Marico Limited

Analysts/ Investors Conference Call

January 23, 2007

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I'm Johnson, moderator for this conference. Welcome to the conference call of Marico Limited hosted by India Infoline Securities Limited. We have with us today Mr. Milind Sarwate, CFO of Marico Limited, and Mr. Chaitanya Deshpande, Head Corporate Finance to discuss the company's strategies and growth plans going forward. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Vanmala Nagwekar.

Vanmala Nagwekar: Good afternoon everyone. On behalf of India Infoline I welcome you all to the third quarter earnings call on Marico. It is a pleasure to have with us Mr. Milind Sarwate and Mr. Chaitanya Deshpande. Mr. Sarwate would take us through the highlights of the quarter followed by the Q&A. Over to you Mr. Sarwate.

Milind Sarwate: Good afternoon everybody. This is Milind Sarwate, and as mentioned earlier I have my colleague Chaitanya Deshpande with me. We have put out a lot of information in public domain starting with our information update as also the media interaction that has got recorded in the public domain. So I would just pick up the three of four highlights of this quarter, and then leave the floor open to you.

The biggest highlight of the quarter according to us is that we have had a very healthy volume growth all across all our franchises. Most of our organic growth of 20% has come through volume growth. We also had a very good acquisition led growth of 17% in this quarter. We also completed one more acquisition in Egypt. In terms of capital structure we raised equity through QIP in this quarter. And the other highlight is that in terms of bottom line we have continued to grow at a rate, which can be considered healthy in terms of net profit. And we have continued to distribute dividend every quarter. So in some ways it has been a normal quarter in terms of overall profitability maintained and dividend etc. In terms of volume growth, this has continued to be another good quarter. We now have three quarters in a row where we have grown by volumes in excess of 15%. So we feel that our growth story in terms of gathering consumers continues to unfold, and that is the biggest building block for sustainable profitable growth. So having picked up a few highlights of the quarter, I now leave the floor open to all of you for all the questions that you may have. Wherever you have fact-based questions, where information could be had from our website, or the information update, I would request you to refer to that. Wherever there are any insights to be shared or any special analysis to be brought out, I would prefer to answer those questions, otherwise we will be wasting a lot of time of all the people who have logged in on to this call. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Mr. Anirudh of Anand Rathi Securities.

Anirudh: Hello sir. Can you guide me about the copra prices outlook? I guess they were supposed to stagnate or go up. So what's the update on that side?

Chaitanya Deshpande: Hi, this is Chaitanya. During this quarter, the copra prices were up by about 13% on a YOY basis.

Anirudh: 13?

Chaitanya Deshpande: Yes 13% for the quarter of October-December on a YOY basis. Going forward into the next year, it’s actually very difficult to project, and that’s what we have been saying all along - that copra prices are not something that we can very easily put our fingers on a one year kind of basis. But for the moment it looks like prices are going to be up next year, maybe to the extent of about 10% on YOY basis over this year.

Anirudh: Okay, just one more thing. That as Mr. Milind told us that most of the growth is volume growth, the 20% growth is volume growth.

Chaitanya Deshpande: About 17% of that is volume growth, 3% is a result of by slight price increases. We haven't taken a price increase in Parachute coconut oil as yet.

Anirudh: No, but if the raw material has gone up that substantially, are we looking at price increases?

Milind Sarwate: Raw material price increase is just one of the factors. As we have mentioned earlier in this forum and elsewhere, about two years ago we took a call that we will price our consumer products in a manner not necessarily related to the underlying commodity. So we had not reduced the prices of Parachute Coconut Oil despite there being a fall in the input price. So now that the input prices are going up, we will take a fresh look and we might decide on a price increase sometime during the early part of the next financial year.

Anirudh: Okay, but if copra prices remain like this then do you see the margin of coconut oil, lets say a bit lower than previous quarters.

Milind Sarwate: Yes we believe that if you look at the margins on all consumer products, we should view them not on a quarterly basis, but more on a rolling four quarter basis. I don't think quarterly fluctuations are to be taken into account for the long term profitability of a particular category. By the same token the corresponding quarter last year, we had probably the highest operating margin we ever recorded. Just as that was not sustainable, a particular quarter with a low margin would also not be sustainable on the other side.

Anirudh: Okay, so that was my question.

Moderator: Thank you sir.

Chaitanya Deshpande: Thank you.

Moderator: Our next question comes from Mr. Rana & team of Kotak PMS.

Rana: Hello.

Milind Sarwate: Yes.

Rana: Yeah hi. My question relates to the, ad spend during the quarter which we saw at a little higher level, what is the outlook going forward, is it like the ad spend was too high in this particular quarter for some reason and its gone too normalized over the following quarters.

Milind Sarwate: Again directionally, I would dissuade conclusions being drawn on a particular part of performance, because you are very well aware that in an industry like ours, the ad spend gets governed by how many major launches, or major media activities you had in a particular quarter. Now that varies from quarter to quarter, and in some quarters we would have an exceptional activity leading to an exceptional expenditure. From an accounting standpoint, we do not capitalize any part of advertising and sales promotion, so whatever takes place in a quarter, we write it off during that quarter. This quarter particularly saw a major expenditure, which pushed up our cost by almost 4.3 percentage point, and one of the reasons why our operating margin is lower than the earlier quarter is because we have chosen to invest a lot in various activities of brand building. Out of the increased ASP, about 60% went to new products. So, it is essentially the profitability of the existing lines of the company, which is being leveraged for creating room for new products we believe are the building blocks for the future. In terms of rupee value also the quarter saw an exceptionally high ASP. So I do not think in terms of rupee value this is projectable into the future or not on an ongoing basis. Just to give you the statistical perspective, this quarter we had an ASP of 13.7% of sales value. In terms of sheer numbers, it is one of the highest that we may have recorded. I don't think ASP will remain at this level.

Rana: Okay, thank you.

Moderator: Thank you sir. Ladies and gentlemen, we request you to kindly use your handsets while asking your questions. Our next question comes from Mr. Janish Shah of Networth Stockbroking.

Janish Shah: Good evening sir. I have two to three questions. One is you have mentioned that the margins in the particular quarter has been a little bit impacted because of the higher copra prices. I would just like to have some understanding on the margins, which you are getting it in the recently acquired brand, and Egypt, Fiancee. You have as well mentioned that the Kaya has also shown a breakeven during the current quarter. So I believe that the margins in that business is also improved or contributed to the overall margins. I mean, overall in the margin scenario, could we just have an idea as to where the impact has come in, and where the impact has been offsetted and on a longer term basis what kind of margins we are expecting in Fiancee and Kaya?

Milind Sarwate: Okay, I will break down your questions into two or three parts. First of all, the acquired brands have a significantly higher margin profile than those in the Indian market. As we have mentioned earlier, the after tax margin that we could obtain in Egypt, is between 15% and 18% of sales, which is more than twice what we've been getting in India. So in terms of the profile or the character of the product and the brands that we've acquired, we have been on a completely different plane as compared to our traditional Indian business. Those acquisitions are yet to settle down. We have had just one acquisition going into this quarter, sales of Fiancee that we acquired in late September of about 12 crores has been recorded into this quarter. It's still early days for us to comment whether the current situation will sustain, but the PAT margin of Fiancee has played absolutely according to our expectations in this brief period of about 100 days. The second acquisition, which we made, was again towards the end of December, and that has not yet been accounted in this quarter. We will see it come into play during the second half of January, in fact we have just completed the integration.We expect that from the Egypt foray, which will take us higher in turnover by over 90 to 100 crores, we would get these kinds of margins and that would significantly upgrade our PAT profile. That's part one of your question.

You also asked about the impact on the domestic margins. I would like to clarify a few things. If you refer to the information update that we have circulated, and there is a table which we have given I think on page 5, we also tried to explain where exactly the impact has come up. And if you see the last line of the table, you will find that the gross margins that is the operating margins, plus the advertising expenditure, that has actually moved up by almost 2 percentage points. So, if you see despite about a 1 ½ percentage point increase in the material cost, we were still able to obtain a higher gross margin. The issue is we have chosen to invest disproportionately higher part of the gross margin into advertising and sales promotion. So if you see the impact has indeed been there in terms of raw material cost. The material cost has gone up, but we feel that if we choose to be very myopic and don't look at the future, and just continue to milk the existing brand, we will continue reporting obscene margins, but we don't want to do that. We want to build the brand for the future, and hence we have chosen to have the brand building expenditure continue, even at the cost of having the operating margin go down in a particular quarter. I think as responsible management, we need to take a view far beyond this quarter and the next quarter, and that's what we are trying to do.

Janish Shah: Okay, and what about the margins in Kaya?

Milind Sarwate: As you have seen Kaya has turned positive during this quarter at the PBT level, and we expect that scene to continue for the 4th quarter as also for the whole year. The Kaya margins would typically be little higher than our traditional business, but from a maturity angle, maturity I mean, not maturity of the business, but maturity of the processes that create the margins, we expect that next year would see us more stable in terms of the operating margin level. At this point in time, I wouldn't want to assign a number to Kaya profitability, but the basic reason why we went into Kaya was to have a higher operating margin, and I think we would succeed in that. The next target for Kaya would be to record an improved return on capital, and that would be our target for the next year. I would also point out that in Kaya we have also set up new clinics in the Middle East and typically new clinics tend to drag down the profitability. But despite the setting up of new clinics we have been able to get a good profit before tax.

Janish Shah: And could I just also have the initial response what you have got for the national launch of Parachute Therapie? And also the growth rate in the non-core branch?

Milind Sarwate: Parachute Therapie typically would get very good response, because it targets a very basic need. What is more important, we have got a good response in the 27 cities that we rolled it out. But in the FMCG industry, it's a standard description that the initial response is encouraging. So I would not want to give that response. Typically a lot of trials happen when a new product comes in. What is very critical is what is the extent of repeat orders that are recorded, what the number of trial is to keep buying the product, and more importantly again from the consumer standpoint, whether the product is efficacious. So far we have got good response, but I would want to wait for at least two three more months before we conclude on that. You also asked about non-core brand, and we have some brands where either their focus is not on beauty or wellness, or where we feel that power of the brand is not really at play. And accordingly we have stratified our business into focus brands and non-focus brands. The proportion of focus brands is about 80% up a little bit from 78% during the last year. The non-focus brands have relatively been flat. There has been no significant growth or dilution in those brands.

Janish Shah: Okay, thank you sir.

Moderator: Thank you sir. Our next question comes from Ms. Chanchal of Capital Matrix.

Chanchal: Yeah, good afternoon sir. Actually we have already discussed Kaya, now I want to know the status of Sundari Spa?

Milind Sarwate: Okay, in case of Sundari, the top line recorded in figures of about 20%, at the bottom line level we have lost less money than what we did during the corresponding quarter of last year. At the absolute level the Sundari business constitutes less than a 1% of our turnover, so in terms of the impact that it can have on the whole company that is still limited. We have been nurturing it as a prototype of an Indian ethnic ayurvedic product business in the US. Technically it's serving an economic purpose for the company. In terms of sheer numbers, I think the impact is still pretty limited. The loss that we have booked in the three quarters this year is about 4.5 or 5 crores, that's the loss. And I think it is less than corresponding quarter by about 1 or 1.5 crores. So there is an improvement in terms of the rate at which Sundari has so to say bled. We hope that we will maintain this trend. Ideally speaking at the small level at which it operates, it is possible for us to carry it on as an investment vehicle for still some more time.

Chanchal: Sir my other question is about the Bangladesh business, I just wanted to know what is the strategy to grow there.

Milind Sarwate: We have been in Bangladesh now for about 8 years as an independent local operation company, significantly in Parachute coconut oil and currently we have a share of about 57%. We have acquired 2 soap brands over there with the objective of increasing our overall penetration and presence. We have been fairly successful in terms of growing the hair oil market. In terms of the soap business, we have not been as successful as we would have wanted to be. But that's also because it's a new category and we are gathering our act at this point in time. Our growth strategy would be to expand the market, because the market offers huge scope in terms of unbranded coconut oil, which is waiting to be converted into branded coconut oil. We also have a strategy of increasing our reach and penetration using the soaps as the distribution vehicle. That would pan out in the years to come or in the quarters to come. We feel that there is scope for increasing our clout in the soap market itself, because the country does not have many strong players in the soap market. For that it is essential that we make a success of these two brands and then look at the way forward. Another way of growing in Bangladesh could be through the inorganic route. There would be some acquisition targets, which we would look at. But at the current point in time the political and social situation in Bangladesh is a little dicey because of all the suspense that is going on relating to the elections in that country. We expect that by the middle of next month the situation would come back to normal and we would reopen the chapters, which we have currently suspended in Bangladesh.

Chanchal: Okay sir, will you launch any products, from the current portfolio in Bangladesh?

Milind Sarwate: We could do that, but the way we look at each market is from the consumer over there forward. We do not take an approach that we have certain products in India, and we must take them to Bangladesh. So, if our consumer insights in Bangladesh reveal that we need to take a particular product from India over there, then we might do that. First thing we have to keep in mind is that there is a certain critical mass required for launching a new product in any country, or in any geography. So we may have a successful product in India. Just take the example of Revive. It's a very successful brand in India. It would probably do well in Bangladesh. But it is not worthwhile taking it and launching it as a separate product in Bangladesh, because we may not have the critical mass, which is required for a product to do well at the bottom line.

Chanchal: Sir, one more question. Actually I want to know about Parachute advanced after shower gel?

Milind Sarwate: Yes.

Chanchal: Whether it has been launched nation-wide, or it has been just prototyped or what is about that?

Chaitanya Deshpande: The gel has been launched nationally to start with. We decided that we wouldn't go in for a prototype here.We had already established Parachute cream and actually the gel market is very similar to the creams market. Users are the same, and they had already taken to Parachute cream, therefore we thought we didn't really have the need to prototype this product. Hence we we have taken it national straight away.

Chanchal: Okay, how is the response for this product sir?

Chaitanya Deshpande: This is similar to what Milind just said earlier, for Parachute Therapie. Its even earlier days than it is for Therapie. It's just a couple of weeks since we've taken it national. So it's really too early to comment. We just have to wait for a little while, before we can get feedback from the market place and form an opinion of how it's doing.

Chanchal: Okay, that's it from me sir, thanks sir, thanks a lot.

Moderator: Our next question comes from Ms. Jasmeena of ING Investment Management.

Jasmeena: Hello sir. Yeah hi, I have a couple of questions. First of all sir, sir you had mentioned that Sundari reported loss of about 4.5 crores for this quarter. So that is about 15% of 3rd quarter PBT. Sir, when do you expect Sundari to breakeven at PBT level?

Milind Sarwate: Let me repeat the clarification I gave to Chanchal, that this loss is not for the quarter, it is for the year to date. You can't multiply it by four, and arrive at a number which will scare me. The loss for the year will not be materially different from the current run rate so. And I think that changes your question. So, do you want to revise your question?

Jasmeena: Yeah, so my second question now is when do you expect Kaya to breakeven on the PAT level?

Milind Sarwate: See in case of Kaya, since its inception, it has been losing money. So there is a brought forward income tax deductible loss that it carries, and as a result in case of Kaya the PBT is equal to PAT. So once you breakeven at the PBT level, you automatically will breakeven at the PAT level. And even otherwise theoretically it is not possible for a company to breakeven at the PBT level, but not breakeven at the PAT level.

Jasmeena: Yeah. Okay, and my third question is sir, you mentioned that your acquired brands are having profit margins which are double compared to your existing brands. So, sir can you give us some idea that whether in the next two years we can see your net margins improving to double digit from current about 8 5%.

Milind Sarwate: It will depend upon the relative proportion of the acquired brands to the other brand, currently the proportion of the acquired brand the ones that we are specifically referring to is low for example our turnover without the Egypt brand is roughly about 1500 crores, and the Egyptian brands would give us maybe 90 to 100 crores. So we're looking at something which is just about 6% of the total portfolio at this point in time. If you take a weighted average of the very high margins for 6%, moderate margins for the balance 94%, it will not work out to a double digit number at least for sometime. Now, it depends upon how we improve the margins in the domestic Indian business, as also whether we keep acquiring. , Of course we are endeavoring towards that, but if you want me to commit to a number or a date, I won't be able to do that.

Jasmeena: Sure sir. Sir, thirdly I want to ask you something on your cost, your staff cost has come down significantly that is partly also because of this Nihar acquisition. So now it stands at about 5.6% of first nine months' revenues. You think that this ratio will be maintained going forward also?

Milind Sarwate: I think, let me clarify the way Marico or for that matter most companies would budget for their manpower cost. We would budget for human resources when we need to enable a sustained profitable operation in our existing business. So I think all human resources cost is fixed in some manner and they would not move in tandem with the turnover. So to the extent we keep acquiring new brands and new businesses, and keep on increasing turnover without increasing human resources, the ratio would keep coming down. We also have a variable proportion of remuneration for most levels in the company. But to some extent our manpower cost is also de-linked in terms of growth. If we do not achieve the numbers that we agreed to at the beginning of the year, that variable proportion comes down. So I think directionally the manpower cost will keep coming down. I would urge you not to look at a particular quarter's cost, because quarter to quarter there could be variations depending upon several accounting and other developments that happen during the quarter.

Jasmeena: Sir, even if you see first nine months results, your staff cost has increased only by 5.5%, and even for the entire nine months it's about 5.6% of the revenues.

Milind Sarwate: I think it would continue to be in a similar range. See, many times there are certain incentive payments, which typically accrue and get accounted at the end of the year, so one has to wait for the whole year. Unlike other quarters, you can have a four quarter rolling total in case of manpower costs; I think ideally we should take a financial year as the base. I would say that if you are to retain good talent, we will have to keep investing in human resources. So really the question is, to what extent we are able to increase the top line. This year, if you have seen we have had 35% growth in top line, and obviously we are not growing our HR cost by 35%. So the ratio would keep falling.

Jasmeena: Yeah. And sir what will be your effective tax rates for '07 and '08?

Milind Sarwate: It would be between 20% and 25%, more likely to be somewhere midway.

Jasmeena: Okay and sir lastly can you comment on Sweekar, what's the outlook for the brand and are you planning to sell the brand?

Milind Sarwate: Okay, I have answered this question several times in the past two three months to the media. The media seems to have fallen in love with the story of divesting Sweekar. So let me reiterate what we have been saying all these quarters, it is not only about this quarter. We are saying that we typically list out all our brands in the order of their margins. And since we are on the quest of increasing our margins, whichever brands are having a lower margin than the average, we would want to deal with them in a specific manner. So in case of a brand like Sweekar, we have decided that we will chase margin and not volume, and we would forego growth in turnover to growth in margins. So accordingly you would have seen that the total turnover of Sweekar for the past two three years has not significantly moved away from the 100-crore run rate that it had. At this rate we are enjoying a margin, which is still positive, although it is lower than the rest of the portfolio. So we would want to continue to pull on with this brand for at least the foreseeable future. Like any responsible business person would say, I would say that we are not averse to selling this brand, or for that matter other laggard brands. But as of now, we are not in any desperate situation where we must get rid of this brand at any cost. So we are taking a very practical approach to Sweekar if there is an acquisition offer which comes along as we have maintained all the while, we can explore the possibilities of divesting. But at this point in time there is no bid that we have received, or there is no story going on about Sweekar divesting.

Jasmeena: Okay, thank you very much sir.

Moderator: Thank you sir. Our next question comes from Mr. Siddharth Shah of UTI Mutual Funds.

Siddharth Shah: Yeah hi sir. A couple of questions firstly on the acquisition of Fiancee and Hair Code in Egypt. If you could give me some idea of what's the management strategy in Egypt, and what's the categorical growth in pre and post Hair Care in Egypt? Secondly on Parachute result, generally we've seen very good growth in the last nine months in this brand. And I just wanted to know what sort of pricing flexibility we enjoy and where to take our prices up, what sort of impact which the management feels would be on the volumes.

Milind Sarwate: Okay, first speaking about Egypt. We decided to target Egypt as a country, because it is probably poised at the same stage at which India was about 10 or 12 years ago. It is in the process of liberalizing its economy. Just to give an example, most of the ministers in the Egyptian government today are either technocrats or industrialists. So there's a certain pragmatic business atmosphere, which the country offers at this point in time. Like India it has a large proportion of aspiring youth, and hence brands like Fiancee and Hair Code, which are into the pre and post wash hair care segment, they have done well in terms of their market share as also the margin they enjoy. The reason which attracted us to this particular category in Egypt was the fairly high margin percentage it offers. As opposed to that it has not offered historically a specifically high growth rate. For example, the historical growth rate for the category of pre and post wash has been around 6% 7%. The key now is whether using our branding expertise; we will be able to push up the growth rate in the future to double digits. Our endeavor would be to do that, but even if we achieve the same rate that has been obtained in the past, we believe that in terms of sheer quantum of profits, which the category can generate, we are on a good wicket. The other area is that there could be scope for introducing other products in our range, or for that matter other FMCG products in Egypt. We haven't taken a view as yet, because we are currently integrating both the acquisition into our fold. I think somewhere, six months down the line we'll take a call as to what other things we can do in Egypt using the management infrastructure that we are now deploying in the country. There is a critical mass of about 90 to 100 crores of turnover that we'll have in Egypt, and as we have mentioned in our media interaction, with a turnover like that, we get a certain management base to operate in that country. We can attract good resources; we can retain those resources for a meaningful challenging role. We can then look at developing Egypt for even supplies to other countries. There are some favorable tax arrangements which Egypt enjoys. And in terms of sheer geography, it is situated in a very pivotal position; it is somewhat equidistant to the mainland Africa, to EU as also to the Middle East and other Asian countries. So, I think our foray in Egypt evolved as we went along and we found that having two acquisitions is better than having just one acquisition. Does that answer your question?

Siddharth Shah: Yeah. On Parachute overall? The…

Milind Sarwate: Yes? Sorry I missed your second question. Parachute growth rate? You were asking whether these growth rates are sustainable and what price flexibility do we have?

Siddharth Shah: Right.

Milind Sarwate: I think the question of price flexibility is that the proof of the pudding would lie in our eating it. We haven't yet taken a price increase. We are emboldened by the fact that all along when the copra prices were falling, we didn't drop the price, which was effectively an increase at a logical level. So we feel that when the underlying input prices are higher, we have several players in the sector, especially in the lower end, who are pricing their products directly in proportion to the underlying inputs, the commodity. I think we would be able to take additional price increase. The question is that, what time do we do that, because if we are riding a period of good volume growth, we are actually creating more consumers for the branded category. And I think from the long term health of the brand, that is a very good development. That's what has enabled us to hold on with that urge to increase prices. I think here again we will take a call in about three months' time, maybe in the early part of the next financial year. I think we should have a reasonable flexibility to take the prices up.

Siddharth Shah: Okay, and another thing, couple of operational questions. We have seen packaging costs go up significantly YOY though sequentially it's not gone up on an absolute levels, can you explain whether there was anything significantly different last quarter this year, to explain the 100% growth in packaging cost?

Chaitanya Deshpande: This is Chaitanya here. On the packaging cost, there are two things, one is on the packaging rate which has come up - most of the packaging is plastic packaging. So there has been some inflation based on crude oil prices etc. The second thing that has happened in packaging, is the proportion of lets say the flagship brands, that's Parachute and Saffola versus the new products have continuously changed, and it has started to come down. And if you look at material cost and break them up, if you look at Parachute and Saffola, the raw material cost to packing material cost ratio is at about 80:20, whereas for most of the new products, once you get into things like Parachute creams and all the newer products, its almost a 50:50 between raw material cost and packing material cost. So this is another thing that is changing. In terms of the percentages specifically for this quarter, there has been some regrouping. So you need to probably look at nine month numbers and they will look much better

Siddharth Shah: Okay, another thing on the advertising spends, generally you've been saying that it will be in the same range, but just wanted to know with a lot of products in pipeline, a lot of prototypes in pipeline, you believe that ad spends would be closer to 13% which you've done for nine months, whole of next year, or you expect that to come down gradually.

Chaitanya Deshpande: I think by and large 12% to 13% is something that we would be looking at. This quarter has seen almost 13.7% if you remove the one time write back that we have explained in our note, that's why it has gone to 13.7. Going at 13.7 is perhaps too aggressive , but we do believe that 12, 12.5 is something that we would need to maintain, given the fact that we're making investments both in the new products as well as in Parachute and Saffola. While they are fairly mature brands, nevertheless we are still seeing double digit growth in both these brands. And for a brand like Parachute, which is over 500 crores now, for that to show double digit volume growth is I think fairly good. And therefore Parachute itself needs reinvesting in. So I believe that we would continue to do 12-12.5% kind of an advertising to sales ratio.

Siddharth Shah: Okay, thanks a lot.

Moderator: Our next question comes from Nihal of Angel Broking.

Nihal: Hello, good evening sir.

Milind Sarwate: Good evening.

Nihal: I've a couple of questions to ask. First, what is your current debt and cash position in the balance sheet, and secondly what is the revenue guidance you will provide us for quarter 4 in FY07 and for the financial year '08.

Milind Sarwate: I'll take the second question first, because it's easier to answer. We wouldn't provide any guidance in terms of numbers, because we feel that some of the guidance stories have ended up actually causing the management to do things, which are not in the interest of the business. Our guidance is that we are into the business of beauty and wellness. We are chasing sustainable profitable growth. We have had a consistent quarterly record for the past several quarters, more than 28 quarters or so. So we would want to maintain that record, so we would have consistent growth. We have typically aimed at growing the bottom line at a rate higher than the top line that is manifested in the increase in operating margins. So we will continue doing that, we'll continue acquiring. So these are the building blocks of our guidance, and then we would leave it to experts like you to churn out numbers, which many of you do in the form of analyst reports on Marico. Now coming to your first question, Chaitanya will take that.

Chaitanya Deshpande: On debts, the position at the end of the quarter is about 200 crores. , We have been borrowing for the acquisitions that we have made - we have funded all of them through short term debt. Then of course in between we raised additional equity and paid off part of that debt. That leaves the number at 200 crores at the end of the quarter, but since we've become borrowers, there isn't too much of surplus cash lying on the balance sheet now.

Nihal: Thank you sir.

Moderator: Our next question comes from Mr. Hemanth of Enam Securities.

Hemanth: Yeah hi. I think my question regarding pricing was adequately answered. Thanks a lot gentlemen.

Moderator: Thank you sir.

Milind Sarwate: Thanks Hemanth.

Moderator: Our next question comes from Mr. Bhavin of Amit Nalin Securities.

Bhavin: Good evening sir.

Milind Sarwate: Good evening.

Bhavin: Sir, my question is post consolidation; this is with reference to what Siddharth had asked earlier. Post consolidation what could be the likely contribution from the two units that you've acquired so far, the Egyptian ones. And my second question is about your strategy going forward if you're looking beyond markets of Gulf and Bangladesh, which ones would it be, or whether you're settling down after the reforms are changing as you said in Bangladesh will probably, you have a potential target in mind. I just want to understand what it is for Marico going forward.

Milind Sarwate: Ok, I will repeat what I explained earlier, that the Egyptian brand would currently occupy about 6% of our total turnover. Even from a statistical standpoint, given the fact that Egypt is about 7 odd percent of India's population. It is difficult to imagine that the 6% share of Egypt would become something like 15%. We can't over expect over there. At the same time we have hopes from our overseas forays as an aggregate, without taking into account any particular country or a brand. Our international turnover which used to be 7%, 8 % has moved up to 12%, we could expect it to move up to 15% next year. We would want to keep growing the international business, because we have dreams of being a global company with a global presence. So in that context your second question assumes importance. We have typically looked at countries, which are first of all not too far away from the point of view of sheerly management bandwidth; we have also looked at countries, which have a fairly large population. Just to give you an example on the opposite side. Sri Lanka is near by. The Sri Lankan population is small and it doesn't afford a critical mass for us to go and set up local operations over there. So we will continue with some exports. Where in most countries, import tariff on consumer products, which are imported in a ready made form import tariffs are typically high. Exports to these countries is typically not a very profitable business model. It does give you profits, but not the profits you would get if you were to set up shop in the country itself. Countries like Sri Lanka are attractive at a percentage level of contribution, but not at an absolute level of margin. That leaves countries, which have population of at least 6 - 7 crores upwards, and there are not too many countries like that in the world. Some of them are in the Southeast Asian parts; some of them are in the African mainland. And we would probably look at both these options more closely in the months to come. We haven't zeroed down on any particular country, but most of expansions overseas, they happen in a manner which I can describe as a serendipitous manner, that means you search for item x and actually you end up being led to item y. So we may do that over a period, we'll explore and we'll find out which is the best fit. And we have been fairly entrepreneurial in that area. We don't have a high funda business template to apply. Other question which we keep getting asked is what are your strategies on the US or the European markets? They are present in a very small way through Sundari. We don't want to pretend that we know a lot about those markets. Sundari turnover is less than 1% of Marico's turnover, so it would be an infinitesimal % of the US or the European market. At the same time we've got some experience of dealing with those, and we could look at targets over there, it may not be in the next financial year, but a little later when we have a greater confidence of operating in those parts of the world. Essentially what I'm saying is that we are looking at the African continent in a bigger way. We are looking at the Southeast Asian base in a bigger way. We are looking at Bangladesh for expansion. We will wait and watch how things evolve, because unlike the traditional business, this is something which has to be experienced and then the key lies in grabbing opportunities as that come along. That is how we acquired two brands in Egypt in a span of three months.

Bhavin: Right I get it but would this model be more of a franchising one or would it be an acquisition of some sort?

Milind Sarwate: We have gradually realized over the years that we believe in a lot of direct ownership in the company, so I don't think we will operate through a franchisee or an alliance route but having said that growth is the overpowering determinant. So if there is a particular target where we have got to operate in tandem with somebody else, we might do that provided there are proper checks and balances. Our bias of course is to go and acquire 100%.

Bhavin: All right sir, thank you so much.

Milind Sarwate: Welcome.

Moderator: Our next question comes from Mr. Gaurav of First Global.

Gaurav: Hello good evening sir. Good evening.

Gaurav: Sir I just wanted to know that how your soap portfolio is doing in India and abroad. I think you have answered that how it is doing in Bangladesh, but how it is doing in India, like Manjal in India?

Milind Sarwate: Manjal started off as a local soap in Kerala, and we also took it up in that condition and we maintained that condition for sometime. We have now extended Manjal to firstly to the Southern states and then to the entire belt across, right up to Maharashtra. We would say that it has done well, we did not set great expectations from this soap as yet so we are still gathering our feet. On the entire soap category, there are certain factors which we have kept in mind while targeting growth. Firstly, the category is very large, secondly the category has progressively lost differentiation because most of the qualities, or USPs claimed are common across soaps. This is too much of a confusing platter for the consumers, and hence the brand loyalty per se in the category is pretty low. So we have to live with these limitations. At the same time it's a large category and it offers scale as also it offers profitability. I think we will have to keep working at this category to gain a respectable market share. We have already spelt out that we are not necessarily aiming at one brand for the entire country. We might look at Manjal for the Southern part of the country, and may be some other brand for the rest of the country.

Gaurav: Okay and sir in your information brochure you have mentioned that coconut hair oil share is around 48% and earlier I think it used to be around 50%. So are there any competitive pressures on this category?

Chaitanya Deshpande: This is Chaitanya here. The number of 48% is what has got reported by A.C. Neilson. What Neilson has been doing is expanding the universe of the branded coconut oils which they include. So over the last 12 months, almost every other month you will see some new brand, some of the smaller local brands that get added to the universe. As a result even if you just hold market shares, it's likely that the percentage numbers of Parachute will seem to be coming down, which is actually not the case. In fact we may have inched up marginally, but because of the expansion of the universe we are seeing a slightly lower number.

Milind Sarwate: In other words the share numbers are not strictly comparable with the previous year. Actually let me also give you another insight in this area. The coconut oil market consists of the branded market and the unbranded loose oil market. Between the loose oil market and the branded market, there is a zone of what I would call pseudo brand, which are actually packaged coconut oil sold in a blue bottle and many exotic names are given, something like lets say Parakeet or Paramount. Basically it will start with Para so that it's shown to be having an affinity to Parachute. Now these brands which are essentially local brands with virtually no brand building, but they are able to place the product and move on. I think these pseudo brands play a great role in increasing the market size for the organized branded market. So to the extent A.C. Neilson keeps capturing such newly launched local brands, the universe keeps growing. So it depends on what brands they capture and what they do not. So sometimes if they don't capture a particular brand, that market share may get restated to that extent.

Gaurav: Okay and sir one last question, could you give me percentage breakup of hair oil category, means what is percentage contribution of perfume oil and Hair and Care and Silk and Shine?

Chaitanya Deshpande: Actually we haven't been sharing that break down to that extent. Over all the hair oils constitute about 12 or 13% of our turnover, but I think brand by brand would be a little difficult for us to share.

Gaurav: Okay fine, thank you sir.

Milind Sarwate: welcome.

Moderator: Our next question comes from Ms. Priti of K.R. Chocksey.

Priti: Hello sir.

Milind Sarwate: Yes Priti.

Priti: Sir I had missed the starting part, so may be this question is answered by you but can you give an outlook on the copra prices?

Milind Sarwate: I think Chaitanya covered that in the first part of the call. Essentially what we are saying is that the prices during the current year were higher than the previous year by about 10%-13% and that kind of a scenario would prevail over the next 12 months. Having said that if we knew exactly how copra prices would behave, we may not have been sitting here, so it's very difficult to predict copra prices.

Priti: But depending on the production of copra till now and looking at the rainfall, monsoon, do you feel the copra prices would keep increasing by this rate, around 10% something?

Milind Sarwate: I don't think so, because actually the copra pricing model is much more complex than just rainfall. It will consist of the demand that copra has for several other uses. The coconut tree typically has a seven or eight year cycle from the seed to the full fruit giving plant, so the copra cycle is actually not a yearly cycle, it's a seven or eight yearly cycle and there too it is pretty complex because of various one time events that impact copra. For example, there might be an attack of some type of mite in some part of the country and then the production statistics would change. Just to confuse you further, there is an impact that ground water has on the quantity of water in a given nut, so the size of the fruit also varies from year to year. So really speaking it's like any natural commodity, it's a pretty complex prediction model. What we have chosen over the past two or three years is to not worry too much about copra prices and worry more about the value that we provide to the consumer and hence we have started pricing our consumer products in a manner which the consumer is likely to accept as the right value for money. So in line with that over the past two, two and quarter years we have held the prices of coconut oil independent of what fluctuations were there in the copra price. I think we will maintain this policy going forward and we may take a price increase, although there may not have been any copra input increase and vice versa.

Priti: Okay, sir can you please mention about the CAPEX plans for the next year?

Chaitanya Deshpande: Priti, by and large the CAPEX plans would depend on the number of clinics that we open for Kaya. Our typical investment is about 1.2 crores per clinic. Likely number of clinics would be around 10 or 12. In addition to that our normal CAPEX is about 10 to 15 crores. We have also been talking about the possibility of us moving into a building that we own. The timing for this is not very certain, but sometime over the next two years we should be able to see a Marico House up, that would be an investment of lets say about 70 odd crores, post which we will sell off our property at Rang Sharda, and so on a net basis it may be anywhere between 50-55 crores, that we spend over two years, but the expenditure on the gross basis would be up front. We just need to figure out when work will start on this building, it may be a while before it actually starts, may be another three four months or so.

Priti: Okay, Chaitanya can you tell us what was the contribution of Fiancee in the third quarter?

Chaitanya Deshpande: Fairly small, turnover was 12 crores.

Priti: Okay and can you please tell us also the cash position on the books?

Chaitanya Deshpande: It's not too high. Actually we have borrowed at the moment. Our debt position is 200 crores.

Priti: Okay, and you had issued preference shares in the month of November-December and then redeemed it in a short period of 15 days, so can you please explain what the strategy behind this is?

Milind Sarwate: See we have typically followed the policy of maintaining some kind of a war chest or device, which will enable us to raise money quickly and we had explored preference capital on this quite some time ago and we had tied up for certain funding. That funding came with a put and call option on either side and you know that the financial markets have seen some upheavals in the past few months and in line with that from time to time the call options on the preference capital may have got invoked. We have also realized that if we issue preference capital, we will have to create a capital redemption reserve, which is relevant for the balance sheet restructuring that we have spoken of, in the notice that we have sent out couple of weeks ago. So preference capital has to be seen in the light of an overall financing pattern that we have deployed. It has not had too much of an impact on the bottom line because fortunately we were required to retain it only for a short period of time. Directionally we would want to keep some war chest or the other so that in case we need to write out a very large cheque for a large acquisition in the near future, we have the capability of doing so. And that is why we had got certain enabling resolutions passed for raising funds right up to Rs.500 crores and the preference capital was one such avenue to raise funds.

Priti: Okay, thanks a lot sir.

Milind Sarwate: Thank you.

Moderator: Our next question comes from Mr. Balaji of Sundaram BNP.

Balaji: Good evening sir.

Milind Sarwate: Good evening.

Balaji: Couple of questions, one is when the previous caller had asked about this Parachute Therapie, you mentioned about the importance of repeat order, so for the products which you launched some six to nine months back, are there any products where you feel the repeat orders are not satisfactory, something like that?

Milind Sarwate: Let me clarify, the repeat orders are most important for a product like Parachute Therapie, which is a problem solution product. This is not to say that they are not important for the other products, repeat orders or continued consumption is required for every product. Now let me give you a qualitative analysis without getting into numbers. In case of soaps, for Manjal we have seen a better response than what we have seen for Parachute Jasmine. If you look at the baby care range, the soap part of the baby care has seen a much better response than the baby oil and the baby cream that we have launched is pretty new, so we don't have a great idea on that yet. Some of our newer hair care products like Parachute After Shower cream and the gel that we have launched recently, they have seen a good off take on a continued basis, but their bases are small so we can't read too much into the absolute number that they will generate. In case of Silk and Shine, we have maintained the same rate for repeat orders and hence our market share has been pretty intact at around 30%-32%. So by and large I would say we have done a satisfactory performance in the case of new products. We would have been happier if the performance was more than satisfactory. Some of the products we have turned in a much better performance than this, but we don't really have too much to complain because empirically world-wide ratio of success of new products in the FMCG space is about 6%, so one out of sixteen products really succeeds and makes it big. By that token we have done reasonably well.

Balaji: So all these products would be what percentage of your turnover roughly?

Milind Sarwate: They have been between 15% and 20%. Actually we used to measure this very vigorously till about two years ago, but thereafter the definition of a new product has got some what clouded by the fact that we have got into new businesses. We have got into businesses like Kaya, Sundari, as also we have got into new countries and some of the new countries we got into new businesses like soaps. Essentially if you take a definition of a product which has been launched in the past five years, is a new business or a new category, I would say that we have about 16%-17% of our business coming out of anything that is new.

Balaji: Of your consolidated?

Milind Sarwate: Of the consolidated number. But I think essentially more and more would come out from this category. The other way of looking at it is what the share of Parachute coconut oil is in the total turnover. Years ago it used to be 70%-72%, now that has come down to about 35%-36%. So the reason to get into new products is to reduce the dependence on any one particular brand or any one particular product, so to that extent we are on our way to achieving that less dependence.

Balaji: Okay and secondly on Fiancee, and basically the European business that you now have acquired, you mentioned the margin profile is much better

Milind Sarwate: You mean Egyptian business?

Balaji: No I mean the Fiancee.

Milind Sarwate: You mentioned about European business, let me clarify, we have not acquired anything in Europe as yet.

Balaji: No I meant Egypt. So you said the margin profile is much superior to the domestic business, so what kind of working capital intensity does this country have in terms of debtor days and receivables?

Milind Sarwate: It's broadly the same as the Indian business, not much difference over there.

Balaji: Okay and for this third quarter, post the implementation of VAT in Tamil Nadu, was there any slow down of sales in South because of that?

Milind Sarwate: No, not really.

Balaji: Okay and lastly, you had mentioned this in your information update, also if you could just tell the broad logic behind this entire restructuring that you are going to do now, because basically you are converting a non-cash expense into a cash expense and so can you just tell us what is the broad logic behind this?

Milind Sarwate: We had done a similar exercise about three four years ago, so in some sense what we are doing is not new for long term Marico analysts or share holders. What we are saying is that in the quest of growth that we have, we would keep acquiring various kinds of intangibles. By intangibles I mean several properties which are associated with brands like trade mark, copyright or our non-compete arrangement or a business or commercial rights etc. Now these intangibles would find a place on the balance sheet only in case of acquired brands. In case of home grown brands, in our case let's say Kaya or Sweekar or Revive, would have no such amount on the balance sheet. So to the extent we have to account for intangibles only for acquired assets. There is a mismatch between acquired and home grown brand which creates a dissonance in terms of managing the expectations from each brand internally. That's the point number one. Point number two, we believe that the value of every brand has to keep appreciating, if the value of the brand keeps depreciating then there is something wrong with the brand and we should get rid of the brand. By this logic we should ideally not be providing any depreciation, but there is a very logical depreciation policy, which we have to follow in line with the accounting standards. So we have another anomaly in our mind that a brand is not a depreciating asset but we have to still provide depreciation and put out that non-cash charge on the P&L account. That's the second reason. And the third reason is that in a marketing company like ours, there should be as few assets on our balance sheet as possible, because the only assets that are controlled are really speaking the net working capital assets. So a leaner balance sheet helps in terms of managing, setting expectations as well as extracting performance against those expectations. So looking at these three reasons we have decided, we have proposed to the share holders that we would want to offset the intangibles against special reserves, which are sitting on the opposite side of the balance sheet. This would largely be an accounting adjustment. It has very little impact on business. So in the past when we had carried out a similar adjustment, we had received a fairly good response from our share holders because it simplifies the balance sheet, and that's why we have felt that we should repeat this exercise, now that there is a sizeable packet of intangibles on our balance sheet.

Balaji: Thanks.

Moderator: Thank you sir. We have a follow up question comes from Mr. Janish Shah of Networth Stock Broking.

Janish Shah: Hello sir. Sir you have mentioned in your information update that Kaya has shown revenues of around 19 crores and there has been a 50% utilization with your outlets right now and it can be upgraded up to 60% to 65%. Sir, could you just give us what kind of a growth you are targeting in Kaya and what kind of like, you have also set up few more outlets in UAE. So is the margins are indifferent from what the Indian business is out there?

Chaitanya Deshpande: Overall in terms of the pricing possibilities in the Middle East, the pricing is definitely much higher, what the market is willing to pay in the Middle East is higher than what we have been looking at for pricing in India. Therefore margins at that level in the Middle East are definitely better than they are here. In terms of growth it would depend on A, at what pace we open new clinics. As you are aware, this year we didn't open any new clinics in India but one, we opened only one in Bombay. We have opened two in the Middle East and there are plans to now look at Saudi Arabia as well as Oman for the Middle East and going into next year we would look at opening more clinics in India to serve. On the whole it would be something like 10 to 12 clinics a year going forward from here. There are two things that we would do other than this to try and increase the top line. One is exactly what you've stated and what is put in the information update about trying to increase the capacity utilization. See taking it beyond 65 etc would be a little difficult because there will always be cases where there are some cancellations etc and there are set up times between servicing two customers So 65 is perhaps what we can take it up to. The other thing we want to do is give a thrust to products. At the moment they are about 10%-11% of the turnover from Kaya and it would be possible to push up the share of product revenue for Kaya, so it will be a combination of all this that will push up revenues. This year since we have done about 53 odd crores for the nine months, it now looks like we should be able to hit about 70 for FY07 and then going forward we would still look at fairly good percentages of growth but it would be on a 70-crore kind of base. I am unable to give you exact numbers in terms of next year's targetted growth..

Janish Shah: Okay and you mentioned that food business is one, where you have shown a little bit of failure, has there has been any new strategies which you are planning to put in place in the food business then?

Chaitanya Deshpande: I am not very clear, when you say that we have said this has been a failure. I don't think we have written that anywhere.

Janish Shah: No, it's been where the success has been very limited for you, so has there been any change

Milind Sarwatge: Is that your assessment or…?

Janish Shah: Yeah it's been my assessment in the sense…

Milind Sarwate: Then please don't attribute it to us. You are entitled to your assessment. You see, let me spell out the strategies in the food business. We have what we believe is a very valuable property in Saffola, which has strong heart care consumer recall. We have been leveraging this brand quite well in the edible oil space, the healthy oil space. We started with kardi oil and then we are extending into two blends. So we have currently three propositions going in edible oil. Over the years we have also looked at extending the brand Saffola to other parts of healthy foods and oils. For example we have a Saffola salt which has been in the market for about six, seven years now. We have also prototyped functional foods under the brand Saffola and I think that's what you are referring to. We have prototyped and we are now about to extend the prototype to the national market. This is an atta mix, which is relevant for cholesterol management. We have received a fairly good response during the prototypes, so that's why we reacted strongly to your statement of failure. We feel that this product has a unique property to offer and especially in the modern trade it has done well. It has got those repeat orders that we thought about, because in a modern trade format the consumer can touch and feel the product, read the instructions and understand the offerings that we have on the table. We expect that we will roll it out nationally and take it forward from there. We have certain thoughts about certain more products to be launched in the same range of functional food, but we are pretty circumspect and a focused company so we will take our time in launching these variants under the functional foods category. So far we feel that we are going cautiously in this area, but we are fairly sure of what we are doing. We feel that the property in Saffola can be used for, in more than one way.

Janish Shah: Okay and how about Sil brand?

Chaitanya Deshpande: Sil actually doesn't fit into our stated business direction of beauty or wellness. Sil is not a healthy product per se because jams are not necessarily healthy. They may not be unhealthy, but in the context in which we sell healthy foods, Sil doesn't fit into that. Sil's turnover is about 0.45% of our total turnover. So logically it should not occupy too much of our mind space and we have been following this logic so far. We have kept Sil on a float, in a manner similar to what we have done with Sweekar, though it's earning fairly good margins at the gross level and with very little management effort being spent on it, we are maintaining it in a profitable manner, but we don't look forward to developing anything more in the Sil area.

Janish Shah: Okay thank you sir.

Moderator: Our next question comes from Mr. Chetan Seth, proceed Mr. Chetan.

Chetan Seth: Hello, I would just like to know the impact on the capital employed or ROC on account of the said restructuring and what was the position of net worth and debt after the said write offs?

Milind Sarwate: See directionally by the operation of sheer mathematics all the numbers which are relating to ratio of capital employed or net worth would jump up significantly. I think that's more a statistical phenomenon, so if you want to get into details we can do that, but we would rather leave it for the future to decide. In terms of sheer utilization of capital on the ground…

Chetan Seth: Because your ROC is currently 30% and by their write offs basically I feel that it can shoot up to 45%. So doesn't it mislead the investors?

Milind Sarwate: Sorry I didn't get you.

Chetan Seth: See your current ROC is 30%; you have been consistently showing out ROCs above 30% and so. The ROC has come down from 37% year to date to 30% this time and by doing such write offs, adjusting against your free reserves, especially against your share premium, and not writing it to the PL accounts, the ROC shoots up to 45%, so doesn't it mislead the investors?

Milind Sarwate: See it's a question of what information is given to the investors. If we carry out this adjustment secretly and only show you the ROC ratio then may be an investor is entitled to say that there is a certain withholding of information. But what we are doing, we are placing all the reason, rationale, everything on the table and this will continue to be disclosed for the relevant time. So I think the statistical ratio is a matter of judgment which every analyst would deploy. So I think the intent definitely is not to create a cloud around the capital employed ratio because even without this adjustment, a 30% to 40% range being held for more than 10-12 years is a fairly good achievement. So we don't have to do anything to just to shore up that ratio.

Chetan Seth: So what is the main intent sir?

Milind Sarwate: As I explained earlier we have believed in a policy of not mixing up home grown brands and acquired brands. We believe that having a level playing field with no intangibles on our balance sheet is what we want to deploy. So that's what we are going ahead with.

Chetan Seth: Okay and what will be the position of net worth after the write off approximately be?

Milind Sarwate: I think net worth would be around 150 or 160 crores. That would mean that we would have a debt equity ratio in excess of 1. We may take a call sometime in March or April as to what should be the correct debt equity ratio and accordingly we might come out with a suitable plan to restructure the debt equity ratio. At this point I may not be able to spell it out, but we might want to restructure the sources of fund in some way in the early part of next financial year.

Chetan Seth: Okay thank you very much.

Milind Sarwate: Thank you.

Moderator: Our next question comes from Mr. Akshen of Share Khan.

Akshen: Hello

Milind Sarwate: Yes.

Akshen: Good afternoon sir. Sir just a few good questions. I just wanted to know how big is the hair gel market in India and how fast is it growing?

Chaitanya Deshpande: The hair gels and hair creams market is something that we look at together, that's about 80-85 crores. The percentage growth right now is rather high and they are not really percentages to look at. After we got into the cream's market with Parachute advanced cream, the market has almost doubled We just added to the size of the pie. So at the moment looking at growth numbers would be misleading. They will be high double digit growth.

Akshen: Okay, sir my second question is that your information update says that during the current quarter you have taken price increases in a few of your brands. I just wanted to know, has this had any impact on volume growth so far or you feel that you will be able to sustain at least the volume growth in those three-four brands that you have raised the prices?

Chaitanya Deshpande: No there has been little impact on the volume actually. There are a couple of the brands in which we took price increases , one of them is Saffola, Saffola has continued to grow, and it's shown about 20% volume growth during the quarter. We also took some increase in Parachute, Jasmine. Our hair oil portfolio has also grown by about 17 odd percent. So these increases have not had any major impact on the volumes. The increases have not been all that high, its been in the range of 4% or 5% and consumers have seen prices going up in various other FMCG products of late. So price increase of 5% or 6%, 7% is not really going to make too much of difference.

Akshen: Yeah okay, sir my last question was that on a consolidated financial basis, there was some MAT credit taken this time due to which our effective tax rate is a little lower. I am still confused going forward are there any MAT credits remaining with us or we expect the tax rate to be 20-25?

Milind Sarwate: No see this MAT credit will continue to appear or disappear depending upon the situation in that quarter. Essentially what MAT credit means is if our effective tax rate, lets say its actually 5% for a particular company, then nevertheless we will have to pay the MAT of 10 odd percent, so the balance of 10 minus 5, that gets shown as the MAT credit so effectively the addition of the current tax and the MAT credit and the deferred tax would broadly reflect the longer term tax rate that the company has to pay. It tries to separate the impact of one time depreciation benefit or any other benefits that you may have had.

Akshen: Right, thank you sir, this answers my question.

Milind Sarwate: Thank you.

Moderator: Our next question comes from Ms. Kiran of Arisaig Partners.

Kiran: Hi, Milind just read in the papers today about the promoters diluting their share holding, what is that about?

Milind Sarwate: I think it's a stale report with an inappropriate headline. I may be using strong words, but I think if you read the report, it talks about the QIP issue that we had in the first week of December. First of all it is not news. There is nothing that has happened yesterday or even in the week or fortnight before. The headline makes it appear as if the promoters have sold shares in the company, which is completely untrue. What has happened is after the QIP, when 5% fresh shares got allotted to new non-promoter entities, the promoter holding statistically comes down. Roughly they were holding two thirds of the company earlier, so it comes down by two thirds of 5%, it came down by about 3.2% or so. There has been no sale by the promoters at all and from my interactions with the promoters, it doesn't seem at all likely in the near future when they will sell off any part of the equity.

Kiran: Yeah, so there has been no sale by the Mariwalas per se?

Milind Sarwate: There is no sale, we have written to Times of India for clarifying and I think reports like this only create unwanted dialogues like what we have just had, doesn't add value to anybody, including to Times of India.

Kiran: Okay, thanks Milind.

Milind Sarwate: Thank you.

Moderator: Our next question comes from Mr. Abhijit Kundu of Prabudas Lilladar.

Abhijit Kundu: Hi Milind.

Milind Sarwate: Hi Abhijit, how are you.

Abhijit Kundu: I am fine, how are you?

Milind Sarwate: Tell me.

Abhijit Kundu: Yeah, actually I had a question firstly on your raw material costs; I know a lot of questions have been asked on that. Raw material cost, see you have taken certain price increases, during this quarter if I just look at the raw material excluding packing material cost it has shown a decline of about 140 basis points. Excluding the price increases would that have had an impact on your gross margins?

Milind Sarwate: Not really, because the price increases we took first of all as Chaitanya mentioned, they were of a small magnitude of may be 5%, 6%, that kind of thing. Secondly, we haven't taken an increase in the coconut oil, which is still more than one thirds of our total business. So I don't think it would have made a big impact. The price increases have not brought the percentage down. Actually the point which needs to be understood is that our operating margins this quarter have been impacted by the huge increase that we have taken in the advertising and sales promotion expenditure. That is the real driver and not the raw material part. Of course there has been inflation in raw material, but that is not something which has happened suddenly in this quarter, it's not this quarter's development.

Abhijit Kundu: Right, so this 13% growth in copra that we have seen, was it factored in the results, in the sense I want to know whether you had any forward covers for copra?

Milind Sarwate: Typically we do not take hedging positions in the copra market also. We have certain estimates and we keep buying in line with that estimate. One of our credit policies internally is that we will not take a long position, if we have no intent of consuming that copra or the oil. We have been fairly good at predicting the copra trend and hence our strategies internally are working out quite all right. We have to keep in mind that last financial year saw an exceptionally benevolent period of copra, where the input prices were considerably down and that gave us a window to muster up enough belief and courage in our own brand to keep the prices held at the then existing levels. So we have made some super profits for some of the quarters If we take a longer cut off say four or eight quarters, then I think that will be a better picture of our operating margins.

Abhijit Kundu: So 13% growth in copra has already been factored in, in this quarter that we can assume?

Milind Sarwate: I think so, broadly yes.

Abhijit Kundu: Okay and next question is on our tax rate, you have guided to us a 20% to 22% tax rate for the year and next year also is almost the similar kind of tax rate, so it should not exceed 22% right, it should be in the region of 22%, or it can also go up to 25% or so?

Milind Sarwate: I think I indicated a band of 20% to 25% with a bias towards the middle - that kind of range. It will be difficult to exactly pinpoint a number, because much will depend upon what kind of acquisitions we make, how do the depreciation on the intangibles on those acquisitions pan out. So it will depend upon what happens in the future about which it's very difficult to, see it's relatively easier to predict a steady state business but it's very difficult to predict acquisitions. So I wouldn't comment on that. Let me tell you the building blocks of the tax numbers. The smaller part is the FBT, etc. Even the current tax portion is fairly predictable because we know which units are moving in and out of the tax holiday. It's the deferred tax which is the unpredictable part depending upon the acquisition, so if you don't have an acquisition then the rate would tend to be where it is right now, which is around 20%-25%.

Abhijit Kundu: Okay, and what was the growth in Nihar during the quarter because I just went through your information update, I could not find any information on Nihar's growth?

Milind Sarwate: Nihar grew by about 10 odd percent. It is in the same ball park as over all coconut oil has grown.

Abhijit Kundu: Okay, so it's growing in tandem with the industry?

Milind Sarwate: Its growing in tandem with and it is more importantly we had set certain objectives when we acquired the brand; it has broadly fulfilled those objectives. A little superior performance than what we thought it would do, so all well on our largest acquisition.

Abhijit Kundu: Okay, and in case of Kaya, you are planning to increase the utilization levels to about 60% from the current 50%?

Milind Sarwate: Yes.

Abhijit Kundu: So what is the time period that you are looking forward to do the...

Milind Sarwate: I think over the next year we would aim to do that. It first depends upon what leeway does the team have for a steady state operation. You will find that this year when we deliberately decided that we will sharpen our existing processes and we will not set up new clinics, there has been a very quick turn around in Kaya and we have reported a PBT. We had announced that we will break even by the end of the year, but we have already broken even by the third quarter, so it will depend upon what kind of new clinic setup we have, whether it is in India or overseas. Because if we are going to setup more clinics overseas, then the team in India is free to focus on improving capacity and building a more profitable operation.

Abhijit Kundu: Okay and yeah, lastly this you can pass it on to me, the price increases in products that have taken place, the products and the price increases could that be provided?

Milind Sarwate: Yeah we can do that; we will send you an e-mail, no problem.

Abhijit Kundu: Okay, thanks.

Milind Sarwate: Welcome and bye.

Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Ms. Vanmala Nagwekar for closing comments.

Vanmala: I would like to thank the participants for removing time for this conference call. I would also like to thank Mr. Sarwate and the management of the company for giving us this opportunity to hold this conference call for them. We look forward to a strong association with you. Thank you.

Milind Sarwate: I wanted to say a few words if the conference is still on.

Moderator: Please go ahead sir.

Milind Sarwate: I also wanted to thank everybody who logged on and who either asked questions or listened to us. We have found that over the past few quarters this process of dialoguing with analysts and investors is a very value adding one because the various questions that get asked and the various issues that are raised provide a lot of food for thought at our end in trying to put out a better performance in the next quarter. So I hope that this process of dialogue continues. If there is a feedback on any of the answers that were given or the process that we followed or in general any feedback on any of the topics, please do be in touch with us on the e-mail that you would find in the information update or you could call us up also at the number that I have mentioned in the information update. So thanks everybody and lets be in touch. Good day, bye.

Moderator: Ladies and gentlemen this concludes the conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.