TRANSCRIPT

Conference Call of Marico Limited

Event Date/Time: January 23, 2009, 4.00 pm

MODERATORS:	**Mr.Milind Sarwate – Marico Limited**
	Mr.Chaitanya Deshpande – Marico Limited
	Mr. Anish Zaveri- Antique Broking

Moderator: Ladies and gentlemen, good evening and welcome to the Q3 FY09 conference call of Marico Limited hosted by Antique Broking. As a reminder, for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchstone phone. Please note, that this conference is being recorded. At this time, I would now like to hand over the conference to Mr. Anish Zaveri, CEO of Antique Broking. Thank you and over to you sir.

Anish Zaveri: Good afternoon ladies and gentlemen on behalf of Antique Stock Broking I would like to welcome you all to Marico's Q3 FY'09 conference call. We have with us Mr. Milind Sarwate, Chief of HR and Strategy and Mr. Chaitanya Deshpande, Head M&A and Investor Relations. Milind would first briefly make opening remarks on the quarter performance and thereafter we would move to Q&A session. Over to you Milind and congratulations on a decent set of numbers again in these difficult times.

Milind Sarwate: Good afternoon everybody. Welcome to the Marico conference call for discussing the Q3 of FY'09. The results have been put up by us on the website and they would be with you for some time now. As it has been our practice, we have also issued a detailed information update, which also you might have gone through. What I would do is give a quick overview of what we feel the quarter is important to us for and then leave the floor open for questions. I have with me my colleague Chaitanya Deshpande who heads the Investor Relations and M&A functions for Marico, so both of us would field the questions. To start with as an overview of the quarter, I would echo the feelings, which Anish said some time ago that this has been a pretty difficult period for Indian economy as a whole and for all sectors of the economy. The FMCG sector seems to be better off in comparison with others but the pressures have been there even for this sector. This is because you really cannot segregate demand for consumer products on the overall demand situation in the country. Nevertheless as a long-term player we have focused on sustained growth and we are glad to report that we have been able to maintain our growth in most categories in the manner in which we wanted, which is sustainable and profitable. The second point I would make is despite the slowdown and despite the various pressures of performance we have not let go off the investment need into the future, so we have continued to prototype or launch new products not only in India, but even in other places where we have businesses. So, while sustaining our growth and while reporting reasonably good numbers we also invested in the future. Our margins have been maintained at almost the same level as what they were in Q3 FY'08. So, in between the bit of troughs that we had in our margins that seems to have been contained, although the margins have not yet reached the high levels that we had seen about three or four quarters ago. As regards the immediate outlook, I would say that we are optimistic, but there is also caution in the air simply because the past few quarters have underlined the importance of managing volatility. I think when it comes to commodity pricing or when it comes to major macro economic factors like foreign exchange or interest rates it is not the spurts that have hurt the economy or that have hurt various companies, it is the volatility that has caught people off guard. For example, the fact that crude oil went up from about $60 for a barrel to $147 and then has come back all the way down to $30 odd per barrel, that itself has caught many people by surprise and I think the economy or individual players are not used to this kind of volatility. That is one reason why many results including our own will carry explanations about foreign exchange transactions and I think if you look at the long-term prospects of any business, the foreign exchange factors have to be kept out for a meaningful comparison. So, volatility has been one backdrop for the results. In our case you will find that while our profit after tax growth as reported at the end is 11%, if you factor out the foreign exchange gain we had last year, the real effective number would be about 20%. This is just one example as to how foreign exchange would cloud the comparison. This is of course assuming that in future volatility would come down and we would not have to explain similar adjustments in the future. This issue you would appreciate is similarly applicable to many companies in the country not only to Marico. So our outlook subject to volatility is optimistic. We believe that as commodity prices become more realistic, we would be able to expand our margins at least to some extent, although not dramatically. Secondly, we would focus on building our businesses from the fundamentals, which is, we will focus on gaining consumers as opposed to gaining in margins because our belief is that it is more difficult to regain lost consumers than it is to regain lost margins. We would continue to expand that theme in the future. As usual we have shared a lot of data on the results and the focus has been in trying to give you a meaningful comparison basis from which you can draw your own conclusion. One of the factors you would notice is that the volatility part has also caused some element of expansion in our capital employed and you would find that our return ratios have to some extent been impacted in this quarter. We believe that we would be able to manage the situation much better in the coming quarter and we would have an improvement on this account. There has also been a typographical error in the results that were put up on the website. Fortunately, the typo is not in a very material area, but nevertheless I thought it is our duty to explain that to you. In the capital employed numbers that are reported in the statutory advertisement there are two columns where the closing numbers have to be reported. In the advertisement the numbers for the December 31 of 2008, as well as 2007 are reported in two places out of which in one place the numbers are correct and in the other there has been a typographical error. If you read the advertisement, you may not be able to readily make this out hence what we are doing is we are putting up a revised advertisement on our website as also informing the stock exchanges. I do not believe that this is a very material fact, which will be sheer comparison because the correct data is already available. In case there are any specific queries, we would give the specific numbers to those who want that. I can now seek questions from the audience, so Anish you could start.

Anish Zaveri: Let us throw the floor open for Q&A.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. We request participants to restrict their questions to two per participant. First question is from the line of Percy Pathike of HSBC. Please go ahead.

Percy Pathike: Hi sir, congratulations on a good set of numbers.

Milind Sarwate: Thanks Percy.

Percy Pathike: Just wanted to understand Milind the demand slowdown, which you have seen in terms of volumes like your first quarter was something like 15% then it went to 11% and now at 7%, where do you see this bottoming out? Do you think that 7 is probably the lowest you will see and you will recover from here on or do you think that there is a further likelihood of a drop and in either case could you sort of give your train of thought a logical explanation as to why it will be so?

Milind Sarwate: I feel that the trend of falling volume growth would not materially deteriorate from here, but one has to keep in mind that volume is actually a function of several things including pricing, positioning, overall ambience in the economy because the consumer behaviour is determined by several things not only the kind of demand creation activities that we put out in the market. What we believe is that there has been a certain air of price increases by consumer product companies that began sometime in the fourth quarter of FY'08. We have not seen a full year of that phenomenon because comparisons of volume growth of 7% or 15% would be with reference to a base, and I think it may be at least one more quarter before, so to say, that trough ends and a more normal double-digit number would appear. So what I feel is in the fourth quarter we may see a low number. I would not be able to predict whether it will be lower than 7 or a little higher than 7, but I do not think it will be significantly lower than 7. In any case, as a company, which prides itself on consistent growth we would keep growing, but I do not think we would quickly go back to the 12 % or 15% numbers that we were talking earlier.

Percy Pathike: Okay. In terms of Sweekar, although it is a company's stated policy that Sweekar is not one of the focused brands the fact is that the share price does capture the sales and profits of Sweekar as well and therefore volume decline of double digit in Sweekar is probably a slight worry for the shareholders, so what is the action plan to arrest that fall?

Milind Sarwate: I would only say that when one looks at Sweekar, one has to look at the annual picture first of all because this one-quarter does not make or break a particular brand. Having said that, I feel that on Sweekar the situation is a little odd; here is a brand in which we have decided that we will not invest serious amounts of money at the same time it has certain residual equity, which has been continued to be tapped by us. The market for edible oils has also gone through ups and downs and increasingly with the entry of many volume players that market is soon becoming a discount market of sorts. So in this situation we may have to redraw our strategies for Sweekar. You would have observed that we have not been in any desperation to divest this brand, which means that there is a certain floor consideration that we have in mind for entertaining any divestment offers that we might get. One of the knee-jerk reactions, which we can give, is to lower that floor substantially and somehow get rid of the brand, but I do not think we should do that in such a hurry. We would rather wait and see what kind of fillip we can give to the sales of this brand and then look at any divestment opportunities that will come along. Fundamentally, unlike the case of Saffola's, in case of Sweekar we have not been able to move the brand away from the rest of the edible oils. In case of Saffola for example we have built what I would like to believe is a lifestyle brand as opposed to an edible oil brand. You will appreciate that if we want to broad base a brand like this that means take it out of the edible oil stream and put it on a pedestal of edible oils, functional foods, low sodium salt etc., we could have done it only with one of the two brands and we chose Saffola since it enjoys a superior brand equity. Having done that, there is a limit to what we will invest in Sweekar. In some way, I think we have a dilemma, which we are grappling with and we hope to resolve it in the coming one or two quarters. At the moment we are inclined to try alternative strategies and not just give up on the brand.

Percy Pathike: What do you mean by alternative strategies?

Milind Sarwate: We have kept this brand on a complete float as we were not investing in the brand. You might not have seen a Sweekar advertisement on television. Demand for the brand is largely from its residual brand equity. Now if the market condition changes, we have to revisit this approach. We may have to do some tweaking of the strategy. It does not mean that Sweekar advertisements will start appearing again, there may be some other things that we might do.

Percy Pathike: Right. My last question is on pricing for Parachute. In your investor release you have hinted that if the safflower prices come down you will revisit your pricing for Saffola, but is that the same strategy that you will adopt with Parachute like if the prices for copra come down you might revisit the pricing of Parachute?

Milind Sarwate: Not necessarily because these two brands are operated in different ambiences. In case of Saffola, although we are moving it away to the lifestyle area it still has some peer group in terms of other edible oils, some of which are also at least partly healthy. So there is a certain premium, which Saffola operates at. There is a collar to that premium as in we do not let the premium fall below a certain number and we do not take it above a certain number. So in case of Saffola that adjustment of pricing is more necessary than in case of Parachute where it is a category being almost exclusively owned by Marico. I think in terms of sheer pricing maybe Parachute enjoys a superior pricing power, so it is not necessary that when copra prices come down we would revise the Parachute prices downwards.

Percy Pathike: I asked this because although you have a 50% market share it implies that 50% of the market remains with other players and if they reduce the prices don't you think that the premium that Parachute enjoys and has always enjoyed that premium will expand and there will be a limit to which they will be able to or willing to stretch that premium too?

Milind Sarwate: You are right and that is why theoretically you cannot rule out a price adjustment in Parachute. However to argue against that there is a difference between how Saffola consumers behave and how Parachute consumers behave, simply because there is a whole lot of difference in the unit price of a Saffola pack and the unit price of a typical Parachute pack.. A typical Parachute pack would be available for anywhere between Rs. 35-40 whereas Saffola would be significantly costlier than that, it would be in triple digits. Well, the engagement of the consumer in the price of the product is much higher in case of Saffola; it is much lower in the case of Parachute. To give you a jargon-based answer I would say the demand for Parachute has a very low downward elasticity.

Percy Pathike: Thank you very much.

Moderator: We request participants to restrict their questions to two per participants. The next question is from the line of Abnish Roy of Edelweiss Capital. Please go ahead.

Abnish Roy: Well, my question is more on the rural front wherein you have launched .a new product at Rs 4 price point. Could you just take me through in terms of margins, how much lower it will be, because Rs. 4 looks quite a low figure?

Chaitanya Deshpande: The margins may not be significantly different. In the Parachute franchise we have some packs, which are the rigid packs and others which are the flexi packs. Now, this Rs.4 price point has been launched in a flexi pack and it would be in the ballpark margins that other flexi packs have.

Abnish Roy: Okay. Could you just give some colour as to how your Saffola innovation has spanned out, though it is too short a time period, but you must have got some feeling regarding the acceptance?

Chaitanya Deshpande: Abnish, it is way too early to comment on that. As you know, it has been now in the market for maybe 10 odd days and we are doing a prototype in the state of Maharashtra. The earliest placement was in Mumbai, which you saw virtually on the first day. It is still being rolled out in other parts of the state. Obviously, we would not do any kind of promotion until the complete placement is over. So we have not even given it a chance for planning of all the inputs etc. Only the placement has happened, the second round of invoicing would not have even taken place. So it is way too early to comment; at best, you will get comments from people in the office saying we like the product. Abnish, I have a request to make to the whole community that is listening to us right now; you must have seen the product. If any one of you has any thought or suggestions on the product as a consumer, please do pass it on to us.

Abnish Roy: Coming to the second innovation, which has just been done, the Saffola Rice. My first question is why it has been launched in Hyderabad, a better place would have been Delhi or Mumbai wherein the audience for this is far bigger, that would have been a better place to launch, why Hyderabad?

Chaitanya Deshpande: There are a couple of things that one would have looked at for prototyping a product like the Saffola Rice. One is the overall size of the market in Andhra Pradesh itself will be large because it is a rice eating state. The other is typically we would like to look at some state where you can isolate media. Thirdly Andhra itself we believe might be a little more difficult market. If we are able to succeed there then we will be far more confident of rolling this out in other parts of the country when we go for the national launch.

Abnish Roy: Why do you say it is a difficult market, is the Saffola less strong there compared to other states?

Chaitanya Deshpande: **There are two aspects.** One, you are right in a way, Saffola is much stronger in terms of its equity in Mumbai and Delhi is far more than the state of Andhra Pradesh. Secondly, also in terms of the differential in pricing that you may see in that market will be higher.

Milind Sarwate: Abnish, it may not be correct to say that the SECA population in Hyderabad is low as we do not really know.

Abnish Roy: But in absolute terms it will definitely be low compared to say Mumbai, Delhi.

Chaitanya Deshpande: Also in Delhi the consumption of Basmati etc., is much higher than in Andhra Pradesh.., so if you look at the price differential vis-à-vis the other rice's that people will consume in Andhra in larger numbers, it will be larger and therefore it would be a more difficult market.

Abnish Roy: My last question is on the modern trade, there has been too much news flow under that trade terms are being renegotiated, there are some retailers who are sitting on lot of cash flow problems and you have also highlighted that, so wanted to understand where exactly we are currently, is the credit term really being elongated and how does it effect our cash flow cycle?

Chaitanya Deshpande: At the moment there has been no specific elongation of credit. What we expect is whenever somebody comes in for a renewal; there could be demands for looking at this. That is something that needs to be negotiated.

Abnish Roy: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from Anand Rathi. Please go ahead.

Aniruddha Joshi: Hello. Congratulations on a good set of numbers. Just had two three questions, the environment, macro environment is getting tougher day-by-day, so do you think that launching high end products will be pretty successful in coming quarters?

Milind Sarwate: It depends on what category of high end products that are being talked about. I feel that even in high end products there is a certain prioritization, which takes place. What we believe is that there is a certain value being attached to healthy living by the consumers and anything which is related to health is unlikely to be deprioritzied. In other words, whatever discretions consumers exercise are more likely to be in the area of, for example, entertainment or general opulence or general ostensible consumption. It may not happen in the area of health and you will find that most of our higher end products are addressing health in a direct manner with a very strong linkage to some efficacious basis. In other words, we are not selling high end products, only based on imagery, so to that extent I think our plank would hold despite economic conditions worsening.

Aniruddha Joshi: Okay, but do you think that launching premium products in Parachute will that continue, means whether Marico will keep on launching premium products in Parachute brand?

Milind Sarwate: We will keep on doing that because to the extent we differentiate smartly and intelligently we would deserve that premium and hence there would not be any major impact. Again, to borrow from one of my earlier answers, the unit price of most Parachute products is still very small and the perceived premium is not very high. It is not like a colour television or a three-door fridge where the difference is very noticeable.

Aniruddha Joshi: Maybe a bit repeated question, but what is our outlook on the raw material? Do we see raw material prices may be coming down in six months' time or when do we see? What is the internal calculation?

Chaitanya Deshpande: Like we have been saying, it is difficult to give a number or outlook on commodities. Things are becoming very, very difficult to predict, but by and large, in terms of a trend, the likelihood is yes, they will ease. You asked for a six-month period by when you will see the new kardi (or safflower) crop, which will come in. Typically it comes in around March. Also it is the flush season for copra, so there is a likelihood of it easing. To what extent, how fast and from when is quite difficult to answer. I would not want to just go ahead and do wild guessing on that.

Aniruddha Joshi: Now just going back to revenue growth, can you please bifurcate between the growth coming from new products or new launches in the last one year and the revenue growth from the products, which existed one year ago as well?

Milind Sarwate: First of all, the proportion of the new products to our total portfolio has been hovering around 15% for the past few quarter, out of that total growth that we have had in this year so far I would say about 5%-6% on account of newer products. It will vary sharply from quarter-to-quarter because new products do not get uniformly launched from quarter-to-quarter and some quarters may see a spurt in new product turnover and some may not see that. Directionally, we would want to increase these numbers of both the growth number as well as the proportion number and you might have seen that in the year so far we have had quite a few new product launches in various product categories and in various territories also.

Aniruddha Joshi: Okay, and very lastly have you seen any down trading pressures till now?

Chaitanya Deshpande: Not significantly. In Parachute we have maintained the volume growths over these quarters. Market shares in Parachute have also been maintained. The same would the case in the hair oils. We have achieved about 15% volume growth in hair oils. Only in this specific quarter, as you know Saffola had a slower growth rate and yes, part of the reason is that the premium that it has over other edible oils has significantly jumped and there is some slowing there. We will need to see what we can do about this over the next couple of quarters. We should be able to recover volumes.

Aniruddha Joshi: Okay, thank you.

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

Akhil: Yes, this is Akhil here. I just had a question on Saffola, you know, we have seen the volume growth rate coming down from 28 of course that was a one off case, but last quarter was 9%, this quarter was 3% and of course we have also seen the raw material prices Kardi going inversely proportionate to the other edible oil prices. Now you told in the beginning of the presentation that you would rather focus on consumers than margins. So, I would expect at least to shore up volumes and give consumers some benefit to use this oil, you would want to reduce prices going ahead and probably wait for the Kardi crop to come in, so just some thought on that?

Chaitanya Deshpande: Actually Akhil, you have summarized that. What we like to do, as Milind explained earlier, is to try and maintain the margins in particular band. So we do not want to see a situation where we actually drop that band significantly, and then we do not want to go much higher than that either for the logic that we have explained saying that it is much better to expand the franchise. Now going forward into the new Kardi year so to say, we will need to see at what prices we are able to get raw material and take a call accordingly. So depending on how much lower the prices are, we will look at doing something, but it is impossible to state right now in terms of what exactly we will do and the exact timing of that change.

Akhil: But then are not we risking probably losing market share and then again probably even getting flat volumes or negative volumes next quarter?

Chaitanya Deshpande: Let me just explain where we are at the moment. In terms of the price points, we have Saffola Gold, which is at Rs. 120 for 1 litre. We have the original Saffola, which is at Rs. 140 and there are two other blends, Saffola Tasty, a kardi and corn blend and Saffola Active a rice bran and soya bean blend... The prices of these are benched close to other premium oils such as premium sunflower oils. Now in the very recent past you have seen Sunflower oil prices crashing and consequently sunflower oil brands dropping retail prices sharply. They are now in the Rs. 75-Rs. 80 range. Some of them may be even lower than Rs 70. So in this situation Saffola Gold's premium is 50% and more over the others and that is the reason why you see a deceleration in the volume growth of Saffola. Going forward if we can bring this down to the normal premium that Saffola has, which could be 20% to 30%, we are quite confident we will be able to continue to grow the franchise at a healthy rate.

Akhil: Just one last question is that the Saffola volume growth that you have given is it for the entire group of Saffola including your corn blend and everything or is it only for Gold?

Chaitanya Deshpande: It is for the entire Saffola oils franchise.

Akhil: So then the consumers are not really even down trading to your corn blend, it is possible that they might be using a cheaper variant to sort of speak right now at least for now?

Milind Sarwate: Actually I feel that the quarter-to-quarter number would be a comparison, which is the last year same quarter where there may have been a different scenario, especially when we launched our new variant. Initially there was a lot of pipeline filling, comparing next year with this pipeline filling quarter is not actually a sound way. You are right that there has been some down trading, but frankly the variable on category has become very complex with several players almost everybody else occupying the same positioning. So I think that the industry is getting a little confusing for the consumers also. I feel that you should take a longer term picture and we are quite confident that we would be able to build a healthy growth in Saffola.

Akhil: Okay, sorry, just one last question is what would you see as your biggest challenge in the next six months in an overall basis in terms of consumptions or margins or whatever.

Milind Sarwate: I think the biggest challenge would be in terms of sustaining the growth in our existing categories at a volume level and we have discussed some aspects of that just now. A somewhat bigger challenge would be in terms of new products and services that we will keep launching because we believe that the economic slowdown actually gives us an opportunity for innovating more and trying out more things, including launching new products in India or overseas in the newer territories where we have entered. It could also extend to setting up new KAYA Clinics in India or expanding the KAYA life format that we are prototyping or it could relate to expanding KAYA Skin Clinic in the Middle East or anywhere else in the world. So handling the whole range of new things in the company is our bigger challenge at this point in time. I feel that as companies typically grow in certain ways we have had an acquisition related wave of growth, which has currently ebbed. We need to create more organic growth and that is what we have been busy with. So just to summarize it would be sustaining, existing category growth and increasing the organic growth component that would be our challenge.

Akhil: Thanks and best of luck.

Milind Sarwate: Thanks.

Moderator: Thank you. We request participants to limit their questions to two per participants. The next question is from the line of Vikas Rungta of Reliance Mutual Fund. Please go ahead.

Vikas Rungta: Sir, just I wanted to know the CapEx number for the remaining year and for the next year, what is your plan?

Chaitanya Deshpande: Typically our CapEx is about 15-20 crores for normal CapEx items. Then as you know we have been putting up KAYA Clinics. We intend to put up about 12 to 15 clinics per year, each of which need about Rs 1 to 1.2 crores. We have plans for a corporate building where we would spend about Rs 100 crores over a two-year period. At the end of that we will probably sell off the property that we have in Rang Sharda at Bandra, which should realize about Rs 30 crores for us. So it is a Rs 70 crore net outlay. We are also evaluating creating further capacities for our hair oils products at Uttaranchal. This could entail another Rs 15 crore or so. **Vikas Rungta:** And how much is your debt is payable in the next six months?

Chaitanya Deshpande: We have got about Rs 100 crores to be paid.

Vikas Rungta: 100 crores in the next six months. Okay. Thank you sir.

Chaitanya Deshpande: Welcome.

Moderator: Thank you. The next question from the line of Pritesh Chedda of Emkay Global. Please go ahead.

Pritesh Chedda: Congratulations Milind and Chaitanya.

Milind Sarwate: Thanks a lot.

Pritesh Chedda: My question in the Saffola side could you just tell us the safflower related business, how much is it within Saffola Oil? Just the safflower related business?

Chaitanya Deshpande: We have three variants of Saffola which have safflower oil. Saffola (original) used to have 100% safflower oil. The company has recently changed the combination to 60% safflower and 40% ricebran oil. Saffola Gold has 20% safflower and 80% ricebran oil. Saffola Tasty has 20% safflower and 80% corn oil. Saffola Gold comprises about 50% of the franchise volume while the original Saffola comprises 20% to 25%.

Pritesh Chedda: Second question is on the inventory built up. Could you just give us some information on inventory built up either with the dealer or in the system or it is a normal one for the company?

Chaitanya Deshpande: For the moment I would say it is normal. There is no inventory built up taking place at the dealers.

Pritesh Chedda: My last question is on KAYA. On the same store front, could you just give or share a little bit detail in terms of the footfall growth and the ticket size growth or is there a change there on account say maybe a cut in discretionary spends by consumer that is one on the KAYA, and second if you could now share the PBT run rate per quarter. What was it for the last quarter for KAYA two things?

Milind Sarwate: In terms of the foot fall and the rate of growth we have mentioned, there is a deceleration in same clinic growth in the third quarter. Same clinic growth was higher at about 25-odd percent in the first two quarters. That has come down to about 13% during Q3. So, there is some impact of the overall environment where people might be taking a decision on discretionary spending. In Mumbai for example after the 26/11 the environment was not at all conducive to any major discretionary expenditure by the consumer, so we may have suffered on that count in Mumbai, which is a significant portion of KAYA. But I think, we may want to look at it as an aberration so I would say that 15% rate of growth in the same clinic volume is possible for KAYA.

Pritesh Chedda: Now most of the same store growth has come from volumes that is through footfall or it is through ticket size?

Milind Sarwate: It is volume.

Pritesh Chedda: It is pure volume.

Milind Sarwate: Sure.

Pritesh Chedda: Okay and my second question was about the PBT run rate for the last three quarters for KAYA if you could share?

Chaitanya Deshpande: We would probably end up on KAYA's Skin Clinic with some negative for the year as a whole. We have put up more clinics this year than we have put up in the last year. We have opened about 19 clinics up to the end of the third quarter and may open another one or two clinics in quarter four. So we are likely to end with a negative number. It may be anywhere between zero to minus 1 crore.

Pritesh Chedda: So it is marginal.

Chaitanya Deshpande: Yes.

Pritesh Chedda: Thank you, and all the best to you.

Chaitanya Deshpande: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Sanjay Singh of ICICI Securities. Please go ahead.

Sanjay Singh: Hi, sir. Sanjay here. Sir, just wanted to know what is the positioning for Saffola Zest?

Chaitanya Deshpande: We are looking at a healthy snack. There are people who would probably avoid snacks because they are health conscious. Then there are families in which the housewife may want to provide tasty snacks to children and the husband, but has an issue of not being able to provide a healthy snack to either since she is concerned about the husband's diet etc. Saffola Zest provides an option for serving healthy snacks to her children and husband. At the same time people who are conscious about health and avoiding snacking can actually partake of snacking. What we have here is a product, which has a much lower fat content than other normal snacks available. Also, the ingredients that are used are those with high fiber etc., so they are much healthier than the normal ingredients that would be used in ordinary snacks. In a way there is a certain guilt associated with snacking, most of the people who are heavy snackers they would feel somewhere at the back of their mind that they are doing something wrong, but they do not have an alternative. Saffola Zest is healthy guilt free snacking.

Sanjay Singh: Is it targeted towards the kids in the family?

Milind Sarwate: Everybody.

Sanjay Singh: Everybody. Okay and just in the sense that any other snacking brands on a healthy position that have been successful I know of Garden a bit, but any other snacking brand in India should be successful in a health platform. Is there any other benchmark, which will be there in India?

Chaitanya Deshpande: Perhaps not. They are all small brands at the moment in the overall snacking business. If you try and segregate healthy snacks out of the total snacking business you will probably end up with 3% to 5% share only. Again healthy snacking at a mass level has not been tried before. In the whole processed foods and ready to eat foods market, there has been a lot of regional play. So, what we are trying to do through Saffola is a national brand like Saffola, getting into this category. It is of course currently only a prototype, so we will have to really wait and watch.

Sanjay Singh: What is your plan for Zest in terms of action standards, how long in Mumbai and Maharashtra there what is the action standards, which will decide that it will go forward and not go forward?

Chaitanya Deshpande: Typically a prototype takes four to six months. And the way the prototype will work is we try and figure out what inputs are required in terms of advertising and support etc., in the Maharashtra market and then apply some index for an All-India numbers for that. Basis that we arrive at the numbers that the brand should achieve in terms of volume, during the prototype. You would appreciate that we cannot share the exact numbers for reasons of confidentiality. **Sanjay Singh:** That is great. Okay, just in terms of your distribution for this, is it the same distribution system or you are adding some more people for this or how does it work?

Chaitanya Deshpande: The distribution channels that we are using will be by and large the same. To the extent that we may have to cover some smaller shops and food outlets, we will look at some additional people to reach these.

Sanjay Singh: Because I think snacking is a ready stock channel and yours would be an order-booking channel. I mean order-booking methodology?

Milind Sarwate: It is not a perishable item, so it is not like bread or milk. So I do not think there is a significant addition that is required. What we are saying is that we have typically not operated in this area, so we may want to experiment and try out some newer ways of distribution.

Sanjay Singh: Sir, how much premium would be to Haldirams or Lays depend on what format it is? How much premium would it be?

Chaitanya Deshpande: For a 20 gm pack we are priced at about Rs. 10. Other branded snacks would offer about 30gm to 35 gm is a Rs 10 pack., **Sanjay Singh:** In terms of probably advertisement will you go mass now or will you wait for, will you go mass in Maharashtra, or how does it work with…Maharashtra you know it is a segregated media as it is in AP or in Tamil Nadu?

Milind Sarwate: We will have to manage within the given the constraints. As you rightly said it is not an isolatable state, but within that there may be some opportunities of focusing only on Maharashtra. So we will exploit that. The other aspect of prototype is that we try out alternative hypotheses so within the prototype, advertising is just one of those alternatives that we try out.

Sanjay Singh: Okay sir. Thank you, very much sir.

Moderator: Thank you. The next question is from the line of Ms. Kanika Kapur of PINC Research. Please go ahead.

Kanika Kapur: Good evening sir.

Milind Sarwate: Good evening.

Kanika Kapur: Can you hear me?

Milind Sarwate: Yes, yes are of course, loud and clear.

Kanika Kapur: Sir, my question was regarding the outlook on KAYA. You have already opened 19 clinics this year, but in a difficult macro environment the same clinic growth has come down to 13%. Sir what will be your outlook? How many more… Sir is a difficult macro environment going to affect the KAYA r0oe out of clinics?

Milind Sarwate: See there are different aspects of this issue. If there is an economic slowdown around you, you can take a view that nothing is going to work and you can keep down scaling, your own business also. That way we would actually be feeding into the economic downturn. An alternative approach would be to look at what opportunities exist and accordingly tap those opportunities. Now when we speak of same clinic growth coming down to 13% we are still talking of a volume growth of 13%, which many of the product categories are also not able to achieve. So I would not say it is an unsatisfactory situation. When you look at newer clinics, newer clinic would typically tap an area, which has not been tapped before. So over there definitely there would be a growth, which is waiting to happen. Another aspect we should keep in mind is that there is a range of services and products, which KAYA offers and depending upon the ambience or the consumer mood there may be varying degrees of demand for each of these, so I feel that it is worthwhile trying out alternative approaches especially in a downturn if one is innovative there would be opportunities to be tapped over there.

Kanika Kapur: And sir what was the lease agreements of KAYA? I have been seeing are they renegotiated this, has been renegotiated at higher rates, lower rates, any light if you could put on that?

Milind Sarwate: In most of the expansion has taken place I would say in the middle of the real estate boom, so where the prices that we have got are in the middle range, they are not too low nor are they too high. The typical lease period should be about nine years, but there would be a resetting clause at the end of every three years or so. Most of these 19 clinics that we have setup this year would have come through in the declining part of the real estate boom. So on balance I think we are neither significantly well off nor are we worse off. And we have also figured out that we do not want to make KAYA a real estate play, so from that angle we are not really going after properties, which will appreciate or depreciate. So we have not taken any speculative real estate positioning while booking a KAYA clinic space. I think to that extent we are protected.

Kanika Kapur: Sir, I just wanted to clarify one point, the 78 million gain of forex in the Q3 FY'08, sir this will reflect in other income?

Milind Sarwate: That is correct.

Kanika Kapur: So if you adjust the other income for that the other income would be negative? Yes it is reflected as 75 million in the books.

Milind Sarwate: It is about 7.5 is one transaction net gain and there were some other losses. I think your question is having adjusted for that the other income would have gone into the negative. There were some other transactions, which are not of a one-time nature and hence those would have been expected to continue.

Kanika Kapur: Thank you, sir.

Moderator: Thank you. The next question is from the line of Mr. Jamil Ansari of Nomura. Please go ahead.

Jamil Ansari: Hi. Sir you said you have taken some price cuts in some of the Saffola blends, can you just quantify how much of that?

Chaitanya Deshpande: We have given a temporary price off which is to the extent of Rs.10.

Jamil Ansari: Rs.10. Okay. Just what is the cash and debt on the books currently?

Milind Sarwate: Debt is 403, and the cash is a small amount, it is not significant.

Jamil Ansari: Okay and sir is there any increase in your working capital I mean after March'08 till date.

Chaitanya Deshpande: Yes typically there would be some increase through the year largely because of the fact that safflower is a seasonal crop. The season starts only around March and the flush season lasts till about July. So a good part of Saffola's inventories need to be strategically built up during the first half of the year and then once you go to the late part of Q3 and into Q4 that starts depleting.

Milind Sarwate: I would just add one more point that typically when the volatility in the environment goes up the working capital situation would typically worsen for every company because the tendency would be to stock for the contingencies and would be to use lower prices whenever you get them and add more inventories. So directionally I think our inventory situation or for that matter the working capital situation in this year has been somewhat worse as compared to the same quarter last year, but I feel that as we go into the future volatility is more manageable and we would be able to control capital much better than before.

Jamil Ansari: Right, this is nothing to do with the problems in modern trade and I mean it is not that inventory rather, with sustaining the working capital?

Milind Sarwate: Inventory is one part of it there would receivables and there would be other things. Modern trade is not a significant part that would impact our working capital.

Jamil Ansari: Fine thanks a lot sir, all the best.

Moderator: Thank you. The next question comes from the line of Swathi Kulkarni of UTI Mutual Funds. Please go ahead.

Swathi Kulkarni Good evening sir.

Milind Sarwate: Good evening.

Swathi Kulkarni: My question is sir, against the 30% increase in copra prices over the last one-year; you have been passing on about 13%, so are we too cautious or are we still worried about the price the elasticity there?

Milind Sarwate: Raw material is not 100% of our cost, so if copra prices have gone up by 30%, roughly if you take 50% has the raw material number, at the total level you need to take up only by about 15 odd percent. So mathematically there isn't a significant difference between the price increase that we have taken and the cost increase that has happened.

Swathi Kulkarni: No, but actually the price increase during the year as been 10%, if you add 3% was in July 2007, which means then it is about 13%.

Milind Sarwate: Actually, if you look at the price the MRP is one aspect, there is also an aspect of net realization by the company. That net realization depends up on what are the other taxes etc., or what are the discounts that we offered to the trade. So net-net when we do our balancing and when we fix up a particular price increase, we take all that into account. There is also an aspect of coinage because we cannot price Parachute at Rs.39.23 paise. A mathematical aberration, which comes into place, is that if your cost increase is Rs.2 per bottle and you increase prices by Rs. 2, the margin nevertheless falls because your profit is now subjected to a higher denominator. When you look at our operating margins the rupee value of our sales has gone up, while the rupee value of our margin would have remained more or less the same.

Swathi Kulkarni: If copra prices decline from here on you surely feel that you would have pricing power at least for sometime?

Milind Sarwate: Yes we hope so like the last time copra prices went up and came down; we were able to take a step jump in our margins.)Our margins which used to be around 8% moved up during the economic to 14.5-15%. Now we are back at about 12-12.5, 13. So hopefully, if things workout well, we should move up. Although I do not think 14.5-15 is achievable in the near future.

Swathi Kulkarni: My second question is on is there is any ROCE band, which you would work on like because we are in the process of investing majorly in the KAYA Clinics and new products. So is there is any kind of band, which you would follow.

Milind Sarwate: In the past when our business was much simpler and much more predictable we were around a 35% ROCE and after that there have been some qualitative changes in the business for example as you rightly pointed out the KAYA business is far more capital intensive than our conventional business. The second point is that we made seven acquisitions in the last four years and whatever money we paid out for the acquisitions is again a capital employed at one point in time. So if you look at our international business there is a significant capital employed number. In absolute terms the investments in international business would be similar to the investment we cumulatively have in our domestic business although the scale of these two businesses is radically different. So when you take the Marico group as the whole, I think comparing ROCE of one period with another period is likely to lead to some very funny conclusions.

Swathi Kulkarni: No, I am not asking that I am just asking what is the level let us say a percentage level, which you would follow for going for expansion at this point of time because, is there any kind of threshold, which you would maintain or you would just go by the environment right now and do your investments?

Milind Sarwate: In a steady state we would aim at an economic value added of about 15% that would typically translate to an ROCE of about 30%. Why I gave you that elaborate answer explaining the factors is that when you work it out, this 30% is not necessarily uniform across the divisions.

Swathi Kulkarni: My third question is on your forex debt, you have 200 crores of which 100 crore is going to be repaid. Do we have any kind of hedged position there?

Chaitanya Deshpande: We have an ECB of USD 15 million for which the payments will begin after the December 2009 quarter. The balance forex debt will be repaid during this year over the next six to nine months. In terms of hedge, approximately 70% of that is covered.

Swathi Kulkarni: And what level?

Chaitanya Deshpande: It is between 47-48.

Swathi Kulkarni: Thank you. Thank you, very much.

Moderator: Thank you. The next question is from the line of Ritesh Poladia of Daulet Capital. Please go ahead.

Ritesh Poladia: Good evening sir, my question is again on Saffola Zest positioning, is it near to biscuit or potato chips?

Chaitanya Deshpande: Actually neither of the two, it is an extruded snack – more for munching.

Ritesh Poladia: So that distribution channel would be the same as of normal Marico or you need to extend the distribution channel also?

Milind Sarwate: By and large it would be the same because finally it is the retail outlets only, which sell these products.

Ritesh Poladia: No, what I mean to say is like this would be also available at railway stations, canteen and all those places where generally Marico products are not available?

Milind Sarwate: **No** but the channels, which supply to these outlets are similar. In some cases we may have to engage some special distribution effort.

Ritesh Poladia: And where would be our new headquarter coming up?

Chaitanya Deshpande: That is in Kalina.

Ritesh Poladia: That is all from my side, thank you.

Moderator: Thank you. The next question comes from the line of Amar Kalkusreekar of HDFC mutual fund. Please go ahead.

Amar Kalkusreekar: Hi, Thanks gentlemen. My question is on Kardi oil that the prices have come down sharply in the month of January and they are down about 30% from December prices and using the solvent extractor data. a) What is the reason what is happening in this category earlier we were saying that this is relatively small product category not much stood at globally, so what is happening there. b) What impact does it have one competition you earlier mentioned that there are some competitive products that are available at Rs.75-Rs.80 a kilo that price will have a bearing on this and c) what is the extent of inventory of Kardi oil that we carry, we will be in a position or rather be taking benefit of this fall in Kardi prices may be we will have inventories in beginning of the flush season and so if you could just clarify on those?

Milind Sarwate: Let me give you the fundamental approach that Marico has. We are not a player in commodity. So we do not necessarily focus on Kardi oil prices here and there, we focus on the brand. Now commodities are an important part of every company's cost sheet and as they would be in case of Saffola, so I do not think movements in a particular quarter would impact our pricing strategy beyond a certain level. Then again the data, which is available it would also vary from time-to-time. Simply because Kardi oil is not such a deeply traded commodity, 30% fall in any particular month may or may not be feasible because the season has not yet started. If you look at our inventory etc., we do not get into position taking for security purposes, so whatever we buy or whatever we contract is linked very closely to the consumption that we expect and the demand that we expect. If I have to summarize I would say that we would rather focus on building the brand and commanding a premium, which enables us to absorb commodity prices, which go up and down and hence what we target typically is a certain margin over a longer period than a quarter. So comparison of either Kardi prices or the retail prices or for any given quarter is not really a sound way. If I have to address the underlying concern that you may have I do not think the Kardi oil raw material pricing is a cause of concern for us. If this sustains over the next say one year or so then we might have to take a call, but that I think we will have to wait until the season begins and the prices are more realistic.

Amar Kalkusreekar: My second question is on Saffola Zest. Earlier in the past we have been mentioning that we would avoid categories where MNC's are present and competitive intensity could be very high. Now this is the snacking product, which basically it is a sort of impulse consumption and we definitely have a differentiated offering from Lays or Haldirams but still we would be competing against those products, so broadly what is your philosophy here if you could clarify a bit on this aspect?

Milind Sarwate: We believe that if you take healthy snacks as a category there are not many players, which are offering healthy snacks like Saffola Zest. It is very similar to Saffola oil, if you want you can classify Saffola oil as an edible oil but as I mentioned earlier we are looking at it more as a healthy product for a certain lifestyle. So it depends up on how you draw up your categories. Yes, you are right that in the area of snacking in general there are lot of MNCs, which are operating but I think that the niche that we are trying to occupy is a unique one, nobody has been in that niche. The only doubt, which one would have, is whether that niche is large enough for us to make significant amount of money. That is the question, which our prototyping and our overall experience over the next few months would reveal. We believe that it is a large category and that is why we are prototyping.

Amar Kalkusreekar: All right thanks. That is it from me.

Milind Sarwate: Thank you.

Moderator: Thank you. The next question is from the line of Ankit Jain of Mata Securities. Please go ahead.

Ankit Jain: Congratulations sir, for the good set of numbers.

Milind Sarwate: Thank you.

Ankit Jain: I just wanted to know what would be the MTM losses for the quarter as the rupee had further depreciated from September 30th and since now you have changed the accounting standards you would be reporting this on balance sheet, so would you be adjusting last quarters MTM losses for the whole year, you would be just for this quarter?

Chaitanya Deshpande: It is only from this quarter onwards. The number would have been five crores this quarter. What is reported last quarter is there on the P&L account?

Ankit Jain: That would remain the P&L account?

Chaitanya Deshpande: That is correct.

Ankit Jain: And sir during the quarter I guess you have repaid around 100 crores debt and sir how come the interest rates have gone down and it is because of reshuffling of debt or foreign currency debt?

Chaitanya Deshpande: That is because the proportion of foreign currency debt has gone up.

Ankit Jain: It is because of debt has come down to 8.5%. Rest of the questions has been answered but on KAYA like you have gone fast adding up clinics, so is it because of you are taking a contrary view and you want to add like additional clinics at low lease rentals.

Chaitanya Deshpande: No actually it is not to do with the trend in lease rentals etc.We are seeing a demand for the KAYA kind of services. We believe that there still is untapped demand in the cities where we exist. The six clinics in the last quarter for instance were put up in the existing cities of Bombay, Delhi, Chennai etc. So it is more demand led than anything to do with how lease rentals are moving. Like Milind said earlier, we are not basing the business around opportunities or movements in real estate and lease rentals.

Ankit Jain: Okay Sir, Thanks a lot.

Chaitanya Deshpande: Thank you.

Moderator: Thank you. Our next question is from the line Raj Shastri of Helix Investments. Please go ahead.

Raj Shastri: Sorry, I had got knocked out so I do not know whether my questions are answered and just one clarification did you say that the volume growth on a same to same basis in KAYA was 13%?

Chaitanya Deshpande: Yes that is correct.

Raj Shastri: If I remember correctly there was a price increase in the last quarter the sales growth was around 25%-26% and 10% was volume while 15% or other way around 10% were volume and 15% was on price increase, is that correct?

Chaitanya Deshpande: That was in the earlier year, this year we have not taken any price increases.

Raj Shastri: And I also know this that there is a difference in the advertising expenses in your consolidated and your standalone there is a huge difference, was it because of high advertising in KAYA or international business?

Chaitanya Deshpande: That is correct.

Raj Shastri: So where was that exactly in this advertising expenses?

Chaitanya Deshpande: If you look at the ad expenses in KAYA, they have moved up from around 10%-11% of sale, to about 14% of sales now on a higher sales base. The reason is that now that we are in 20 cities it is possible to start advertising on television. In both Egypt and South Africa we have restaged brands - Fiancée and Caivil. Moreover we have into the hair dye category in Bangladesh. , All these put together have also increased the numbers in the international business as a percentage to sale; it is in the 14-15% ballpark.

Raj Shastri: Right. During the fact that your international segment is mostly hair care, do you think that the margins, which you make there at this point in time is similar to the domestic hair care segment?

Chaitanya Deshpande: No, actually they are a little lower than the domestic margins as a whole.

Raj Shastri: You are talking about the EBITDA margin or the gross margin?

Chaitanya Deshpande: EBITDA margin and it would also reflect at the gross margins level; however, what we are trying to do is over the next few years is to try and see that we catch up with the domestic margin levels that are prevailing as of now. This can be accomplished partly by higher pricing, though given the high inflation faced during this year it has been more difficult to pass on all the raw material increases. In Egypt for instance inflation rates where as high as about 20%. We are seeing some easing of the inflation rate in Egypt. It had peaked at about 23 they are now at about 16%. We read that the outlook is that it should come off to about 10%-11% in the next year. So the cost push might go down a little. But more importantly, what is much more controllable by us, we have taken initiatives on the supply chain in the back room. In Bangladesh we have now begun crushing copra and in Egypt as you might be aware we have put up new factory that we would use for supplies not only for Egypt but for the MENA region. These two initiatives should definitely help us in bumping up the margins in the international business.

Raj Shastri: Excellent just one more question, this 44% growth rate in the international markets how much will be organic you know a just figure?

Chaitanya Deshpande: Virtually all of it is organic now. The numbers are actually 44% and 43%; it is just one percent inorganic.

Raj Shastri: Great thanks a lot, best of luck for the year.

Chaitanya Deshpande: Thank you very much.

Moderator: Thank you. Next question is from the line of Gautam Duggal of Macquire. Please go ahead.

Gautam Duggal: My question pertains to the Egypt business, how it is shaping up and what kind of growth can we aspect on this supply chain issues are addressed.

Milind Sarwate: In Egypt we acquired two brands in quick succession and we have taken a conscious call at that time that we would not tinker with the distribution system. In fact when we acquired Hair Code we let the erstwhile owner of the brand continue distributing for a while. Over the past few quarters we have been increasingly working on streamlining the distribution network and we have also been trying to shift some of the distribution framework to a framework similar to the Indian framework. You know that in the whole FMCG business the distribution network is the lifeline of the business… it is like living in a house while you are renovating it. So, there are obviously going to be some aberrations and interruptions. We were anticipating that. Where we have been a little surprised is that the pace at which we could complete the streamlining and the cost at which we would do it. We have had some negative surprises. Since Egypt is not a very large part of our total business those surprises have not resulted in anything major on the accounts, but our growth journey in Egypt has been temporarily halted because of this and also the fact that the bandwidth has been used to set up the third factory, which would cater to the MENA region. Ordinarily we would have made these changes in the first year itself, but we consciously chose to postpone them. So it looks as if the Egypt business grew and then it has stopped growing. I feel that this year is something, which we would not be able to retrieve; we would not be able to grow this year in Egypt. Next year onwards, I think we should be back in the broad range of around 10% to 20% growth for Egypt. We would also look at whatever synergies that come through the third factory supplying to the MENA region, so that is also an upside, which we have not yet factored.

Gautam Duggard: Okay. Thank you.

Milind Sarwate: Thank you.

Moderator: Thank you. Our next question is from the line of Harit Kapoor of B&K Securities, please go ahead.

Harit Kapoor: Good evening everyone. Question firstly on international business of 44% growth in the quarter with the Egypt business degrowing is particularly impressive? Just wanted to get an idea regarding how the other geographies have done because my assumption would be over 50% kind of growth. So just wanted to know what had lead to the strong growth in all the other three geographies?

Chaitanya Deshpande: That is correct. The number is in that area. In fact, the Bangladesh region has grown even faster than the number you indicated. Parachute has done extremely well in Bangladesh and, you would have noticed from our quarterly updates, we've reported higher market shares virtually every quarter. While we usually look at increasing market share over a 12-month period here we have been seeing an increase every quarter.

We have actively looked at trying to get people to move from loose consumption into branded consumption in that market, so that has led to a good pace of growth. The brand is also extremely strong in comparison to its competitors.

In the Middle East I think we have been able to bridge the market share gap with the leader. We are virtually now snapping at their heels. What has helped us do this is targeting a product category where it is probably a little bit of a fringe category for the large MNC players and not in their focus. What we have also done is looked specifically at product needs for the region. We have made mention of hair cream, which is suitable for harsh water. We realized that this was need for the consumer there and we were able to introduce that product. Over the last few quarters that has done extremely well for us. Also earlier we focused on the small geographic area of the UAE. But over the last maybe year-and-a-half or two we have been started to focus on the entire GCC region and especially the kingdom of Saudi Arabia, which is the largest market in the area. Making in-roads there has also helped us grow significantly in that market.

In South Africa it has been essentially integrating over this one-year period. As we mentioned in our update we launched variants in some of our products. We have commenced the restaging of Caivil and the reception to that has been pretty good in the initial period. All these together have helped us to grow much faster.

Harit Kapoor: Sir, on the business investment, in the GCC markets our major products would be in the range of hair creams as well as hair oils if I am not mistaken?

Chaitanya Deshpande: Hair cream and hair gels and then there is a component of Parachute Coconut Oil as well.

Harit Kapoor: Right. Sir my last question is on Saffola Zest. You know any incremental new launches that we have done across categories I think the focus has been on maintaining good margins I mean to enter categories and margins are better. Just wanted to get an idea what kind of margins would we be looking at in a category like this and especially with a positioning that we have on Saffola Zest, just a broad idea what we could be looking at?

Chaitanya Deshpande: It would not be significantly different from where Saffola is.

Harit Kapoor: Okay, so that would be probably slightly higher than our overall margins?

Chaitanya Deshpande: It is around average margin.

Harit Kapoor: Okay sir. What would be the key input for a product like this, I mean in terms of commodity?

Chaitanya Deshpande: We use a mix of high fiber grains for this.

Harit Kapoor: Okay sir, that is it from me. Thank you very much.

Chaitanya Deshpande: Thanks.

Moderator: Thank you. Our next question comes is from the line of Ashish Upganlawar from ShareKhan. Please go ahead.

Ashish Upganlawar: All my questions have mostly been answered. Just wanted to understand what can be the growth in the South African market because I think you have touched upon Bangladesh, Egypt. South Africa how would it be in the coming times?

Chaitanya Deshpande: We should be able to do something in the ballpark of 14%-15%.

Ashish Upganlawar: Okay. On the profitability front how is each of these markets doing Egypt, South Africa, Bangladesh and GCC?

Chaitanya Deshpande: During the course of this year Egypt obviously, you know, because of the slowdown in the topline it would not have been able to absorb as much as of the overhead and therefore the profitability in the Egypt market would fall, but it is largely to do with the deceleration in the topline. Overall in some of the other markets also like Egypt as well as maybe Bangladesh, like we were mentioning earlier, there has been a cost push and therefore the margins during the course of this year have been a little squeezed, the international margins like we shared maybe about 300 basis below our average margins, but going into the next year we see a possibility of increasing this for the reasons I explained - initiatives in the backroom for copra in Bangladesh and the plant in Egypt, etc.

Ashish Upganlawar: Okay. On the tax rate what can be expected in the next year, about 22% and there about?

Chaitanya Deshpande: That is correct.

Ashish Upganlawar: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Bhushan Gajaria of IDFC SSKI, please go ahead. Mr. Gajaria the line has been unmuted. There is no response from the line of Mr. Gajaria. We will go onto the next question. The next question is from the line of Shirish Pardeshi of Anandrathi. Please go ahead.

Shirish Pardeshi: Hi, good evening Milind and Chaitanya.

Milind Sarwate: Hi Shirish.

Shirish Pardeshi: Just a couple of questions. If you see your A&P spends it is in between 12% to 13% of net sales, now to be honest we have launched three products in this quarter over last one month, now your A&P spends is going to go high, so it safer to assume that the full year A&P spends would be higher than 13%?

Milind Sarwate: Actually the whole A&P question has to be viewed in totality.

Shirish Pardeshi: I am referring last year, it is 12%.

Milind Sarwate: I agree, but we do not take a call only on these three products, there is a total A&P budget and we keep allocating and reallocating it to various products. Rationally if you see we have always been in the range of 11% to 13%, so I do not see any significant shift in that approach. Also as we get more and more of KAYA turnover into our consolidated numbers, the KAYA number of ASPs is higher at 14%, so that would also make a difference.

Shirish Pardeshi: Yes, that is the reason I am saying this because I heard on the conference call the product prototype is not yet completed; but although we have already started the baked products. So, I was thinking that if the distribution is not completed and we have started spending, is that going to be higher A&P spends?

Milind Sarwate: Maybe, but we have to remember that we are running a business; we are not running number of A&P to sales. It will have to be conscious of what will get us the best consumer response. We do not want to over focus on quarterly numbers.

Shirish Pardeshi: I am not referring that and if I have said that I am mistaken. What I am trying to say is we are going to see that more than 13% or we will still maintain the 13%?

Milind Sarwate: What I am saying is that there is a certain purpose of the A&P; that purpose we will focus on, which is creating greater demand or enhancing existing demand. Now as a result of that it may range anywhere between 11% and 13%, which has been our secular, long-term number. I would not want to hazard a guess based on now that we have launched three products and we have launched some baked products that it will go up or go down. So I do not want to get drawn into a specific number debate based on this.

Shirish Pardeshi: Okay. Much has been said on Saffola Zest. What are the new other products we can expect on Saffola brand equity?

Chaitanya Deshpande: Essentially what we are trying to do here is to leverage the heart equity of Saffola. Hitherto it has been refined edible oil. We have had a very small healthy salt product as well. Then you saw the introduction of the two functional foods Atta mixes. Zest has been one of the latest ones and like we mentioned earlier, we have also got into healthy rice, which is low GI rice. What all of these have in common is that they address certain conditions that are related to heart care be it addressing something to do with diabetes, something to do with cholesterol management and in the case of the rice it might be weight management as well. All these conditions finally get laddered up to heart care where Saffola's equity lies.

In terms of specifics of which other products we can get into it, we would not be able to comment right now, but yes there is some work going on in the backroom. For the moment there are these two prototypes, which if successful will get nationally launched. So there is a quite a lot of work to be done on these two itself and as we move along we would see some other stuff but basically the guiding principle would be leveraging Saffola's equity - food which can be connected to "good for your heart".

Shirish Pardeshi: Okay. Just one more question, if I will have to assume, what kind of A&P spends you would be looking at in terms of sales coming form that product down the year, say maybe a year or two?

Chaitanya Deshpande: Typically for new product it could be anywhere between Rs. 10 crores and Rs. 15 crores, but specifically for each of these I would not be able to comment. That would actually depend on the learning from the prototype. We figure out what is working, what is not working, what is competitive reaction to this, how consumers are responding etc. So it might be a little too early to say what we will spend on this specific category.

Shirish Pardeshi: Okay. Just last question. Can you give me the break up of 73 clinics in Kaya?

Chaitanya Deshpande: Shirish I will send that to you over email.

Shirish Pardeshi: Okay. Thank you. Best of luck.

Chaitanya Deshpande: You are welcome. Actually they are on the Kaya website too. You could get it from there.

Shirish Pardeshi: Well, I was more interested how many are there in Bombay, because at some point of time we have to ….

Chaitanya Deshpande: 16 in Bombay.

Shirish Pardeshi: With the current list?

Chaitanya Deshpande: That is correct.

Shirish Pardeshi: Okay. Thank you.

Milind Sarwate: Welcome.

Moderator: Thank you. Our next question is from the line of Rajeev Agarwal of VCK Stocks and Shares. Please go ahead.

Rajeev Agarwal: Good evening sir.

Milind Sarwate: Good evening

Rajeev Agarwal: My question is related to the margins front, how much we are making in international business margins vis-à-vis domestic margins?

Milind Sarwate: See our overall margin as I mentioned is around 12.7%.

Rajeev Agarwal: Okay.

Milind Sarwate: The international business margin is in high single digits as yet because the businesses continues to be in investment stage. Out of these if you look at the various countries, they are at various stages of evolution. So in Bangladesh for example we would have healthier margins than the international business average.

Rajeev Agarwal: Okay.

Milind Sarwate: And in some of the places like Egypt the margin flows into PAT because businesses are in tax-free zone.

Rajeev Agarwal: Okay sir. And my other question is regarding what is the market share of Fiancée and hair coat brands in the Egypt market?

Milind Sarwate: It is about 60%.

Rajeev Agarwal: 60% and what is the size of the Egypt market sir and how much it is growing?

Milind Sarwate: That would be about Rs. 170 crores to Rs. 200 crores. It has been growing – in the past it has grown at much faster at least than now. It used to grow at about 15%-20%, but there has been a huge inflation in Egypt, the high points were about 24%, it has come down to some extent. In Egypt these markets are value for money markets so they are somewhat sensitive to inflation.

Rajeev Agarwal: Okay.

Milind Sarwate: I think in the long run we would expect a rate anywhere between 8% and 10%.

Rajeev Agarwal: Okay sir. One more question, last question. Sir, what has been the response to some of the prototypes like Maha Thanda and Hair & Care Almond Gold, Parachute Advanced, Night Repair Cream?

Milind Sarwate: In case of Almond Gold the response has been good. In case of Night Repair Cream also the response has been good. Unfortunately, the Maha Thanda response has been somewhat Thanda, so we have not yet taken a call on the brand. The prototype still continues. It maybe too early to conclude.

Rajeev Agarwal: Okay sir. Thank you sir.

Milind Sarwate: Thank you.

Moderator: Thank you. Next question is from the line of Anand More of Reliance Equities. Please go ahead.

Anand More: Good evening sir.

Milind Sarwate: Good evening.

Anand More: The first question pertains to the international business. The growth of 44%, how much is it coming from currency impact and how much is it coming from volume growth? Plus what is the price hike we have taken over there?

Chaitanya Deshpande: Out of the 44 about 20% odd is out of currency.

Anand More: Okay.

Chaitanya Deshpande: And the rest would be a combination of volume and value.

Anand More: Fine. But just wanted understand, there will be a threat of price cut over there in those markets?

Milind Sarwate: It depends on the category because if we control 60% of the market as in Egypt or if we control 74% as in Bangladesh, the pricing power lies in our hand. So unlike very competitive markets, we have to grapple only with the consumer's response not the competitor's response. So it depends on each situation. The fact is that the international business is now fairly broad-based with business in Egypt, South Africa, and Middle East, Bangladesh and there are other sundry countries to which we supply. So what we have observed is that these pressures may not hold uniformly in all the places, our branding power is different in different country. I think the balancing of the portfolio has taken place in some manner or the other and it would only be better as we go along.

Anand More: Yes true. Second question was more with regard to the standalone numbers. Our employee cost for nine months just showed 4% growth and A&P shows a 3% growth. Was there any specific reason for the same?

Milind Sarwate: I think both these numbers we should ideally compare at an annual level. Having said that, definitely the year has been a tough one for the industry as a whole and if it comes to A&P we have been more judicious in our A&P expenditure than earlier period just because one would want to play safe and conserve money for the A category items.

In case of employee cost, there is a certain element of variable or extra numbers that we would budget for. Those budgets also this year we will reallocate only at the end of the year when we know the final performance vis-à-vis the budget. Some new imponderables come into play in – because of the volatility of the economy; exchange gain or loss is a factor, which comes into play and that forces us to wait until the year is over before we provide for everything. Also some one-time changes like in gratuity valuation because of interest rate fluctuations the discounting rate would also change. So basically my feel is that because of the volatility in some macro economic factors like crude oil or exchange rate or interest rates, there have been some unprecedented impacts from quarter-to-quarter. It may be worthwhile looking at the whole year to reach conclusions about the same.

Anand More: So basically it means Q4 might be a heavier than the nine months?

Milind Sarwate: Yes.

Anand More: Okay. Third question, you mentioned about receivables from modern trade has not been an issue, but still other receivables have increased. Does it mean like receivables from general trade has increased or the credit term for the general trade have increased?

Milind Sarwate: One has to keep in mind that the number is for the whole group, so it would relate to other countries, other markets. Actually in terms of trade for the international market, the average debtors is higher, so as the share of the international business goes up it will have an impact.

Anand More: But in domestic business we are not seeing any issue over there is it like credit term has not increased with the distributors?

Milind Sarwate: No.

Anand More: Okay fine. Thanks.

Milind Sarwate: Thank you.

Moderator: Thank. The next question is from the line of Kunal Bhatia of Dalal & Broacha. Please go ahead.

Kunal Bhatia: Hello sir, congratulation on a good set of numbers.

Milind Sarwate: Thank you.

Kunal Bhatia: Sir just had a question on debt side; you would be paying off your Rs. 150 crores of debt within a period of one year and that is more of Indian currency. So would we expect a fall in interest cost going forward and for the next three months and the year forward?

Chaitanya Deshpande: Yes actually if you see the average rate of debt we had indicated last quarter it was 9 and it has come down to about 8.5 now, so your assumption is correct.

Kunal Bhatia: Okay. On a long-term basis what would be the debt position for the company as a whole, Rs. 403 crores currently. Would you be taking in more loans after the payment of that Rs. 150 crores or you would be coming down on your debt?

Milind Sarwate: Rationally we will reduce our debt simply because the business does not require huge amount of capital employed.

Kunal Bhatia: Right.

Milind Sarwate: There have been two, three factors for which we would borrow; one of them was acquisition and much of the debt that you are seeing would be on account of the acquisition. The other reason why we would borrow is for our Corporate Centre or the R&D Centre building that we are purchasing, so those would be very specific debts and in all probability they may be longer-term debts because they are into real estate related debts.

Kunal Bhatia: Right.

Milind Sarwate: So you may see debt on our balance sheet for a long period of time but I doubt whether the current level would be sustained; unless we end up acquiring something, which is really a large ticket item.

Kunal Bhatia: Okay. Just one question on Saffola Zest; how much have you already invested in that product?

Milind Sarwate: Invested as in for advertisement?

Kunal Bhatia: Yeah advertisement and as well as production.

Milind Sarwate: It would be too premature to look at because we are prototyping in Maharashtra

Kunal Bhatia: Okay.

Milind Sarwate: So the expenditure is still being incurred, it is just two weeks.

Kunal Bhatia: Okay.

Milind Sarwate: This would be accounted in Q4 anyway so, does not relate to Q3 at all.

Kunal Bhatia: Alright sir. Thank you very much.

Moderator: Thank you. Next question is from the line of Pritesh Chedda of Emkay Global. Please go ahead.

Pritesh Chedda: I have a follow-up question. In a steady state raw material price scenario, which we are seeing now say for copra or Kardi continuously, What would be the most important consideration for any adjustments in prices of the key products of Parachute and Saffola, if you could maybe answer that. What could trigger an adjustment price adjustment?

Milind Sarwate: It would depend upon what is the ambient consumer behaviour or changes in buying patterns. We would do whatever is needed for acquiring a sustained volume increase.

Pritesh Chedda: Okay.

Milind Sarwate: It is always possible to lower prices and get a certain demand, but depending upon the kind of equity that the brand is creating we would adjust the prices. Towards the high-end by and large experience would be that if there is a high-end product, lowering of prices does not necessarily bring you volumes.

Pritesh Chedda: Okay.

Milind Sarwate: So it will depend. If it is a VFM mass product then we may want to play with the price. If it is a premium product we may not play with the price.

Pritesh Chedda: Okay.

Milind Sarwate: We could end up prototyping and trying out different options and then we will take a call.

Pritesh Chedda: Okay. But will volume consideration be superior to margin considerations at the point in time?

Milind Sarwate: Yes, as I mentioned getting consumers is more important than getting margins because in the long run margins are available.

Pritesh Chedda: Okay.

Milind Sarwate: When the environment changes the margins are always there for you.

Pritesh Chedda: Okay and second is say in the last three months lot of thing has changed. How has the competition reacted and how is the general industry mostly in your product areas, how it is reacting?

Milind Sarwate: I think the FMCG sector has been an island of growth when the economy is not growing as well as it was before. So, I think the competition has found that after a long time the sector is growing ahead of other sectors. That is one feel good factor for the whole sector. There have been the usual concerns, which the media or analysts and the fund managers keep asking whether there is down trading, are people giving up your products to enter some lower products, so I think that has been a concern with everybody. The approaches to the downturn have varied from company to company and our approach has been what different things can we do in this particular situation, what are the areas where we can tighten our belt; it maybe that we are continuing to do well despite the downturn but we need to use the overall situation for improving our cost structure. I think the industry is also thinking on similar lines. You would find cost control being the focus almost in every company. You would find that any investment decision is being scrutinized far more than before. So I think we are in the same boat so to say but we are also trying to figure out what difference can we do as compared to the competition?

Pritesh Chedda: Okay, so if I read it is there a case where one can actually look at a better pricing environment at least for the medium term in the industry and a chance or a probability to retain if cost indices come down, you know, probability to retain a bit of the cost indices if they come down?

Milind Sarwate: I think so.

Pritesh Chedda: Okay.

Milind Sarwate: It will depend on the situation and the category.

Pritesh Chedda: Okay.

Milind Sarwate: I feel there are far too many things, which are happening at the macro level.

Pritesh Chedda: Okay.

Milind Sarwate: Fluctuations in some macro parameter.

Pritesh Chedda: Okay.

Milind Sarwate: Like interest rate, crude oil or foreign exchange overall commodity cycle. There have been upheavals in the security area for example with 26/11, there will be elections coming around next year.

Pritesh Chedda: Okay.

Milind Sarwate: There are far too many things, which are not industry specific, which are happening and we will have to keep the impact of these events in our mind. The other thing which we see happening is that any consumer behaviour is quickly getting radiated because of the increasing clout of media in general.

Pritesh Chedda: Okay.

Milind Sarwate: I have a feeling that a part of the economic downturn is actually being contributed to by the media.

Pritesh Chedda: Yes.

Milind Sarwate: Stories of economic downturn are there everyday. Even the non-believers would start believing in it some time or the other.

Pritesh Chedda: Okay.

Milind Sarwate: That has a direct impact on our consumer behaviour.

Pritesh Chedda: Kind of a herd effect. Is the growth momentum – this is the first time where I actually saw Marico reporting the rural, urban mix and specifically having a para separately on the rural site. Is the growth momentum stronger in rural versus the urban at least for the last couple of months and if you could quantify maybe for the industry and for Marico in particular?

Milind Sarwate: For Marico it may not matter too much, but if you look at the industry for logical economic parameters yes, there would be greater comfort in rural areas as compared to the cities.

Pritesh Chedda: Okay.

Milind Sarwate: Some of the impacts of the global economic meltdown would be faced initially in the cities. Most of the job losses and companies going down under would be felt more in the cities and unlike overseas, the gap between cities and villages in our country is significant and the domino effect between the two is there but it is not so sharp as it would be the case elsewhere.

Pritesh Chedda: Okay.

Milind Sarwate: So much will depend upon the next year's monsoon and the next year's agricultural forecast.

Pritesh Chedda: But until that time things look on the growth momentum side, on the volume side the rural looks pretty okay?

Milind Sarwate: It looks okay. I would not call it a great opportunity in rural etc., but I think it is better than the urban area.

Pritesh Chedda: Okay. Many thanks to you and all the best sir.

Milind Sarwate: Thank you.

Moderator: I will now hand the conference over to Mr. Zaveri, as there are no further questions.

Anish Zaveri: Thank you all for participating in this call. Milind, Chaitanya thanks a lot for coming along and I am sure challenging times ahead but Marico is certainly better placed than many other companies in India, so wish you all the best and thank you, we all thank you on behalf of Antique for participating in this call.

Milind Sarwate: Thanks to everybody.

Moderator: Thank you Mr. Chaitanya, thank you Mr. Sarwate, and thank you Mr. Zaveri. On behalf of Antique Broking and Marico Limited that concludes this evening's conference call. Thank you for joining us and you may now disconnect your lines.