its strong growth journey.

Looking ahead, I would like to draw your attention to Slide 14 of our earnings presentation. Firstly, domestic volume has stayed well ahead of the sector and is poised to maintain an improving trend in FY24 in line with the sector. Revenue growth will inch up as the year progresses as pricing comes into the base in the latter half of FY24. We expect steady growth in

our core categories of Coconut Oil, Saffola Edible Oil and VAHO, with inflation/volatility subsiding and price stability prevailing.

Secondly, we have taken visible leaps in the diversification journey and the evolution of portfolio in the India business, which began a few years ago, resulting in a healthy pace of growth. This is reflected in the share of revenues from newer portfolios comprising of Foods, Premium Personal Care and Digital First which have seen a shift from 11% in FY22 to about 15% in FY23 and is likely to move to 20% of our domestic business in FY24, which means we have added an incremental top line of about Rs. 750 crores through these portfolios in a couple of years. With some of the Foods and Digital First business attaining a certain scale, we'll continue to drive accelerated growth, as indicated earlier, and focus significantly on improving the profitability in tandem. Once the shift of profitability is achieved, we'll reallocate some of the resources to the core to drive market share while fortifying the long-term margin profile of the overall business. We have a track record of success in Oats as far as Foods is concerned. With the funding winter setting in and more sanity in the ecosystem, we'll be able to improve profitability and leverage far more synergies while moving our Digital First brands into their next leg of growth. On M&A front, we shall be constantly scouting for businesses which have a right-to-win in their respective categories and are synergistic to the overall Marico strategy. We will make sharp choices and refrain from venturing into fragmented and commoditized categories even if they give scale.

Thirdly, in the international business, we believe we are present in a relatively unique mix of markets and our portfolio diversification efforts further insulate us from any concentration risk and ensure consistent performance. You are aware that in FY20, we had a concentration risk of our business from Bangladesh and within Bangladesh, a concentration risk of PCNO and therefore, we have had significant diversification in our portfolio and reduced this concentration risk to a large extent. We have proven that despite black swan events, we have a robust and profitable business model, which enable us to avoid yo-yos and surprises in the international business.

Last but not the least, we have maintained an uptrend in gross margins over the last 2 years and we expect an uptick of another 200 to 250 bps YoY in FY24, keeping all factors constant, given the cooling off in commodity inflation and portfolio mix normalizing favorably. As we have emphasized in the past, A&P investment will continue to be a key thrust for our growth as we believe that long-term brand building certainly is a much better choice over short-term profitability gains. Further, our focus on cost savings will continue and will be deployed to drive incremental growth. Owing to the above, we expect operating margins to move up by more than 100 bps year-on-year basis in FY24.

We believe that we are moving in the right direction along the 4 strategic areas of diversification, distribution, digital and diversity, and we are confident of delivering improvement across all the 3 parameters of volume, revenue and earnings growth in FY24.

We continue to make visible progress in our ESG program in each of our focus areas. 'Creating shared value for all' remains the ingrained purpose of our business and will allow us to drive superior long-term performance. We are committed to achieving net zero emissions in our domestic operations by 2030 and global operations by 2040.

Our ESG and other initiatives continue to get recognized in the various awards we have won in the last one year. With that, I will now close my comments. Thank you for your patient listening, and we'll now take your questions.

**Moderator:** 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:** Sir, I just wanted to kind of clarify on the margin expansion comment. With the input cost more or less stable now, would it be fair to see the gross margin expansion more front-ended and flow-through will probably be dependent over time? How do you see the gross margin expansion panning out during the year?

**Pawan Agrawal:** Yes. Avi, we believe that gross margin expansion should happen right from quarter 1 itself. Although, given the kind of environment that we're operating in, while currently the commodity table has been stable, we would rather say that you should take it more from a full year perspective that at least gross margin would expand by 200-250 basis points. Given the new product agenda that we have, we would want to invest it back into some of the products. And therefore, from an operating margin perspective, we are saying at least we should expand by 100 basis points.

**Saugata Gupta:** Just to add, I think other than commodity gains, now that our Foods and Digital business have gone to scale, there will be a significant focus on improving their profitability.

**Avi Mehta:** Got it, sir. So, that should be an additional kicker, if at all, and that is what will kind of take time to flow through as well, that could be the icing on the cake, if I may say.

**Pawan Agrawal4:** Yes.

**Avi Mehta:** Sir, the second bit was on the sales growth front. Now I understand your comment on pricing headwinds, but with Parachute stabilizing and back on the growth path, Saffola offtakes improving, volume growth rate should normalize to our kind of steady stated targets in the first half itself since its just the pricing headwind. Is that understanding correct, sir?

**Saugata Gupta:** I'm just saying that I am unwilling to give an idea of how it will pan from quarter-to-quarter because there's a base effect and there could be volatility. But all I can say is that we expect the volume growth for next year, which is rather this year, to be better than what it was last year. And therefore, on a full year basis, both on volume growth, revenue and margins we'll be definitely better than what we delivered in FY23.

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

**Vivek Maheshwari:** A few questions. First, on VAHO, if I look at the base for the next few quarters also remains low. So, does that mean that the base tailwind will help and the numbers for VAHO, at least in the foreseeable future for the next 3 quarters or so, will be in double digits?

**Saugata Gupta:** So, I think the way to look at it, as I said, let's not go from quarter to quarter because I think the best way to see is that it is an improving trend driven by 2 factors. One, VAHO, as you know, has a significant rural contribution and there was a stress in the rural consumption led by significant food and retail inflation and commoditization by competition. I think now all the factors have become more favorable. So, all I can say is that the number which is there will improve. Number two, I believe that the other change that will happen in the value-added hair oil market is that the slightly premium brands, which are slightly higher say 1.3 to 2 RPI were not performing well. I think that segment will start performing well and there'll be a little more broad-based growth. As a result, I think not only we'll be witnessing value growth, but we'll also continue to gain value share.

As I said, just to reinforce that, while in Coconut Oil, we saw some category growth coming back given the fact that the pricing got right and the inflation was in control. In value-added hair oils also towards the second half of the quarter and if I go on a month-on-month basis, definitely by March, the category came back into growth.

**Vivek Maheshwari:** Okay. And one follow-up. If I look at between the third and fourth quarter last year or year before that also, the base was reasonably the same with little to no big disparity, but there is a big uptick in growth. Would you attribute most of this to the industry trend or there were some self-help measures, which also help you to have this kind of growth?

**Saugata Gupta:** No. So, we have grown ahead of industry, obviously, as I said that and for a quarter basis, there was still a slight decline. I think it's minus 1.

**Pawan Agrawal:** 0.7.

**Saugata Gupta:** 0.7. So, it's a slight decline. I think what has happened is, as I said that 2 things have happened. Relative competitive commoditization and intensity in the commoditized part of the category has changed. Number two, obviously, some of our initiatives to gain value share has started kicking up. Also, we see the rural consumption situation bottoming out. So, it's a combination of external and internal, I would say.

**Vivek Maheshwari:** Okay. Got it. Second, Saugata, likewise, can you also comment on Saffola, I mean, you have mentioned in your opening remarks, but can you just talk about your outlook as we head into the next year? I mean this quarter, there have been multiple pressures. But how do you think this portfolio shapes up in FY24?

**Saugata Gupta:** I'll tell you first for this quarter. Obviously, last year we had, first, an Omicron base in January where it was the peak of the Omicron and therefore, there was higher in-home consumption. Then when the Ukraine war happened, in anticipation of higher prices, I think in March, there was far more retail pickup of stock. So, the growth which was there on the base was not necessarily offtake based but also people stocking more in anticipation of significant inflation expectations. Now again, on Saffola, I will give you a yearly position that if the things are stable and not volatile, we should be able to give the growth which is commensurate with our medium-term aspiration of a mid to high-single-digit growth.

**Vivek Maheshwari:** And 2 industry-level questions, if I may. One is that your press release talks about the GT declined low-single digits, and of course, you have spoken about e-commerce and modern trade. But if you take a medium-term view, do you think that is how the GT channel will shape up? Or do you think GT will be an important channel and will continue to grow if you take a 5 -7 years view?

**Saugata Gupta:** I think even over 5-7 years, GT will be an important channel. So, the reason there is a compression in GT is a combination of two things. One is that, obviously, compared to 2 years back, modern trade has made a smart recovery. In our case, as you see, a lot of innovation which we have done is Digital and Foods and they are very, very urban-centric and with the SKU highly salient in modern trade and e-com, and GT has a significant portion of rural, which underwent some consumption stress. So, I think slowly, GT will start recovering for the sector. Now overall



GT obviously has performed at the FMCG sector, however, because of the rural bias, a slightly lower performance compared to MT and e-com.

But all I can say that it is going through a transformation. And there is no substitute for direct rural distribution, which will continue to be a source of competitive advantage for FMCG players, and it will have a significant, what I call, entry barrier for some of the players. For a lot of D2C players they have obviously an advantage and capability of digital marketing. But I think when they get scale and they move into GT, they have to face organized players. And that is where organized players have a significant competitive advantage.

So, in India, it will be an 'and' growth. Maybe the GT model will keep on changing, in terms of consolidation, the way we do business, and there's a transformation happening. But let me tell you, the neighborhood kirana is very, very critical. They are here to stay; they are smarter than a lot of other people and they're smarter than what we think. And therefore, I think even if I look at a 2030 kind of a scenario, GT will still be the majority in India.

**Vivek Maheshwari:**

Got it. And last question on the industry, on the Nielsen FMCG volume growth what you have put out there. So, HPC turning, let's say, flat to positive is a good thing. But at the same time, Foods is also accelerating. So, is it a simple case of lower penetration in case of Foods and therefore, structural story is far better or there is some cyclicity between the two because the per-cap and penetration of Foods has always been lower. But in the last decade also, there have been periods where HPC has done better than Foods and there have been periods where it has been vice versa. What do you think is happening between the 2 categories here?

**Saugata Gupta:**

So, let me tell you something. So, there are two things. One is Foods has a far more urban skew and also a little bit of top-town modern trade, e-com SKU. There is a significant, what I call, conversion from unbranded to branded growth in packaged foods because penetration is low. I think there are also some trends in terms of health, in terms of wellness and healthy snacking. And I think COVID aided us a lot in in-home consumption and gave a lot of fillip to the Foods category. HPC has different issues going for itself. One is the rural skew which is far more and HPC is far more secular across income classes. Therefore, whenever there is high food inflation and consumption stress, HPC gets more impacted than Foods. The second thing is in some of the HPC categories, there is what I call higher penetration. As a result of this high penetration, significant growth happens. One is the absolute population increase and the second is premiumization. And therefore, whenever there is high inflation, the premiumization journey undergoes a shift to down gradation. And that is what we have seen. Number 3, I think the input cost pressures, which has happened in HPC because of crude and other things, has led to a lot of people managing price points in HPC through shrinkflation.

Now what happens is that the rural consumer, especially on the bottom of pyramid, have fix outlays. Therefore, when you think that you have managed grammage and you will manage transaction, people actually adjust consumption. So, I think it's a combination of all this, and I believe that slowly HPC will come out of it. Having said that, perhaps the headroom or the runway for Foods is slightly more than HPC.

**Vivek Maheshwari:** Got it. And I also want to thank you for incorporating some of the data points on Slide 14, very useful. A couple of data points are really useful from FY24 perspective. All the best.

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

**Percy Panthaki:** Just again, wanted to do a deeper dive into the VAHO segment here. So, I was looking at the 4-year CAGRs here. Bajaj Consumer is close to flat. Dabur has a 1% 4-year CAGR. You are at a 4% 4-year CAGR in VAHO. So, is there any kind of, sort of pipeline or any kind of one-off that we need to be aware of? And if not, basically, what has driven this? I mean, within VAHO, were there 1 or 2 brands which were suppressed, which has come back to full strength? Or what exactly is the story behind these numbers?

**Saugata Gupta:** So, I think as I said that you have to look at 2 things. One is, we have been consistently gaining value share quarter after quarter. In the 4 years there has been COVID base also. Also, I think, till December or November, there has been a significant competitive intensity at the bottom of pyramid, where bottom of pyramid growth has happened. So, the reason this value growth has also happened is that we believe due to a combination of less intensity in the bottom of pyramid and lower inflation leading to, I think, some of the mid pyramid and the top of pyramid brands started growing in the categories. Our participation in these categories is far higher. Our focus has been higher because we have been focusing on value share. And that is the reason the value share has started growing. And as I said, and in Marico, there is no adjustment that happens between primary and secondary. Normally, we keep it broadly constant.

**Percy Panthaki:** Right. So, basically, just to summarize what you're saying is that out of this differential between, let's say, other players at 0% to 1%, and you at 4%, that 300 bps differential on 4-year CAGR, that's like a 12% point-to-point kind of a differential, that is mainly mix only, it seems rather difficult to believe that, Saugata?

**Saugata Gupta:** No, it's not a mix. As I said, we have a broader participation strategy, okay. We also have had innovations in this space because, as you know, there is Aloe, we have just launched Onion Oil, we are now participating in mustard. So, it's a combination of core growing, some of the new things growing and the fact that we participate across price points. We have had a broad-based

growth. And if you look at it, in certain players, all the growth could have either happened in price point packs or the bottom of pyramid and a decline in packs, which are of either higher packs or higher RPI brands. So, it's a combination of all of that. I mean, as I said, the 4-year primary will be equal to 4-year secondary.

**Percy Panthaki:** That point I got, I'm not doubting you on that. I'm just trying to find out the underlying drivers, like is it Nihar, Shanti Amla, which has grown ahead or is it these new aloe vera variants, etc, which have driven the growth?

**Saugata Gupta:** Percy, we have 5 big brands, okay. So, we have Shanti, we have Jasmine, we have Hair and Care, we have Nihar Perfumed Coconut Oil and we have Aloe, okay. And now if you look at it, these brands operate between 0.7 to 1.6 in RPI. Now it could be, as I said, I'm reinforcing so that you will get a better color to it. If I grow all across these brands from 0.7 to 1.6 RPI versus somebody only growing at a lower RPI and declining in higher RPI, this difference will happen.

**Percy Panthaki:** Right. So, I got the point that you're gaining market share and you're doing better at the premium end versus others. So, if you can just share as to what are the inputs you have put into the business and what you are doing differently versus competition that you are succeeding where others are not.

**Saugata Gupta:** I can't get into details. We have a plan and we have to execute it well. And I don't think we are still happy with what we are doing. We have to do better.

**Percy Panthaki:** Second question, Saugata, is on Foods. Just correct me if I heard you wrongly, but I think you said that this year, you are ending just shy of Rs. 600 crores, right?

**Saugata Gupta:** Around Rs. 600 crore, yes.

**Percy Panthaki:** Okay. And you're targeting Rs. 850 crore next year. So, that's like a 40% to 45% kind of value growth, which I think is higher than the kind of value growth we have done this year. And this year was a year of general price inflation. Next year, in fact, on a YoY basis, the price inflation might not be much, so you don't get the kicker from that and you have to deliver most of that 40%-45% through volume. So, just wanted to understand what makes you confident of accelerating the volume growth to such a high level.

**Saugata Gupta:** First of all, let's put a perspective. We ended FY20 at Rs. 170 crores. We have reached Rs. 600 crores in 3 years. I think it's a significant amount, and I think it is equal to size of some of the small companies and in fact, larger than some of the so-called companies which we have in

Foods, okay. Now if I look at the new launches, all the launches happened in quarter 3 and quarter 4 and a lot of them have not got scaled up. Number two, we started the Foods GTM which is, again, from quarter 3, where we are expanding into 10,000 to 12,000 outlets with a separate sales force. So, it's a combination of that. And I think, whether we reach Rs. 840 crores or Rs. 850 crores or Rs. 860 crores, I think the question will be that we would have added Rs. 700 crores. And you never know, there could be some inorganic also.

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

**Kunal Vora:** I wanted to understand about MT and e-com, contribution is now almost up to 30%. You mentioned that GT will now recover. So, how do we see this mix going forward? Will MT and e-com continue to increase or there will be some reversal? And how do you see the higher contribution of MT and e-com in the medium to longer term, considering that there is a higher level of concentration and bargaining power of the buyer?

**Saugata Gupta:** So, I think it has also happened because of the kind of new launches we have done. If you look at Foods, for example, we have a significant skew towards MT and e-com. It is only now where we are expanding into GT. We hadn't till now, because, as you know, our GT was not aligned to a lot of food outlets. Another factor is, if I look at it, especially the e-com growth was led by the tailwind. We believe because of our acquisition of some of the digital brands, our digital marketing and e-com capabilities are, perhaps, leading edge in the industry. This year, we saw MT also recovering. Also, some of our brands like Saffola have a natural skew towards MT.

So, I would say that we need to do a better job in GT. I believe GT obviously has opportunities and I think it has suffered last year also because of two factors. One is the rural consumption and number 2 is in urban, because of the growth in e-com and modern trade, the GT distribution system is under stress and it is undergoing some transformation. So, that's why I said that I think we need to perhaps get GT back into growth, and I'm extremely confident that this year, we will be growing in GT.

**Kunal Vora:** And are you seeing a higher level of consolidation on the other side in MT and e-commerce? And any impact on margins from that?

**Saugata Gupta:** So, I think 1 thing, as I said, that we have to continuously innovate. And you have to be a #1 and #2 player. I think, obviously, the cost of sale in e-com and modern trade could be higher, and therefore, we have to continuously premiumize the portfolio. Also, I talked about a significant focus on improving the profitability in COGS terms, other things and in Food as well as Digital. And that will neutralize this increase in cost of sales, which we are talking about.

**Kunal Vora:** Second and last question, if you can talk about the macro situation in Bangladesh. A couple of quarters back, there were certain problems, currency was depreciating. Also, along with that, how is the mix of business changing between coconut, non-coconut and how do you see the growth rate going forward?

**Saugata Gupta:** So, I think whenever there is disruption, history has shown the strong gets stronger and the weak gets weaker. In Bangladesh, our relative strength is significant. I believe we are the top 2-3 FMCG players in Bangladesh in a relative strength and we are far more stronger in Bangladesh than here. And I think not just in brands or distribution or equity, I think we have an extremely strong leadership. And one of the things we have done in the last 5-6 years in the international business is in a methodical way, where we have now a playbook, the Bangladesh playbook, which we are now replicating across Vietnam and Middle East.

Now coming to Bangladesh macro situation, I think there is a combination of inflation, which has moderated a bit because, as you know, crude prices, overall vegetable prices, across the world have moderated compared to what it was during the peak when the Ukraine issue started. Secondly, the devaluation has happened. But we believe, we have learned to manage the devaluation.

And the third thing is that, obviously, we have continued our diversification journey. So, today, if you look at coconut oil dependence, which was 98%, 4-5 years ago, has moved now to 60% or even below 60%. So, we have done these things. And we have continued to invest even if there's the force of inflation. Obviously, it's a tough situation. But I think as far as the Bangladesh macros are concerned, I think we have learned to live with it, and I don't think it's deteriorating. I think whatever shock had to happen, happened and there's a stable government. The way Bangladesh economy is run, I think it's pretty good. And therefore, we believe that the Bangladesh story and the Bangladesh growth opportunity is very much intact.

**Moderator:** The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

**Sheela Rathi:** My question was partly answered but let me take it up again. With respect to the VAHO portfolio, Saugata, what I understand, based on your comments is that the growth has been much better, broad-based. We are kind of premiumizing the portfolio. Is it fair to believe that we are shifting away from rural towards more urban India? And second is, what kind of NPDs we have had in this portfolio on a percentage basis? And is the distribution for the NPDs as deep as our existing portfolio?

**Saugata Gupta:**

Firstly, I don't think there is a shift from rural to urban. I think what I'm trying to say again is that if you look at the VAHO growth, at least till December, a significant portion of the VAHO growth was happening in price point packs of Rs. 10, Rs. 20 and some of the brands like Mustard and some of the other price warrior brands in the space, okay. In November, December, a lot of competition was not taking price increases in spite of a huge input cost. But I guess, because of other pressures, competition was forced to take price increases. And also what happened in this category is that a lot of players other than us, converted a lot of ATL to BTL, and they were spending on BTL. Now that has got reversed. We continue to spend more on ATL as we believe in the long-term ATL story. And that's why the growth in the other parts of the portfolio other than the price point packs has increased.

Now coming to innovation, I think our biggest launch, which we have launched in the last 4-5 years is Aloe Vera which has crossed Rs. 100 crores. We are just about taking Onion Oil to GT. Onion Oil is a category which is now accepted, it is reasonably salient. Our right to win versus a D2C brand, in terms of pricing, distribution, ability to execute in GT is far higher than a D2C player. We will also see some more launches. We were earlier trying to compete in mustard or sarson in a very 'me-too' product. We now have a differentiated product.

And you will see maybe 1 or 2 more innovation in value-added hair oil as we move down in this year. So, I would say it's a combination of that, and I don't think there is any urban bias. Having said that, I think we will also see a premiumized portfolio slowly, which will come into place. I think we have a disproportionate share in modern trade. In e-com, where obviously, there are players which have far higher AOVs and have premium offerings, we need not play through our core franchise, but through some of our digital brands, for example.

**Sheela Rathi:**

Understood. And just a follow-up here, some broad number here, what would be the share of premium portfolio now for us versus, say 4-5 years ago?

**Saugata Gupta:**

No, I don't want to get into numbers, please.

**Sheela Rathi:**

Okay. And my second and final question was with respect to the Foods business, what would be the distribution reach for us currently? And where do we aspire to take it say in the next 12 months or 24 months?

**Saugata Gupta:**

Foods. You're talking of Foods?

**Sheela Rathi:**

Yes.

**Saugata Gupta:** Yes. I think our availability in e-com and modern trade is almost nearly there, okay. Not so much for some of the new things like snacks etc, which we are launching. As far as GT is concerned, if I look at Masala Oats, I think it reaches 2 lakh outlets which is our most distributed brand. Now what we are doing is we believe Honey and Soya are the ones which will first get mass distributed and then we will see snacks. Having said that, there will be a part of our portfolio which will not be an ATL-driven portfolio.

So, we now have around 10,000 Foods GTM outlets, a lot of them are open format stand-alone outlets which we will focus on, and that number we'll slowly try to increase. Now you must realize that Foods has a lower shelf life. Therefore, supply chain replenishment, the way you sell foods in terms of frequency of billing is completely different from our core portfolio. And that's the capability we are trying to capture. So, we are going about in a slightly more careful manner so that we don't want to scale up high and then fall flat in terms of not being able to manage shelf life and other things.

**Sheela Rathi:** Understood. And just one final point here is on the new product launches side, should we expect new product launches more on the Personal Care Side or on the Foods side going into FY24?

**Saugata Gupta:** We would like to launch both. I think in the last 3 years, obviously, there has been much more focus on Foods. But you will see some prototypes in the personal care side definitely because I think we have a premiumization agenda. Our premium portfolio is doing well. I think most of them have gone to higher than the pre-COVID levels. And therefore, you are going to see a much more balanced kind of picture as far as innovation agenda is concerned, compared to the last few years, where it has been far more foods.

**Moderator:** The next question is from Akshen Thakkar from Fidelity. Please go ahead.

**Akshen Thakkar:** Congratulations on a good set of numbers. Just a couple of questions. On VAHO, good to see value growth come back to double digits here. Just generally over the next 2 to 3 years, not asking for a guidance, just generally how you're thinking about that business in terms of growth aspirations over there, if you could share for next year, great, but definitely over the next 2 to 3 years, what are your aspirations? What needs to happen for you to say it's a good job. That's question one. I have another question, but I'll wait for this answer.

**Saugata Gupta:** So, I think if rural comes back, I think our aspiration is to get into double digits and hit double digits. And I think there will be a little more broad-based play. I believe that also there is now far more sanity in the category in terms of people growing brand through ATL and equity. So,

therefore, I think our aspiration, and I think a significant focus area will be to hit a double-digit growth in VAHO in the next 3 years.

**Akshen Thakkar:** Okay. Great. And then on edible oils.

**Saugata Gupta:** Just wanted to add, please don't hold us from every quarter. I mean you have to look at it on a yearly basis.

**Akshen Thakkar:** No. That's why I said as a broad 3-year guidance. Because it's too volatile, I completely appreciate that. On the edible oil business then, and that's a little more tactical and near-term question. The raw material pricing has been very volatile. How are you managing it right now? There have been times where we focused on volume share. There have been times where we focused on margins. Where are you on the pendulum right now? And if I can peel the onion on your comments around value growth, is it more coming from edible oil? Or is it more coming from coconut oil where there is a pricing headwind?

**Saugata Gupta:** So, see, at the end of the day, I think the approach to Saffola is very clear that we will continue to be competitive, pass on value to the consumer, subject to a threshold level of margin. I think we will definitely not go for volume growths which are not sustainable. Now we have had situations in the past during COVID times, but that was because it was a tactical opportunity. But I think going forward, we're absolutely clear that we will maintain a threshold level of margin. As I said that in both the Saffola and the Food business, I think margin expansion, and Saffola has protection of margin, and food margin expansion will be our primary focus area.

**Akshen Thakkar:** And a last housekeeping question. Just on the employee cost side, there seems to be a large bump this quarter. Was there anything one-off that you'd like to call out? Or is this par for the course?

**Pawan Agrawal:** Akshen, I think for a fixed overhead line, I think it is better to look at full year number. And if we look at a full year number, it's growing at about 11%, which is a tad higher. But there are 2 reasons for that. One is that some of the cost was not in the base for a couple of acquisitions that we did, which is True Elements and Beauty X in Vietnam. And second, there were some one-off reversals of management incentive in the base year due to some non-achievement of interest target. If you exclude them, then the growth will be about 7% to 8%, which is largely in line with industry averages.

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



**Tejas Shah:** Thanks for the opportunity and, Saugata, congrats on the extension. A couple of questions from my side. First, on debtor days, if you see there is an expansion of debtor days and if I try to correlate with the commentary that you spoke about that modern trade and e-commerce have gained higher share. Is this an outcome of that mix change? And then if that's the case then how should we see this trajectory going forward?

**Pawan Agrawal:** Well, you're right Tejas. Some part of the increase in debtor days is the function of our contribution increasing from alternate channels. If you compare it with last year same quarter, it's about 3% to 4% high. So, that's structural, I would say. But apart from that, as you know, in our business, there was a deflation, right. So, the revenue growth was not very, very healthy, and therefore, the distributor had also ROI pressure. So, even in GT, we have sort of given some additional selective credit. So, that also has led to increase in debtor days. But that's more temporary. And when the deflation gets into base and we start growing revenues in the second half of the year, that credit extensions, of course, will come down. So, I believe that going forward, you can expect there could be some reduction from quarter 2 onwards.

**Tejas Shah:** Sure. And in terms of private label strategy, we are seeing a lot of aggression from national chains now in modern trade. So, what's your read on that? And then Saugata briefly touched upon it that the focus is to gain market share and be 1 of the top 3 in each category, but it won't be possible across especially with pushing so many NPDs SKU across MT and e-com. How do you strategize for private label aggression from modern trade?

**Saugata Gupta:** So, I think, if you look at modern trade globally that where are we vulnerable to private label, there are two things. One, depending on the category, for example, there are certain categories which have a higher proclivity towards private label. I think, fortunately, we are #1 or #2 in more than 90% of the portfolio. Usually, the #3, #4 guy gets squeezed. And the second mantra for this is that you shouldn't make super normal profits in a category. So, if you follow all this and you continue to innovate, I think you are less vulnerable. I think if you follow all this, obviously, there is always a threat, but you can manage that threat so that it's not a significant impact.

**Tejas Shah:** Sure. And then last one, if I may. Saugata, for the last almost 4, 5 years for industry, we have seen that overall growth has been volatile. There is some bump up and then again, we lose the momentum as an industry. So, what's your read? Because if we step out of our sector, and we see some of the other categories in consumption basket and otherwise, the rural distress is not as high as we are kind of registering in our sector. So, do you think the wallet share changes impacting us more than the consumption slowdown or consumer slowdown that we have been highlighting in the sector.

**Saugata Gupta:** So, I think it's a combination of a lot of things. One, I would say that our usage or consumption is equal across population and income strata for most of the categories, okay. Secondly, most of the categories, especially HPC, are well penetrated. And thirdly, in a lot of categories, the opportunity exists for the consumer to downgrade, which would not be always in the case of other things. Also, the fourth thing is in a lot of categories, discretionary, it's a question that brings you either a tad of joy or sometimes what happens, it's a tad of luxury you want. While these are items of daily consumption, which you might say that I can easily downgrade. So, to give you an example, I think as the world opened up post COVID, a lot of things like eating out or traveling all that has significantly increased and some with a vengeance. Now after some time, that will settle down. And if I look at it in a case of certain categories, also, there is a lot of unbranded play, people may move from branded to unbranded also. Those opportunities don't exist when you buy a 2-wheeler or buy a refrigerator or go for a QSR. I mean, you can downgrade, but there is a basic threshold thing there.

**Moderator:** The next question is from the line of Ajay Thakur from Anand Rathi. Please go ahead.

**Ajay Thakur:** Just wanted to understand in terms of the new competition coming in the Parachute space, the coconut oil space. How do we see them shaping up given that they are kind of playing more of the pricing game? And I believe in certain aspects, the category has some price-sensitivity in that context.

**Saugata Gupta:** See, I think the best way to look at is how we are performing on market share. I think over the last 3-4 years, we haven't lost market share. So, I think that's the best way to look at it. And we also have flankers.

**Ajay Thakur:** But do you believe that given the size that they are right now and the kind of growth they are witnessing, they can be kind of a threat going forward to us in terms of market share? Or we will have to start spending more behind the brand?

**Saugata Gupta:** I will not be able to share what we want to do. But all I can say is that you have to see that we will protect our market share. Whatever may happen, we will protect it, okay.

**Ajay Thakur:** Secondly, I was also trying to understand in terms of the edible oil, given the fact that right now if I were to put across Saffola prices, they are kind of over-indexed versus some of the other blends, maybe something like a Sunflower Oil in the market? So, can that be kind of having some implication in terms of the volume growth aspiration for the current year for us?

**Saugata Gupta:** Again, I said that I think we have to look at a long-term aspiration for driving a mid-single-digit kind of volume growth to a high-single-digit. We'll keep a threshold on the profitability, and we will not grow at any cost. I think as prices come down, what I call, people willingness to upgrade becomes higher because they don't look at percentage or absolute rupees. And Saffola is a very, very strong brand.

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

**Abhijeet Kundu:** My question was primarily on, you said from March you got into a positive territory in terms of rural growth. And you also said in one of the comments that you are seeing bottoming out of rural slowdown and improvement from there. Any instances or anything that makes you so confident that there is a bottoming out of rural slowdown, any instances of that? And secondly, in terms of geographies, your coconut oil portfolio is more skewed towards South, East, West and where the pain point anyway is not much. Its more in the North and HSM where to some extent your value-added hair oil has some amount of exposure. So, in terms of geographies, how have they panned out in the sense that how has HSM panned out for you? So, which geographies have done best, which geographies, now you think will improve? Some comment on that in terms of geographies in value-added hair oils.

**Saugata Gupta:** I don't know what gives you the idea that HSM is not doing well and South and West doing well. If you look at Nielsen, I don't think there is any such skew. Maybe some people have not done well there in HSM, but I don't know about that. All I can say is that what I mentioned about rural growth in VAHO is that if I look at the decline, they have started improving quarter-on-quarter, and in quarter 4, the drop was around only minus 0.7%. It was 3%- 4% decline in Q3, so it's improved.

And even if you see Jan, Feb, March, it is improving. So, therefore, these numbers tell me that things have bottomed up. Now if these numbers change, I can't help it. It's very difficult to predict because ultimately, it also depends on how monsoon pans out. But as of now, that is the situation. And I don't think there is this thing about that HSM or North is the problem and South and West doing well, I think the stress was reasonably everywhere.

**Abhijeet Kundu:** Understood. So, that's basically what the HSM numbers say.

**Saugata Gupta:** That's improved and it's a gradual improvement. I mean, as I said, that is a gradual improvement, and I think things should improve unless something happens on the monsoon. That's all.



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- Abhijeet Kundu:** And the aspiration is that you should grow during the year or the year or two in double digits in value-added hair oils.
- Saugata Gupta:** Always want to have aspirations.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Pawan Agrawal:** To conclude, FY23 has been a year marked by a challenging operating environment. The improving trajectory of volume growth and profitability in the domestic business and the robust international business keeps us fairly optimistic of a better FY24 than FY23 on both revenues and bottomline. The initial results of our diversification efforts in India and some of the overseas markets have been quite encouraging. We believe this sets us up for sustainable and profitable growth in the medium and long term and in turn creates incremental value for all our stakeholders. If you have any further queries, please feel free to reach out to our IR team, and they'll be happy to address them. Thank you.
- Moderator:** Thank you. On behalf of Marico Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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*(This document has been edited to improve readability)*