

SAUGATA GUPTA/MARICO

Our endeavour will be to maximize volume growth

By SURABHI UPADHYAY & NIGEL D'SOUZA
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INTERVIEW

A recovery in consumption will take place in the second half of the year, triggered by a combination of good monsoon rains, which will lead to lower food inflation, and the implementation of the seventh pay commission recommendations and One Rank One Pay, says Saugata Gupta, MD and CEO, Marico. Edited excerpts from an interview:

Volume growth overall is up 8%, can it get even better from here? Can we see double digits perhaps over the rest of the year?

I think the recovery will happen in consumption only in the second half of the year. We believe a combination of a good monsoon which will lead to lower food inflation and also things like pay commission and one rank one pay (OROP) will trigger consumption demand in the second half of the year. So, the volume growth traction of moving to 8-10% will only happen in the second half.

In that case, when can one expect a sharp pickup in revenue growth; will FY17 see double digit topline growth?

If you look at the deflation pattern, deflation will keep on coming down.

So, the value growth kicking up will only happen in Q4 and

moving into FY18 Q1.

The weighted average price hike has been around 5% from July, is this pretty much it or do you have more elasticity when it comes to pricing power?

We have just taken a 5% price hike only on Parachute. I think it was on the basis of certain input costs that are expected to move up in the second half of the year. I don't see any more price increases given the fact that the input cost continues to be soft.

Margins are at around 21-21.5%, do you think you can maintain them at these levels? What's the guidance there?

Our endeavour will be to maximise volume growth and if there is a consumption tailwind to ensure that the value is given to the consumer always because we believe, in any emerging market it is far easier to get back margins but far more difficult to get back lost consumer on volume loss opportunities. So, if you really look at it, I would rather say that while it is 21%, the margin expansion will keep on reducing in the second half of the year, simply because the input cost base from the second half of the year will keep on coming down. So, you have a situation of higher value growth but lower margin expansion. We have given a long-term guidance. I think in the medium



Demand pick-up: Gupta says recovery will happen in consumption only in the second half of the year.

term we are most happy with 19-20% kind of a margin which is sustainable to maximise volume growth.

The second half perhaps we could see a little bit of a compression on margins, in which case it is important to talk about your ad expenses, because your ad expenses are going higher and higher from just under 10%, they have moved to about 12% of sales.

Is this going to be a steady number or what will the trajectory be?

See, I think it's best to see the ad spend over annualised basis, because they vary from quarter to quarter depending on the initiatives, on innovation and other things. Having said that, we believe that the ad spends is more likely to become 11.5-12% annualised basis. Our entire focus is to continue to invest

behind brands, talent and culture and innovation irrespective of the market situation, because we are here in for the long term.

What kind of volumes do you expect from Parachute, Saffola as well as value added hair oil segment?

I think in the medium term, we are expecting Parachute to grow in the 5-7%. Saffola we are now pretty confident of main-

taining double digit growth every quarter and in value added hair oils also I will be expected to inch up to double digits and continue to gain market share.

So what about the actual contribution from Parachute and Saffola to total revenue?

I think broadly we give a number, but I think we will not get into the individual revenue contributions, but what we see in the medium and long term is that Parachute contribution keeps on decreasing, while the value added hair ends in a new portfolio is growing up drastically.

How much does your value added hair oil contributed to your total revenues?

I think it contributes significantly to the business and I believe that is one of the growth drivers.

What happens when goods and services tax (GST) rolls in?

I think it speculative right now to discuss GST rates, but what we are clear about is I think it's an extremely good initiative over the near and the medium and the long term for the economy. It makes life simpler, it reduces a lot of system and the network cost and I think in a lot of categories we compete with unorganised players and small players and therefore far better compliance will lead to a more comparativeness as far as we are concerned.