



“Marico Limited”

February 01, 2013



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Moderator: Ladies and gentlemen, good day and welcome to Q3FY13 earnings conference call of Marico hosted by Ambit Capital Private Limited. As a reminder, for the duration of the conference all participants are 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 the conference please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference has been recorded. At this time I would like to hand the conference to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you sir.

Rakshit Ranjan: Thank you. Good evening everybody. We welcome you all to the Q3 post results concall of Marico. We have with us the senior management team of Marico. I will hand it over to Mr. Milind Sarwate, Group CFO to give an overview on the quarterly performance and then we will open the floor for Q&A. Over to you, Sir.

Milind Sarwate: Thanks, Rakshit. Good evening everyone. Welcome to the earnings call of Marico's Q3Y13 results. I have with me my colleagues in Marico. Starting with Saugata Gupta, who is the CEO of the Consumer Products Business; Vijay Subramaniam, who is the CEO of the International Business; Ajay Pahwa, who the CEO for Kaya business. Apart from them, I also have with me Chaitanya Deshpande and Anubhav Rastogi whom you were already in touch with regularly. I also have Vivek Karve who Heads Corporate Finance.

I will start by touching up on a few highlights of the results, because the detailed results are already with you. We have put up the information update on the website. It has also been mailed to many of you.

So you would have a lot of detailed information in your hands. There is no point in me repeating that. So I would touch upon a few highlights or the insights that I see coming from our results, and also the sector results.

The sector theme seems to be one of expansion of gross margins, because of lower input costs. It has happened to other companies in the sector. It happened to us. Our input cost gave us a saving of almost 420 basis points in terms of operating margin. But like the sector has done, we also ploughed back a large part of that into brand building. So our advertisement in sales promotion has been up by about 160 basis points.

As a result of that, our net margin expansion has been much lower than what the material cost provided us. We also spent a little more on the other overheads and employee overheads, etc.

Our net operating margin expansion is about 100 basis points. If you look at the lines below that, we have grown reasonably well at the profit before tax level and also at profit after tax level, The effective tax rate at around 26% was higher than last year and also probably higher than what many of you would have expected. That is because the profits from the non-tax exempt zones in India have been much higher than last year.



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We have some good news on a few fronts. Market shares have been up in case of Parachute, Saffola. Kaya has continued to record a same-store growth. The number maybe lower, but it is significant that the same-store growth trend has continued now for I think the ninth consecutive quarter.

In our overall sales value growth of 11%, the inflation component is only 2%, leading to a volume growth of about 9%, which given the trends in the economy is, according to us, good. We also had an announcement of a demerger earlier this month. We had a separate conference call for that. The demerger is progressing along the planned lines.

The performance of the business has been mixed in some sense. There are some areas and some countries where we have not done well, but there are a large number of spaces where we have done quite well and in terms of the bottom-line, we have recorded a fairly healthy growth, which we believe we can sustain in the days to come.

So with this, I open the call for questions from all of you. I have just one suggestion about the questions. In some of the past calls, we have spent considerable time in explaining minor details of the profit and loss account. So my request is that if there is some information in a detailed manner that you need for filling up some worksheets, maybe you could defer it to some other forum, because over here we need to focus on larger and bigger items, which can be of relevance to all the participants in this call.

Thank you and over to you for questions.

Moderator: Thank you very much Sir. We are going to take the first question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy: If you see how the companies have seen a sharp slowdown in the modern trade and if I see Saffola numbers for the past two quarters, from 12%, it slipped to 6% and now to 4%, so in terms of the same-store growth in modern trade and overall net closures, if you can share some insights? Secondly, if you see the other competitor to Saffola has seen marked acceleration in volume growth in this quarter. So any market share loss is not as per the initial numbers, as per your analysis, is there any market share loss?

Saugata Gupta: I think as far as modern trade is concerned, obviously we do not keep a complete track of same-store growth category-wise. But in the modern trade sector, our growth this quarter in value terms was around 24%. As regards Saffola is concerned, I think, which we have discussed earlier, what has happened was that the Saffola premium to Sunflower has increased and therefore the pricing was unsustainable. We have taken a price drop in December which as you know there are always a pipeline in the market and therefore it is actually getting a full impact of that price drop in the buying cycle of January and February. So I think with that price correction, which has been taken, we are pretty confident that we will get back Saffola growth on track. I



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think it will take a little bit of time, but certainly by quarter one of next year we will get back into double-digit growth.

Abneesh Roy: Sir, but one follow-up on this. Normally, we have a good modelling for this volume growth. So two quarters of slowdown and then this price cut. Should I see this as that margin contraction in Saffola are so much that price cut was delayed because of that and if you could refer to that growth of the competitor?

Saugata Gupta: See, I do not think it was delayed because we were waiting for a clear view of what should be the direction of the input cost prices. As you know that most of the input costs are volatile. By October, November you have a feel of the input cost of most of the seeds, whether it is sunflower, safflower and others. So I think we were able to take a much more firm decision, because at the end of the day we are dealing with brands and we are unwilling to take frequent price cuts or price increases and therefore we took some time. As regards some other growth actually, we do not look at just quarter growth. There could be certain quarter some people could be growing. But in terms of our market share, we believe that we have not lost significant market share. But as I said that we had a certain pipeline in the market and therefore we do have an off-take tracker, which is there, which is separate from Nielsen, which has started to show that the last buying cycle in January has started to pick up.

Abneesh Roy: Post the December cut any recovery in January or is it pipeline would be there so it is too early?

Saugata Gupta: That is what I said, the January buying cycle, which happened in the last week of January, we are seeing a little up trend in the off-take tracker.

Abneesh Roy: Sir, my last question is on the value-added hair oil. It is again diverse trend acceleration in the growth. So how sustainable is this and any one-off in this or is it largely the market share expansion which has accelerated here?

Saugata Gupta: I think our hair oils strategy has been essentially of a broad participation strategy in which actually plug all need gaps and ensure that, as the consumer upgrades, Marico has a more than fair share of that upgrade. We have not had a secular growth on our brands, including Parachute Jasmine, Hair & Care and of course, Shanti Amla continues to grow very well and we are fairly confident of delivering a 20% volume growth in the quarters to come.

Abneesh Roy: Thanks and all the best Sir.

Moderator: Thank you. We are going to take our next question from the line of Avi Mehta from India Infoline Financial Limited. Please go ahead.

Percy Panthaki: This is Percy Panthaki here. Congrats on a good set of numbers. Two main questions, one is on input costs, if I look at copra prices for FY13 YTD, they have more or less been flat and of course, this being that time of the year, that have crept up a little bit and they are higher than

FY13 YTD average right now. But even if you remove that seasonal uptake and assume that sort of prices remain flat on FY13 average, it seems that not much of benefit in terms of cost deflation is likely to flow into FY '14. Is this analysis of mine more or less correct?

Saugata Gupta: I think it is a fair analysis. I would say, however, you must realise that there could be some variation from quarter-to-quarter. So for example, the base of quarter one this year was slightly high and then the prices started correcting. So there will some variation from quarter-to-quarter, but on annualised basis, you won't get any benefit, significant benefit, that's a fair assumption.

Percy Panthaki: So in that case, Saugata, do you think we might be giving up any sort of gross margin expansion because we are anyways dropping our prices, so whatever little benefit we had on cost in 1Q base etc., that might pass through in terms of price cuts on some of your SKUs and therefore you might end up with nothing in terms of gross margin expansion. Is that a possibility?

Saugata Gupta: I think we have said this before that what we look at is long-term volume growth, because in any emerging market ultimately getting new consumers and getting existing consumers to consume more in the long-term is sustainable driver of growth. Now our gross margin operates within a band I think the long-term growth of Parachute, which is 7% to 8% is the one which we seek to achieve subject to a certain margin band. So this is something which is still going to be comfortable for us as we move into the next coming quarters.

Percy Panthaki: My second question is on the corrective action that you have taken on the back of slight weakness in volumes. What has been your experience in the past and if any reason the experience is likely to be from past in terms of how quickly these corrective actions actually result in the volume growth coming back. I mean the reason why the volume is fallen is that there has been some amount of customers shifting or new customers who are coming to you going to other brands, so that behavioural change just because we have a taken a pricing action may not happen immediately. What is your experience in terms of the time frame of that behavioural change and therefore volume growth coming back?

Saugata Gupta: See our household panel data suggests that we do not have any customer shifting, but most of it is a deceleration in the terms of upgradation that has happened because of the price premium. Our experience has been that because of pipeline and other issues within six to eight weeks, you start seeing some results. As I have said that we have affected some price decreases in December, we are already seeing some signs of increase in uptakes in certain modern trade stores, where we have off-take tracker..

Percy Panthaki: So, you do expect that the earlier comment you made of 1Q coming back, that is true for Saffola as well as Parachute?

Saugata Gupta: That is right.



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- Percy Panthaki:** Just one data point quickly on Parachutes, would you be able to tell us the total volume growth, rigids and pouches put together?
- Saugata Gupta:** Overall growth in pouches is about 1%. As far as pouches contribution is concerned, over the years it has started reducing and we are right now the pouches contribution to the CNO franchise only 15%, down from 21% around 18 months to two years ago. So, gradually, that contribution will keep on decreasing.
- Percy Panthaki:** So, I just wanted to know that there is no YoY volume decline in the pouches segment?
- Saugata Gupta:** No.
- Moderator:** Thank you. We are going to take our next question from the line of Shariq Merchant from Ambit Capital. Please go ahead.
- Shariq Merchant:** Sir, just one question from my side. Sir we have gained market share in the coconut hair oil space and at the same time, the volume growth of coconut hair oils has been around 6% odd. So just wanted to understand what would you recognise the market growth for coconut hair oils?
- Saugata Gupta:** So branded coconut oil market the category growth has been around 2% to 3% this quarter, but again, as I said that because there is a loose coconut oil and branded coconut oil, sometimes there is some offtake, but our understanding this quarter would have been around 3%.
- Shariq Merchant:** So you do not believe that this is a sustainable growth rate for the market and as soon as the pricing differential changes, the organised space will come back to much higher levels of growth rate for the market?
- Saugata Gupta:** Historically, it has been growing at 7% to 8%. I think one or two quarters obviously there is an aberration. As you know that what happens, there is a loose branded play and whenever there is deflation, obviously there is a tendency for consumers to move into loose coconut oil and vice versa.
- Shariq Merchant:** That is it from my side. Thank you so much.
- Moderator:** Thank you. We are going to take our next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman:** So my first question was actually on your tax rates. You mentioned that there was an increase in the tax rates because of higher sort of contribution from non-tax exempt zones. So can you just explain how long your tax exemptions will carry on further, because I believe that for a lot of the tax-exempt zones will eventually roll off then, right?

- Milind Sarwate:** See, we have set up tax-free units at different points in time. So, the exit from the tax-free zones is also going to happen over a period of time. There is no one particular year when all of them are going to lapse. Let me point out another mathematical feature. If you look at our Group, there are certain locations which are clearly tax-free. For example, the entire operations in Middle East, whether Kaya or the FMCG business. Those are tax free. Unfortunately, this has been a quarter where those operations have not done particularly well. So as a result, while the profit before-tax, the denominator goes down, the tax amount remains the same because in India we have continued to pay tax on the manufacturing locations outside of the tax-free zone. So we believe that there is a mathematical phenomenon at work in this quarter. In 4Q, we expect the ETR, the effective tax rate, to be back to our predicted rate for the year, which is around 23%, 24%.
- Aditya Soman:** But a couple of your competitors have mentioned that the tax rate will go up because I believe under our tax, I mean you would not be able to set up further facilities after 2006 or 2007, right?
- Milind Sarwate:** We are also already pretty close to the marginal tax rate. We are already at 24%. So had we been at much lower than that, then it would have been a significant feature. The government has already declared as a long-term policy that tax-free zones are not going to there forever. But from time to time they have kept on deferring the closure of the tax-free zones. So to some extent, the exit has been phased out. I do not think in the long-term we will have tax-free zones if you take a five or 10-year view. So it is important that companies phase out their tax advantage over a period of time and do that proactively rather than everything happening at the same time.
- Aditya Soman:** In terms of Kardi oil versus sunflower oil, there is a differential. But where do you expect this differential to be since the season has already ended?
- Saugata Gupta:** So with the pricing correction, I think we have reached what I call price premium which is sustainable for growth. If you notice even sunflower has gone up in the last couple of weeks. So now and with our price reduction, I think we have reached equilibrium where we can get into the growth track over the next three-four months definitely.
- Aditya Soman:** Great. Thanks.
- Moderator:** Thank you. We are going to take our next question from the line of Pritesh Chheda from Emkay Global. Please go ahead.
- Pritesh Chheda:** In the opening remarks that was put for the sector and for Marico as well, the A&P spend rise, I just want to understand is the assessment correct that a lot of it is actually now going for the company and for the sector per se to sustain the demand?
- Milind Sarwate:** Not really, because firstly let me deal with the nuances of our A&P spends. I think the industry by and large trends close to 50% on sales promotion, whereas in our case the advertising portion is very strong, it is at about 75%. Secondly, in this quarter whatever large amounts we have spent on advertising, whereas, almost 50% of that is on new products. So we are investing in creating

new demands rather than supporting the existing ones and trying drum up demand for already existing older products.

Pritesh Chheda: My second question, in the recent times, the behaviour of the industry and for your company as well has been a fact that whenever raw material prices had corrected, some of it flowed down to the margins, some of it was utilised in A&P, assuming that the demand was sustaining? If you just check some of these years the last three, four years whenever the event has happened. Is it fair to assume that this time around it is different, because what is different is the demand curve itself? If there is an input cost correction, nothing probably would flow down to the margin either it is given away in the form of price cut or it's given in the form of A&P, either to sustain that demand number?

Saugata Gupta: Yes, there is a bit of a slowdown in discretionary spends, but I think fundamentally one of the things which the sector has realised that even during times where there is a softening to continue to invest behind innovation as opposed to taking just consumer promotions. So we have done certain price cuts, but that is again to ensure that your volume growth, stays at a certain level and I have been talking about this that in any emerging market, it is important that you have a volume growth close to 10%, because that is something which in the long-term is important. It is also important is that a significant portion of your portfolio should continue to gaining market share. If those two parameters are fulfilled, subject to a threshold level of margin, which we think is a sustainable margin for the long-term is a right strategy.

Pritesh Chheda: Next, what in your opinion would be the key change that you are seeing currently in the sector, in the FMCG space per se, in your categories per se, vis-à-vis the last three-four year period?

Saugata Gupta: I think, FMCG is the least volatile amongst all the sectors and however, there are certain cyclical patterns but if you really look at the consumer trends, the long-term story of the FMCG industry is very much intact. A lot of our categories are the bottom of the S curve with low penetration and there is ever increasing interest amongst a lot of multinationals and also Indian players to actually grow and develop the categories. So as I said that, the long-term story is intact, there could be certain short-term blip, but I think the bias is towards innovation more than getting into short-term growth, so I think that has been a significant change that has been witnessed in the FMCG sector.

Pritesh Chheda: The household panel data which you refer and that is the data which lot of companies also utilises, I think it's the IMRB's data. We do not have an access to that data. What is that data telling you, especially in the months of October, November, December if you analyse that data, because a lot of the changes have happened in the last three months. So if you could tell us what is that data indicating to you as a company and the strategy for the next two, three quarters?

Saugata Gupta: As I said that, we have not seen any significant impact or reduction in October November, December. In Parachute the price premium and loose to branded, there has been a little bit of a slowdown in certain markets where they are extremely price sensitive. As far as Saffola is

concerned, again, the upgradation has slowed down. But as I said, that having done some corrections and we do have a data of over a five to seven-year period in terms of price and volume modelling which optimises a sweet spot between margins and volume growth. We are pretty confident that this has been taken care of unless subject to obviously something very volatile happening in the input cost in next couple of months. But, historically, I think we have been able to manage inflation. So I think taking these actions, we think that at this point in time they will get back growths to on our normal rates and when I mean normal rates, as far as parachute rigids is concerned around 7% to 8% and Saffola 10% plus.

- Pritesh Chheda:** But the household panel data is not indicating any of a slowdown related, correction?
- Saugata Gupta:** Not really.
- Pritesh Chheda:** Nothing, despite the fact that lot of the companies have actually surprised on the volume growth side?
- Saugata Gupta:** See, there will be obviously a slight slowdown. I said nothing very significant. See, you must realise we are talking about our categories and I cannot comment on other categories. If you really look at the volume growth, again, we have had volume growth, let us take our case, something of 12% to 13%, that has moved to around 9% to 10%. So yes, there has been 2% shift.
- Pritesh Chheda:** Just my last question on the international operation side. If you could tell us your outlook on the Bangladesh business, because that is the bigger number in the international ops now since Kaya is out from next year in a separate company. So what should we look at in that particular geography?
- Vijay Subramaniam:** This year if you see Bangladesh, our performance has been soft. It has been flat to a marginal negative. There are couple of macro factors at play, but there was a lot of agitations and hartals which led to a lot of stoppage of business during this quarter. So while the world business per se is down, if you see our share businesses whether it is on Parachute coconut oil, or whether it is on our value-added hair oil, or our hair code which is our other new play, all our share businesses are up. In 4Q, I am confident you will see healthy double-digit growths, simply because there will be certain pipeline filling also which will happen, because trade was closed on certain valuable mandates during the month. So you will see double-digit growth in 4Q in Bangladesh. Both on a more longer-term perspective, clearly we are investing in a lot of new growth engines in that market, whether it is in the value-added hair oil space, where our shares are showing good traction, or in the hair dye space and we hope to kind of increase penetration and create new growth engines as we move forward.
- Moderator:** Thank you. We are going to take our next question from the line of Prakash Kapadia from Ialpha Enterprises. Please go ahead.

- Prakash Kapadia:** Sir, if you could give us some sense on the edible oil business. Are we looking at some product mix given the unprecedented rise in safflower. So something like increasing rice bran proportion as compared to Safflower to combat this input cost pressure, that is one thing? If you could give us some sense on the distribution outlets where Saffola has reached? Have CSD sales now normalised, especially for Saffola?
- Saugata Gupta:** Our endeavour has been always on Saffola to provide the best possible oil, which is best for the consumer. So I think we are dictated by what is best for the consumer and not just best for what is best for the costs.
- Prakash Kapadia:** Sir, would not the rice bran also be on those same lines where antioxidants or wellness platform is?
- Saugata Gupta:** I would not be in a position to discuss technology with you, but as I said that we are always endeavour to give something which is best for the consumer. We reach around greater than one lakh outlets in Saffola. As far as CSD is concerned, CSD is recovering, but we believe that, as you know the issue in CSD started in 4Q of the previous year. So the base correction would be complete by around 1Q next year.
- Prakash Kapadia:** So the low base will now ensure growth going forward is what you are saying?
- Saugata Gupta:** Yes.
- Prakash Kapadia:** We have seen competition like the normal edible oil players are also making lot of noise in the health and wellness platform. Is that also a reason for some pricing action in Saffola or not really?
- Saugata Gupta:** There would be noises in any sector but I think Saffola is an extremely strong brand with a huge consumer base and there could be some people making some noise. Now the noise may not be right or wrong, but I am sure the relevant authorities also look at those noises, whether those are some certain claims which are made are right or wrong.
- Prakash Kapadia:** Sir, we have read recently, you know there has been a 2.5% import duty on crude edible oil. Any impact on our Saffola business?
- Saugata Gupta:** I think it is a level-playing field, so everybody who imports will have that duty. So I think this plus obviously the increase in some increase in the diesel prices and all will have some inflationary impact, but that we will see over in the near-term. But that will impact all FMCG players equally.
- Prakash Kapadia:** Sir, last bit on the snacks element. Is there a large regional element where South are maybe focus markets? You have mentioned it is available nationally, but in the current scheme of things, is

south and west initially the focus area or it's now pan-India where we are focusing on the oats and the muesli part. If you can give us some idea?

Saugata Gupta: See as far as Savory Oats is concerned, we have scaled up nationally now. As far as muesli, it is also available nationally. However, we are focused on the metros and obviously modern trade is a big sector, big channel where this category throughput has happened.

Prakash Kapadia: Sir, if you might permit one more question. Given the growth rates which we have been witnessing in the value-added hair oil, so is it fair to say like over the next three years Parachute and value added hair oil should be more or less equal in terms of sales. Given that we've had a wonderful history and we are growing ahead of the market and that has really done very well for us. So over the long term, is that right thinking or no?

Saugata Gupta: I think the value-added hair oil space, we expect to grow at 15% to 20% growth in the long-term.

Prakash Kapadia: Thank you. All the best.

Moderator: Thank you. We are going to take our next question from the line of Ravi Baid from Union KBC India. Please go ahead.

Ravi Baid: Sir, we have seen contradictory trends this quarter. In the light value added hair oil, we have seen up-trading and in the Parachute, we have seen the up-trading being slow rather. Why has that happened, Sir?

Saugata Gupta: Value added hair oils, we have a share gain with strategy where we have a broader participation of strategy. As far as the coconut oil business is concerned, I think a significant portion of our source of growth had been upgradation from loose to branded coconut oil. Therefore, wherever the premium is high, that growth decelerates. We have taken correction action.

Ravi Baid: Will this growth mix change once you take pricing action in the Parachute category?

Saugata Gupta: As I said that once the price premium reduces when we have taken pricing action, the propensity for a consumer to upgrade from loose to branded increases and therefore yes, the growth rate is expected to improve.

Ravi Baid: Will there be any effect on the light hair oil growth going ahead because of this?

Saugata Gupta: As far as the value added hair oil is concerned, our entire strategy, as I said earlier, is for share gain and broader participation. Obviously, you cannot sustain a 30% growth rate, but as I have said that, it will continue to grow in the range of 15% to 20% if we will continue to hopefully gain share by a couple of percentage points in the next couple of years.

Ravi Baid: Thank you.

- Moderator:** Thank you. We are going to take our next question from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** My first question is on the pouch, coconut oil pouches. How much of that would be for the industry compared to 15% for Marico? Would have any sense?
- Saugata Gupta:** Most of it is very unorganised, so it is not tracked. So we will not be in a position to share that, but a lot of it is unorganised and I do not think Nielsen is also tracking everything.
- Vivek Maheshwari:** So, your overall rigid packs, you mentioned the growth is 6% and the pouches grew by 1%, in an environment where you are talking about price correction. Why is not this best strategy perhaps to focus on pouches to get volumes?
- Saugata Gupta:** Pouches do not offer a strong branded play. We are branded Company and also the pouches' growth is a low-margin play. This is the market we want to continuously defocus and reduce our dependence on. Yes, in certain markets we have where pouches constitute a certain significant percentage; in one or two markets in the South we do have a presence, but growing pouches is not a part of our long-term strategy.
- Vivek Maheshwari:** A basic question, all your pouches are under Parachute brand or there are other brands for pouches?
- Saugata Gupta:** There is also some pouch under Nihar, which is sold in Bihar.
- Vivek Maheshwari:** I see. So, the reason I am asking is if you have parachute in pouches and can that have a rub off when input costs again starts to go down and so, basically, you have these consumers who are aware about parachute brand and who update to you rigid packs as and when you decide to focus. Am I thinking correctly?
- Saugata Gupta:** The consumers are entirely different and the extremely localised markets are completely different and as I said that long term, we do not have a significant interest in that part of the market, which is pouches market because we believe that there is a more long-term profitable play in that market and is much more vulnerable to frequent input changing input cost changing.
- Vivek Maheshwari:** What would be your current premium to lose oil in general right now?
- Saugata Gupta:** We cannot get into a specific number, but as I said that it has come down after this price correction.
- Vivek Maheshwari:** Notably in the last one-two years you have launched oats, muesli, body lotions. You have gained much higher shares and the growth has been visible compared to what it was a few years back where you tried quite a lot of segments. What was different this time around compared to, say,

two years back where any venture outside of the core oil segment and the success was not as easy?

Saugata Gupta: I think we have a far stronger choice-making framework based on market attractiveness and right to win. We are focused on a few things which perhaps has potential big and putting all the entire efforts behind doing a few things well and I think there has been far more sharper evaluation of the capabilities required to succeed in this sector whether it is a very strong in terms of differentiated product offering and followed by very impeccable execution, entire communication. So I think the entire organisation has been actually galvanised into choosing few things, but choosing big things and succeeding in it and persisting with it.

Vivek Maheshwari: One last question if I can ask you on the competition, which is Dove, which has also been introducing to hair oil. It says power of fortnight oiling in just 30 minutes. Does that concern you at all?

Saugata Gupta: I think it is recognition of the fact that hair oiling in this country is here to stay and it is a category which is expected to continue to grow in the immediate kind of future.

Vivek Maheshwari: Is that a segment that Marico can look at, or is it a creation for new segment to begin with?

Saugata Gupta: Obviously, any category you struggle from base to premium, and obviously, any player who is a dominant player will also need to explore.

Vivek Maheshwari: All the best.

Moderator: Thank you. We are going to take our next question from the line of Sundar S from Spark Capital. Please go ahead.

Sundar S: My first question is back to Saffola again. Now, with the price cuts, do you think the brand image is going to have anywhere an impact? We have always positioned ourselves as a premium brand with price cuts again. What was exactly the management thought being the price cuts?

Saugata Gupta: See even a Mercedes-Benz sometimes takes price cut. So I do not think it has a dent on image because at the end of the day, our endeavour is to provide the right value to the consumer, so that consumer experience what is best for him or her and have a price which drives up it. So I do not think there will be any dent in image.

Sundar S: Dent in image per se is that we are talking of frequent price increases and decreases, because looking through the history Saffola per se has not gone through any price decreases, and you know the impacts which could be created for a premium brand to go for price cuts?

Saugata Gupta: No, I think Saffola has gone for a price decrease in 2009-10 which is in the immediate history. If you really look at a lot of categories in consumer sector in the past in India, and very, very

premium brands have taken price corrections. For example, if you see shampoo, diapers, different sectors have taken significant price cuts to drive penetration and grow the category. So I do not think that brand equity of a brand suffers just because you take a certain price cut.

Sundar S: Then what amount of stickiness do you think will exist for these customers once the prices are rise back to the normal levels?

Saugata Gupta: Once a person upgrades and experiences, a person sticks with Saffola. Usually when the price premium increases, the propensity of a person to upgrade creates a barrier. So the source of business growth is essentially because of the fact that a lot of players who are in the other premium edible oils upgrade to Saffola. Whenever the price premium increases that rate of upgradation decreases, it is not about customers who downgrade to another product. We do not lose business there.

Sundar S: Just another out of thought is that why not reduce package sizes rather than price cutting?

Saugata Gupta: As you know that edible oil comes in standard packs and weights, and we also believe in providing value to the consumer. Consumer of a Saffola pack, a loyal consumer household usually buys it for a month and it does not make really sense to anyway cut price and as I said, they are anyway the standard packs and weights for all edible oils.

Sundar S: That is it from my side. Thanks.

Moderator: Thank you. We are going to take our next question from the line of Sagarika Mukherjee from SBI Capital Securities. Please go ahead.

Sagarika Mukherjee: Sir, I would just like to know one thing as in, in your information update you have given a guidance that your EBITDA margin in the international business will go up to somewhere like 13% over next two, three years, and if I see the segmental numbers, that current margin levels are somewhere hovering around 8% to 10% in the international business. So I would just like to understand if you could give us some outline as to how you are planning to take it up?

Vijay Subramaniam: I think one clarification there. I think you are looking at the EBIT margins and not the EBITDA margins. , It is better to look at the operating margins for the year as a whole rather than quarter to quarter because there is certain A&P phasing depending on the brand plans. So if you remember 1Q was about 8%, 2Q was 9.5%. This quarter has been 11% and the coming quarter should be higher than 11%, maybe 12% or thereabouts. So it will tend to fluctuate a little each quarter. Directionally we expect the EBDITA of around 11% to go up.

Sagarika Mukherjee: Got that. But then Sir, from that 11% to 13%, is it just a cost inflation, which we are expecting to go down over the years or is there anything else?

- Vijay Subramaniam:** **It is a combination of reasons.** I would say one is we are striving to build scale in geographies. So fundamentally, we have entered various geographies which are in different stages of evolution where scale efficiencies will come in over time as they increase in size. Secondly, with the recent reorganization we have announced, the overall FMCG business including India and IBG business will derive a lot of synergies which will accrue over a period of time. Thirdly, some of the brands are in early stages of investing. Making these brands stronger will reap dividends as we go over the years.
- Sagarika Mukherjee:** Thanks a lot Sir.
- Moderator:** Thank you. We are going to take our next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** My first question is that, you spoke of this price correction that you are taking, given that raw material costs are coming off, it is probably marginally rising now in some of your cost like copra. Do you have margin levers at the EBITDA level which you think will come into play to kind of compensate for the margins that you give up in these price cuts?
- Saugata Gupta:** As I said that, we want to operate within a sustainable margin at an EBITDA level, which can drive volume growth. This is important for all D&E markets where it is imperative to grow and with scale will come efficiencies and increased margins. We could also take a Group blended margin approach. As Vijay mentioned just now, we could expect some margin expansion in IBG and this could provide a lever to maintain overall margins in an acceptable band.
- Arnab Mitra:** Just talking of the advertising spends as Milind also referred, there has been an increase in new products obviously now with Paras coming in, and you also have a portfolio which has higher A&P. So we have historically, I mean at least last few times spoken of 11.5%, 12% kind of band. Do we now actually structurally look at a higher A&P, something more like a 13% that you have done in the first nine months, a structural increase in A&P going ahead?
- Saugata Gupta:** Not really. You are right that on the Youth portfolio the A&P will be higher. But I think A&P of around 12% for the year can be expected going forward next year.
- Abhinav Mitra:** So this year would have been higher because of the larger number of new launches that you would have done?
- Saugata Gupta:** One is new launches and the higher investment required initially in the Youth portfolio. Besides, in the international market there are certain investments made, But over the long term I think the A&P could be closer to 12% than to 13% ..
- Abhinav Mitra:** My last question is to Vijay on the MENA business where you have seen a big decline because of this restructuring and packaging thing. So if you could just throw a bit of light on what it is



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and are you pretty confident that in 1Q14 you kind of come back in terms of growth in that geography?

Vijay Subramaniam: MENA as our Information Update mentions was a mixed bag. On one hand we have Egypt where despite a lot of vagaries in the overall environment, the business has done well. In fact the business growth is 20% plus. In Gulf Cooperation Council markets we have had the issue. The issue has been because of certain packaging change and not meeting our action standards as we originally envisaged. This is also coupled with certain distribution restructuring initiatives in couple of markets leading to some degree of pipeline reduction. What you are seeing actually is the peak effect of some of those and improved results should accrue starting next quarter, but I think 1Q is where we will really start seeing the results.

Arnab Mitra: Thank you. That is it from my side.

Moderator: Thank you. We are going to take our next question from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: Just wanted to get a few questions. What is the Saffola price cut that you were talking about it is not mentioned in your monthly numbers in your website?

Saugata Gupta: It is around ,3% to 6% depending on the pack.

Sanjay Singh: Okay. Also, you have not given the volume growth for overall organic volume growth. The overall volume growth is 9%, but what will the overall organic volume growth?

Saugata Gupta: Organic volume growth is 9% only.

Sanjay Singh: No, for the whole business put together, international plus domestic, all put together?

Saugata Gupta: It is 5%, overall organic volume growth.

Sanjay Singh: The other thing is Setwet and Zatak, the deodorant brands market share is now down to 5% something. When we acquired it, it was in the range of 8%, 9%, so, any thoughts on that?

Saugata Gupta: When we acquired it, it was around The entire transition is more or less complete. We have a 21% growth in turnover and all the segments are tracking well. As far as, deo is concerned, there is a loss in market share, but in the last couple of months we're starting to get back market share and growth.. We have planned a certain marketing mix with which we expect to start getting market shares back in deo. As far as the other segments are concerned, they are growing significantly.

Sanjay Singh: Who are the players ahead of you, Axe would be there, Wild Stone would be there, and who would be the third player?

- Saugata Gupta:** There are three-four players, Axe, Wildstone, and Park Avenue.
- Sanjay Singh:** Lastly, this is a question for in terms of tax rates. Can you please tell us for the next three years what will be the effective tax rate in domestic India, currently it is around 19.5%, 20%. What will be the exact tax rates for the domestic business? I do not want to mix globally what happens to Gulf etc., just the domestic tax rates for next three years?
- Milind Sarwate:** It is likely to remain around those levels
- Sanjay Singh:** Around 20%, itself?
- Milind Sarwate:** Yes.
- Sanjay Singh:** So there are no factories, which are getting over in terms of the next three years getting their completing the 10 years?
- Milind Sarwate:** Some of them are getting phased out, but there are certain factories which continue to be in the 100% exemption domain.
- Sanjay Singh:** So when do you go up from 20% to maybe meaningful 22%, 24%, 26%, 28%, 30%?
- Saugata Gupta:** Another three to five years' time, by FY16 to FY17
- Sanjay Singh:** Lastly on, there has been no talk on Saffola Rice for some time. Is it going on track, are there some issues there?
- Saugata Gupta:** **In** Saffola Rice we continue to be in a very niche manner in only modern trade. We are not very certain about the route to long term profitability. So it is present currently only in modern trade.
- Sanjay Singh:** Lastly, I have been hearing Milind on CNBC and then, of course, we have been reading your update and of course now on the call. So there is one part we have been giving some logical reason as to why the volume growth is less, which is higher premium over loose coconut oil, or higher premium over other parts of edible oil; at the same time in the same breath we are also talking about slowdown discretionary some parts here and there. So I mean is there anyway you are seeing that in certain pockets of the country, either urban or rural certain brands where we can say it because at the same time some things are done well and when you see this with in other companies' numbers, we have also given various logical reasons. Is there any issue in terms of consumption slowdown?
- Milind Sarwate:** Actually, let me point out that slowdown is not an event. It is a process or a phenomenon which happens over a period of time. A slowdown need not impact all categories, all strata at the same time. So it is very natural that in our portfolio there are certain products where we find the impact of slowdown and some products where we will not find so. Even in Parachute if you look at the



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price premium or Saffola the price premium issue, the indicators are that because there is an underlying economic downturn, which is very obvious it is not an FMCG phenomenon, it is general. So it is bound to have some impacts somewhere. Secondly, I feel with a 9% volume growth, which probably would rank in the top quartile or so of the industry, with a reasonably good growth in the bottom line there is little reason to say that there is a strong slowdown. Having said that, let us understand that we are a company with several products and a presence in several areas. So it is very natural that we will have different impact of different factors at different locations. If I take a completely external example of the international business, we have done quite well in the Egypt, but in the nearby Middle East territories, we have not done so well. We have done very well in Vietnam, but we may not have done so well in Malaysia. There will rarely be a situation where the entire company is impacted uniformly by a slowdown or an upturn in the economy.

Sanjay Singh: First of all, it was not a point on Marico's volume growth. I think it is quite good even in this time, but it was an issue which we are trying to grapple across the sector, because every company comes up with perfectly logical reasons, which at times of contradictory when we see across companies and you would appreciate that we compare things across companies. That is what I was trying to understand.

Milind Sarwate: I think we have to realise that the volume growth we had earlier was strong double-digit volume growth. We are now at 9%, which is high single-digit, but it is still lower than what we had earlier. So mathematically, we have slowed down or seen some deceleration in our growth. So for us to keep saying that there is no slowdown, would be illogical.

Sanjay Singh: Just to take this a little bit ahead, how much confidence would you have that while without asking for a guidance, which you also do not know as of now, that your next quarter number your volume growth will be higher or lower than the current number, or has the volume growth bottomed out. Overall, domestic volume growth, I am not talking about international. So do you think the domestic volume growth is bottom what we have seen this quarter or can it go worse? Is there a probability to it?

Milind Sarwate: 9% is one of the lowest volume growth rates we would have had and we are confident that we will bounce back from here. Our market shares have been strong and we have had success in our new products like body lotion and oats.

Sanjay Singh: But do you think it is bottomed out in a larger way?

Saugata Gupta: Viewed from a multiple quarter perspective we are confident of delivering higher growth. Commenting on one quarter at a time would be difficult.

Sanjay Singh: Thank you very much.



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- Moderator:** Thank you. We are going to take our next question from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** Just a few questions. Firstly, in your information update, in the value added hair oil portions, you have spoken about the fact that you are going to focus on scaling up your presence in all the sub segments of value-added hair oils. So could you just give us a sense of over and above what we are already what are other segments that we would aggressively look at over the next couple of years?
- Saugata Gupta:** Well, we may not be able to share specifics of plans here. But we will try to ensure that we continue to have a broader participation and drive specificity of mix. That is how a category also grows as long as you drive specificity of mix. We are extremely confident about the Indian consumer's belief in leave-on products being the best in terms of nourishment. This category will continue to grow and we will continue to target market share gains.
- Harit Kapoor:** Just a second thing on the new products, over the last one year, especially in the domestic business, you have had launches in body lotions, oats, muesli, and of course the youth brands that we have acquired. Assuming also over the next one year, do we see over the next 12 to 18 months, do you see that we have enough on our plate in terms of new launches and our focus will be to drive growth in these segments?
- Saugata Gupta:** I think, yes. I think all these product categories offer interesting options for growth. Other than oats, muesli, body lotions and the youth portfolio there is Parachute Advanced ayurvedic oil, as an anti hair fall product. It is important to focus on these and grow them. At the same time as an organisation we have to build capability for driving innovation and driving width. We will thus keep up the level of prototyping and experimentation. **Harit Kapoor:** Last question is on international margins, over a period of time international margins have gone up. Just for this quarter, you have seen an 11% plus kind of a margin. Largely, this margin has been driven by gross margin expansion in Bangladesh. So just wanted to understand if I am thinking correctly that the other geographies you have actually contracted in terms of margins and if so why has that happened?
- Vijay Subramaniam:** You are right that Bangladesh and possibly in Vietnam there has been margin expansion. In other geographies, it has been a mix of reasons. One, Middle East, I explained the scenario earlier. In terms of other geographies, it is possibly as a result of conscious decisions in terms of timing of certain campaigns or investments into brand building. It would have happened in natural course of the year's plans.
- Harit Kapoor:** Just a follow-up on that. If you just look at how ad spend had panned out in the quarter, it has largely been a more so growth in the International Business. So has this been across geographies or there has been some geography where we have focused more on new launches or stepping on marketing stores?



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- Vijay Subramaniam:** The advertising spends have indeed varied from geography-to-geography. But specific to certain geographies, especially like Middle East, etc., there they would have seen some uptick in spending, There would be, of course, a wide variance between the geographies.
- Harit Kapoor:** International spend as a whole have on ad spends have been higher than the domestic in terms of growth. So I just wanted to understand, where that if there is any particular geography that you could point out where probably spends have been far higher?
- Vijay Subramaniam:** Advertising spends would have been slightly a shade lower than some of our previous quarters, and it would have been slightly higher in Middle East.
- Harit Kapoor:** That is it from me. Thanks a lot.
- Moderator:** Thank you. We are going to take our next question from the line of Shirish Pardeshi from Anand Rathi Shares and Stock. Please go ahead.
- Shirish Pardeshi:** Just a couple of questions. You mentioned about Saffola price correction to 3% to 6%. Now does that mean that this is going to grab the market share, or is the benefit of the lower input cost what we have got in last quarter?
- Saugata Gupta:** The price correction is to accelerate the upgradation and getting new consumers and get the volume growth back on track.
- Shirish Pardeshi:** So if I may ask what is your November or December closing share in Saffola?
- Saugata Gupta:** 58.5% in the super premium category.
- Shirish Pardeshi:** My next question is on PCO. You mentioned that the volume growth is 6% and is that because of the standardisation of packs, which has gone in the month of November?
- Saugata Gupta:** No, as I said there has been a slowdown in specially price sensitive markets from loose to branded, because of the price premium
- Shirish Pardeshi:** But last quarter we have seen that there is drop on price increases. So you were running some scheme. Now is that is withdrawn, or it is continued, or it has become a standard price?
- Saugata Gupta:** There were one or two consumer promotions, but we have taken a price drop in two or three SKUs in December.
- Shirish Pardeshi:** But that is withdrawn, or that is still continued?
- Saugata Gupta:** No, those are temporary price drops, which we have taken. So it is continues. I think I talked about it; you will see the impact of that in maybe in Feb and March.



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- Shirish Pardeshi:** My next question is on Paras brands. It is mentioned in the information document that, this business is still run by Reckitt. So when do you think it will come and when this business will get integrated with Marico?
- Saugata Gupta:** If you read the information update carefully it says it was run by Reckitt during this period last year.. We took over the brand sometime in last 10 days of June. We have been running the brand. Some manufacturing, sourcing arrangement was there, but as I said we have more or less completed the transition.
- Shirish Pardeshi:** So the entire manufacturing to supply to the sales is happening through Marico?
- Saugata Gupta:** That is right.
- Shirish Pardeshi:** My next question was on the body lotion. I saw that there were severe price cuts and you have introduced the 400 ml pack. Now what is the strategy? I mean are we going to get into the entire lotion segment and then extend it to skin? Or it is limited only lotion? What is branding strategy?
- Saugata Gupta:** We believe that we have a differentiated proposition and we intend to grow this category. This category is growing at a fast pace of 25% to 30%. The penetration is in the region of 20% plus. We expect that we have a differentiated offering and we will participate actively in this category. You asked about pricing, we have not taken any price drop.
- Shirish Pardeshi:** I saw that Rs184 pack is sold in Rs168.
- Saugata Gupta:** That is an introductory pack offer for the pump pack, which you might be talking about. It has just been launched and there an introductory price on that specific SKU.
- Shirish Pardeshi:** Last question on the Saffola breakfast. In the information document, you have mentioned that you will be in innovating health-based packaged food space and prototype. Is there any prototype right now is on in the market?
- Saugata Gupta:** No.
- Shirish Pardeshi:** Is there any other segment prototype you will be working in the market right now?
- Saugata Gupta:** Nothing.
- Shirish Pardeshi:** Thank you and best of luck.
- Moderator:** That was the last question. At this time I would like to handover the conference to Mr. Rakshit Ranjan from Ambit Capital for closing comments. Thank you.



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Rakshit Ranjan: Thank you. On behalf of Ambit Capital, I thank the senior management team of Marico as well as all the participants of the call. I would now like to hand it back to Mr. Sarwate for any closing comments, please. Over to you, Sir.

Milind Sarwate: Thanks, Rakshit and thanks to all participants for asking some very incisive questions. I think we had a detailed discussion on several points. There may still be some issues where participants may need clarity or clarification. They could be in touch with us offline and they could probably refer to all the documents. So I wish all of you a great time ahead. We will meet again on April 30, which is as of now the planned day for the quarter four board meeting. So thank you and best wishes. Bye.

Moderator: Thank you. On behalf of Ambit Capital Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your line. Thank you.