Quarterly Update: Q1 FY21

This update seeks to provide an overall summary of the operating performance and demand trends witnessed in the quarter ended 30th June 2020. This will be followed by a detailed Information Update once the Board approves the financial results for Q1 FY21.

The year started on an uncharacteristic note as the country remained under a state of lockdown all through the quarter amidst the ongoing COVID pandemic. The Company witnessed significant disruptions during the first fortnight of April, but since then has been able to steadily scale up operations to near-normal levels in the month of June. In adherence to Government Orders/Advisories, the Edible Oils and Foods businesses resumed operations in early April, however the Hair Oils & Personal Care businesses could only commence in late April/early May. The distribution network also improved progressively during the quarter with the Government gradually easing the movement of food and grocery items of daily use. During the quarter, General Trade and E-commerce channels gained over Modern Trade due to heightened social distancing concerns. Moreover, the CSD business for the quarter was also reduced to half. To supplement consumer reach in these circumstances, the Company adopted a variety of new-age delivery models which included tying up with food-service aggregators and other logistics partners, direct billing to retailers, launching a direct to consumer E-commerce portal (https://stores.saffola.in/), tele-caller facility for direct reach to the top retail outlets and introducing a retailer and consumer-ordering app, among others.

While the India business clocked sales above the annual average monthly run rate of FY20 during the quarter, the reported volume decline on a year-on-year basis will be in low teens, given the very significant skew of revenues (c.31% of annual sales) and high base in the first quarter of the last year. With the Q1 top line translating into a single digit growth over the annual run rate of FY20, the Company expects to bounce back to posting volume and value growth during the rest of the year. Parachute Coconut Oil delivered sales at higher than the annual average monthly run rate of FY20, despite a very slow start in April. The Value Added Hair Oils had a significantly low throughput during the quarter, sharply impacted by the much delayed resumption of billing in April. The franchise saw visibly healthier trends in May and June, especially in the bottom of the pyramid segment, ending up at more than 90% of annual average run rate of FY20 during the quarter. However, there would be a pronounced effect on the reported year-on-year volume growth of both these portfolios due to the very high skew in the first quarter revenues of the last year. In contrast, Saffola Edible Oils posted healthy volume growth, partly attributable to increased in-home cooking and consumption. Similarly, the Foods business also continued its good run, backed by its twin proposition of health and taste. The Premium Personal Care categories (Serums, Skin Care and Male Grooming), owing to their discretionary nature, remained under significant stress.

In response to the heightened consumer need of hygiene, the Company had launched *Mediker Hand Sanitizers* and *Veggie Clean* in April. This was followed by the introduction of indoor and outdoor surface disinfectants under the aegis of new brands, *House Protect* and *Travel Protect* respectively.

The Company also expanded its play within Healthy Foods with the launch of *Saffola Honey*, addressing the need for pure honey in India that meets global quality standards for export, which is also free from added sugar and any impurities. Every batch of Saffola Honey undergoes the strict Nuclear Magnetic Resonance (NMR) test, which is one of the most advanced tests in the world, developed in Germany, to check for purity and origin of food items.

International markets have also been disrupted either due to total or partial lockdowns. In Bangladesh, although the operations were affected by lockdown imposed till end of May, the business has been resilient and was able to grow in double digits in constant currency terms. In Vietnam, the markets have now opened up completely and business is gradually getting back to normal, but the slowdown in discretionary personal care has led to a mid-teen decline in constant currency terms. The businesses in Middle East, South Africa and Egypt continue to be affected due to the pandemic coupled with the weakening economic situation in these countries. Although the impact on business in these geographies has been severe, its impact on the overall business of the Company is low to moderate. Overall, the international business witnessed a mid-single digit decline in constant currency terms in Q1, but should recover in the course of the year, as it is now clocking more than 100% of the FY20 monthly average top line, led by the Bangladesh business.

While overall revenues have declined in double digits, a combination of benign input costs, aggressive cost control and rationalisation of A&P spends in few discretionary portfolios on a lower topline, will lead to expansion of operating margins compared to the corresponding quarter last year. However, for the balance of FY21, the Company expects operating margins to hold to a minimum of the previous year levels.

The Company remains cautiously optimistic about the future as it unfolds, however much will depend on the extent of the spread of COVID-19 in India and overseas and how the on-ground environment evolves in conjunction with the response of respective Governments. While the business environment and consumer sentiment remain volatile, we believe the Company is well positioned to withstand these challenging times through innovation, agile execution, aggressive cost management and its portfolio of trusted brands.

The Company had recently announced that is has now acquired the balance equity stake of 55% in Zed Lifestyle Private Limited (owns the premium male personal care brand, **'Beardo'**,) from its existing shareholders, thereby making it a wholly-owned subsidiary of the Company. The Company had made a strategic investment in Zed Lifestyle Private Limited by acquiring 45% equity stake in 2017.

We will continue to drive sustained profitable volume-led growth over the medium term, through its focus on strengthening the franchise in the core categories and driving the new engines of growth towards gaining critical mass.

About Marico:

Marico (BSE: 531642, NSE: "MARICO") is one of India's leading consumer products companies in the global beauty and wellness space. During 2019-20, Marico recorded a turnover of INR 73.1 billion (USD 1.03 billion) through its products sold in India and chosen markets in Asia and Africa.

Marico touches the lives of 1 out of every 3 Indians, through its portfolio of brands such as Parachute, Parachute Advansed, Saffola, Saffola FITTIFY Gourmet, Coco Soul, Hair & Care, Nihar Naturals, Livon, Set Wet, Set Wet Studio X, Kaya Youth O_2, Mediker, Veggie Clean, Travel Protect, House Protect and Revive. The International business contributes to about 23% of the Group's revenue, with brands like Parachute, Parachute Advansed, HairCode, Fiancée, Caivil, Hercules, Black Chic, Code 10, Ingwe, X-Men, Thuan Phat, Sedure and Isoplus.

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