Transcript

Conference Call of Marico Limited

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Moderator: Ladies and gentlemen good afternoon and welcome to the Q1FY2009 earnings conference call with Marico hosted by Anand Rathi Financial Services. As a reminder all participant's lines will be 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 assistant during this conference please signal and operator by pressing * and then 0 on your touchtone phone. I would now like to hand the conference over to Mr. Aniruddha Joshi of Anand Rathi Financial Services. Thank you and over to you Ms. Joshi.

Aniruddha Joshi: Thanks Marina, I welcome you all to the conference call of Marico on behalf of Anand Rathi Securities. We have Mr. Sirish Pardesi, industry consultant on FMCG with me and Chaitanya and Milind from Marico. So I will handout to Milind and Chaitanya for their comments on the results, over to you.

Milind Sarwate: Thanks Aniruddha, good afternoon everybody this is Milind Sarwate. I am the Chief of HR & Strategy for Marico. I have with me my colleague Chaitanya Deshpande who heads Investor Relations and M&A functions for Marico. Over the next few minutes I will take you through our appreciation of the quarter results. And then we will throw open the floor for questions. As it has been our practice, we have shared a lot of information through the information update that we have put out. There has been some element of media coverage and a lot of data would also be available on our website. So I feel that instead of re-narrating the data to you, I would give you our broader perspective and maybe if you have questions on those, this would be a great opportunity to address those questions.

Firstly, this quarter has been yet another quarter of growth for us. We have continued to grow in both top-line and bottom-line. In terms of top-line this is the 31st consecutive quarter and in terms of a bottom-line this has been the 35th consecutive quarter of Y-o-Y growth. The reason to list out these statistics is that we have been a company which grows very consistently and sustainably. And 35 and 31 quarters would amount to something like 8 to 9 years. So over the last 8 or 9 years we have weathered various kinds of slowdowns and up-moves in the economy as well as in the market. Hence the current slowdown is not something dramatically new for us.

Having said that, this quarter and the earlier quarter you would have notice that there has been some pressures which we have faced in terms of margins and I wanted to share with you the strategy and approach that we have followed in the current times. Firstly, we believe that the current economic slowdown is caused not only by some factors in India but very largely by international events which are not necessarily in our control. So there is a certain element of inevitability about, let us say, the crude oil price increase or the sub-prime crisis which hit the US. So having understood that the contributory factors are not necessarily in India, we have realized that the market in India, that is the consumer market in India, may have a different story as compared to the rest of world.

Secondly, we believe that if the slowdown presents an opportunity for us to restructure our operations and take a fresh look at the margin potential of our business - more importantly, take a fresh look at fresh consumer acquisitions. So in the light of all these data analyses that we did, we came up with two broad streams of philosophy which we have continued to implement. The first stream would be that especially when the times are tough we need to invest in the basic intangibles which support our business. These intangibles are our brands and our people. So we have taken a call that we will continue to invest in our brands, in short if there is any cutback to be implemented in any of our expenditure lines we would think really hard before executing that cut in the ASP or the Advertisement and Sales Promotions lines. We would try and protect our main resource engines and also continue to invest in newer brands. Similarly when it comes to investing in people and the talent pipeline, we will not flinch from there. So you will find that on both these lines the Marico Group has continued to spend broadly the same numbers that we had spent earlier. In case of ASP, in fact, we have moved up by about a percentage point.

The last year corresponding quarter number was 10.9% and this year it is 11.9% in this particular quarter. So continued investment in the core intangible is one philosophy, the other philosophy is that a slowdown typically affects different sectors of the economy in a different manner and therefore it helps if your business is as broad based as possible within your broad focus area. Now given that we are into branded solutions in the area of beauty and wellness manifested in sectors like Haircare, Healthcare and Skincare, we have tried to broad-base our offerings in this area to whatever degree we can. For example, in the area of services businesses alone we have moved into Kaya Skin about 5 years ago. But over the past few quarters we have diversified into a related category called Kaya Life which is into weight-loss clinics. We also stepped up Saffola's extension into Functional Food. We have a product now for diabetics too. This has been put out in the market in the recent past.

In terms of international operations we have acquired two new countries over the past two years which is the Egyptian Operations and the South-African Operations. We have also continued to strengthen our hold over the Bangladesh markets, the Middle East, the UAE market and the US market where we have a very small business in terms of Sundari. In Bangladesh we have done exceptionally well. So these new countries offer us a new lines of growth and it is extremely unlikely that there would be a slowdown allover. If you come to India where our main business lies, we have gone into several new products and many of them were not on our horizon earlier. For example we have gone into a Maha Thanda cooling oil, we have launched Almond Gold extension under the Hair & Care brands.

We have also gone into products for kids through Parachute Advanced Starz offerings which are gel shampoo and cream as well as oil. We also got into an evolved category called Night-Repair Cream for Hair Care. So all around we have focused on broadening our offerings and diversifying our presence with the consumers. The objective of doing all this is that we believe that especially in slowdowns it is very important to protect your consumer franchise and in fact if possible use the overall uncertain situation to make it grow.

We believe that it is difficult to reacquire lost consumers whereas it is not so difficult to reacquire lost margins. So you will find that a 28% growth in top-line has grown the turnover beyond 600 Crores in this quarter. We have closed the quarter with 601 Crores of turnover and annually I think this will track somewhere close to 2300 to 2400 Crores of turnover which is a pretty encouraging jump over the 1900 Crores turnover that we clocked for the whole of last year. The increase of 400 to 500 Crores of turnover would help us acquire several new consumers and I think when the economic slowdown goes away it would be possible for us to get the margin levels which we were tracking about a year ago. So this is the broad philosophy with which we have moved over the past two or three quarters. And we believe that when it comes to making a choice between long-term and short-term we should make the choice of long-term because short-term is only a slice of time as compared to the long-term. So we would make a choice when it comes to growth or margins, we would try to protect both to the extent possible but wherever we feel that sustainable growth is feasible we would give away a part of the margins but ensure that growth happens and put it in our pocket As a result whenever we have priced our products, we have not aimed at maintaining necessarily the percentage margins but the absolute margin for unit volume of the products.

Most of our products are reasonably low priced products and we believe that the absolute amount of margin for product is more important than the percentage margin because percentages could also be misleading especially for a smaller unit price categories. So in short, if I have to sum up what I had mentioned, I feel that our sustainable growth story continues, we will continue to grow from quarter-to-quarter. We may have a differing rate of growth for top-line and bottom-line because we may choose consumer franchise growth over margin growth from quarter-to-quarter. We feel that the current slowdown is an opportunity to take care of cost structures and move to another plane of margins to be exploited in more steady state times. I feel that it is possible to make up margins later on, over a longer period of time. And hence if we go only by slices of time we have had quarters where we recorded almost the 16% margins. Those quarters were not representative of the longer term at that time, similarly when we have lower margin than usual that necessarily may not reflect the medium term or long-term future. Would you want to add anything, Chaitanya?

Chaitanya Deshpande: No, not at this stage.

Milind Sarwate: Okay then may be we could have the questions now please, thank you.

Moderator Thank you very much sir. We will now begin the question and answer session, at this time if you would like to ask a question please press * and then 1 on your touchtone phone. If you decide you want to withdraw your question from the questioning queue please press * and then 2 to remove yourself from the queue. Please use only handsets while asking a question. Anyone who has the question may press * and 1 now. Our first question is from Mr. Gautam Dugal of Edelweiss, please go ahead.

Gautam Dugal: Hi Milind, congratulations for good set of numbers. I just had a small doubt on volume growth in Saffola, is there any angle of inventory build up prior to any anticipated price hike in the trade or is it the normal volume growth.

Chaitanya Deshpande: Hi this is Chaitanya here; no there is no inventory build up as such. Part of the increase is on account of a new variant that we had introduce, that is Saffola Active. At least about 7% or 8% of the growth has come on account of this new variant. If you look at the existing Saffola franchise before the introduction of this variant, the growth there would be in the 18% to 20% range which is the number that was tracking in the few quarters even prior to this quarter.

Gautam Dugal: Do we expect to build on this kind of growth because of I believe last year we had a very high base 20% to 22% kind of a volume growth.

Chaitanya Deshpande: Yes, my view is that a sustainable growth in Saffola in the medium term will be around 15% of 16% volume growth. We have seen higher rates of growth over the last few quarters. This is to do with the entire health wave that you are seeing in the country. As of now and we are riding that wave. But on a medium term basis, and I guess you would like to see numbers over a three to four year period, you might see this rate being at about 14% to 15%. I think even for the rest of this year, it is difficult to assume that we will get 20% plus growth in volumes in a brand like Saffola.

Gautam Dugal: Okay, our second part of question is in terms of price hike from the edible oil portfolio both, Saffola as well as Sweekar. So far this year we have not taken any pricing action despite the higher raw material, is there I would like say a Parachute or a hair oil, value added hair oil I mean, so is there any plan I mean wherein we can going forward take some kind of a pricing action here or…

Chaitanya Deshpande: Yes what we have indicated in the note is that in the case of Parachute we believe that another price hike would be necessary and we'll probably see that sooner rather than later. In the case of the refined edible oil we have not yet taken a call. We had taken price hikes during the course of last year which compensate for the kind of input price increases that we are seeing on an absolute basis. So right now we have not taken a call on refined edible oil prices - that is for Saffola and for Sweekar. As we move into Quarter 2, we will have to see how the raw material prices behave and look at either holding the price or increasing them. But in Parachute we have seen a 30% growth in the input prices during the 1st Quarter. We have taken price increases of 3% last year which was not followed by an input price increase actually and 5% during the 1st Quarter of this year making it 8%. We did not want to take an anticipatory price increase. However raw material prices have remain firm, therefore we are taking that call now. So you will see some increase in Parachute definitely.

Gautam Dugal: Okay, thank you sir. If I have other questions I will come back.

Chaitanya Deshpande: Fine, thanks.

Moderator: Thank you Mr. Dugal. Our next question come from the line of Mr. Pritish Chedda of Emkay Global, please go ahead.

Pritesh Chedda: Hi Chaitanya and Milind my question pertains to the ad spends you have seen at about 11% in Quarter 1 could you just give an outlook on ad spends for FY2009 versus what was written FY2008 we spend about 12.55 to 12.9% so that kind of ad spends would be seen for the full year.

Chaitanya Deshpande: Yes it is likely that we will retain the 12% to 13% band for advertising spends for the full year. In the 1st Quarter it was 11.9% (almost at 12). We do not anticipate bringing down or on the other hand substantially jumping ad spends up during the course of this financial year. They would be between 12% and 13%.

Pritesh Chedda: Okay so this is despite the new product launches and probably any aggressive branding exercise that you take or during the course of the year.

Chaitanya Deshpande: Yes because we had introduced new products last year too.- both prototypes and national launches. and we were supporting Parachute and Saffola also last year. We would continue to support both existing brands and new products.

Milind Sarwate: This is Milind, I think we have to keep in mind that mathematics also come into play with the turnover moving up by 25% plus, so absolute rupee value of ASP expenditure even if the absolute percentage remains the same the value is higher. Most of the time the ad expenditure is available in blocks so to keep that in mind that absolute rupee spend on ASP would have moved up sharply.

Pritesh Chedda: Correct, okay, many thanks to you and all the best, I will get back to you if I have any other questions.

Chaitanya Deshpande: Sure, thanks

Milind Sarwate: Thank you.

Moderator: Thank you Mr. Chedda. Our next question is from Mr. Prashant Kothari of ICICI Prudential AMC, please go ahead.

Prashant Kothari: Sir, few questions, one is on to your Egypt Operations, it seems like the company is trying to change the distribution strategy but if I remember correctly you have told us in the past that Egypt actually has very few number of pockets as in number of cities to serve. And therefore it would have been probably wiser to just be directly servicing wholesalers then going through another set of intermediaries just wanted to understand why this change of strategy is happening on distribution.

Milind Sarwate: Hi Prashant this is Milind, when it comes to Egypt let us understand how our Egypt journey has evolved. We went there and acquired one brand and that is the time when we realized that Egypt has very peculiar distribution with very few cities and very few points as compared to the population of the country. But over a period, we acquired yet another brand which is HairCode and the distribution machinery for both these brands were separate at that point in time. So one challenge we have going forward is to integrate the different distribution channels.. Second thing is how we optimize the supply chain in that country where we now have a nearly 100 plus Crore turnover. Where we have our manufacturing operations too. It is actually a very composite operation. We are also looking at Egypt as a manufacturing hub for other countries. In the light of that we have felt the need to streamline and take a fresh look at the distribution part. That would not disrupt us in the long run at the same time the understanding of the local distribution arrangements has taken some bit of time. So it is not that we have changed our approach, there is also a strong element of wholesale market over there. In India the evolution has been that there is a strong group of distributors in the country and the wholesale market is not necessarily the only dominant player. So we have to grapple with all these things and we find that each country has its own peculiarity but if you have to move that peculiarity towards our advantage we have to stay with it for a while and then make the changes. So we felt now is the time to make the change.

Prashant Kothari: And you also looking to setup some production facilities in Egypt what has been the update on that.

Milind Sarwate: Yes we are setting up a 3rd factory in Egypt and it will take another 1 or 2 quarters maybe to complete.

Prashant Kothari: Okay sir second question is on Kaya Skin Clinic can you give us some sense on how much price increase we would have taken in the last 1 year for Kaya services.

Chaitanya Deshpande: There was an increase of about 10% which we took in the early part of last year. And we have stayed with that more or less.

Prashant Kothari: Okay and in general how much would be the cost increase if you were to look at the store level in Kaya.

Chaitanya Deshpande: Not very significant. Two things are changing - one is the area of rentals. Wherever clinic lease rentals are coming up for renewals there is an issue of rentals having gone up. The pressure is higher in let us say cities like Bombay or Delhi and not so much in the smaller cities. What we are trying to do is, in clinics that have been established, we do not mind moving up to the first floor or the second floor, (you would have seen that in the Juhu Clinic we have moved to the second floor from ground floor), to try and reduce the impact of higher rent. On average we are seeing the rent go up maybe about 8% to 10%. The other is in the area of employee cost. There the inflation has been higher. That maybe more in the region of 15% to 20%.

Prashant Kothari: And sir the third question is about your borrowings, you had mentioned that there are some 110 Crores worth of USD denominated loans and I believe you would have some translation losses because of them, just wanted to know if they have been accounted for in the P&L that you have reported.

Milind Sarwate: Obviously we have accounted for that.

Prashant Kothari: So it would be appearing where sir in the P&L under what item.

Chaitanya Deshpande: There are also some receivables in foreign currency on account of the loans given to Sundari and the South African subsidiary. So actually the net amount is more or less nothing. So there is a gain on account of translation on loans payable and a loss on account of translation of these loans receivable.

Prashant Kothari: But it will be accounted in the interest item.

Chaitanya Deshpande: In the other income line.

Prashant Kothari: In other income.

Chaitanya Deshpande: But the number is small.

Prashant Kothari: Okay because there is a cross ….

Milind Sarwate: Yes, in short, we have a hedge in terms of borrowings and lending overseas.

Prashant Kothari: Okay sir in the Egyptian brands and the South Africa brands are there any brands that you need to get out of because they are maybe low margin products?

Chaitanya Deshpande: In South Africa the three key brands that we have are Caivil, Black Chick, and Hercules. There are some smaller brands we have, which have some SKUs and this really forms a long tail. These are a few brands like Rivage and Grace etc. These are in skincare. We may look at phasing these out over a period of time, as they are really a very small percentage of the overall portfolio in South Africa.

Milind Sarwate: Prashant when we went in we were conscious of this and when we acquired we have factored this in. It is not that we bought a dud and now we are realizing that it is not worthwhile.

Prashant Kothari: Sure, thank you sir.

Chaitanya Deshpande: Thanks.

Moderator: Thank you Mr. Kothari. Our next question is from Mr. Sonal Kohli of Aim Capital. Please go ahead.

Sonal Kohli: You have mentioned that about 100% of your growth came from new variant of Saffola when you are referring to this 100% you are talking about Saffola brand or overall impact of growth.

Chaitanya Deshpande: No, Saffola has shown a 28% volume growth. Of the 28 about 7% or 8% is from Saffola Active.

Sonal Kohli: What would this products contribution to your overall lets us say top-line in Q4 or you know growth in overall terms for Marico.

Chaitanya Deshpande: It will not be very high Sonal. As you know Saffola's turnover is around Rs. 300 crore when we are talking about growth from Saffola and then out of that growth this is only 7% out of that 28%.

Sonal Kohli: Okay thanks.

Moderator: Thank you Mr. Kohli. Out next question is from Mr. Akhil Kejerrawal of Enam Securities. Please go ahead.

Hemant: Yeah hi Hemant here. Just had two questions one being on Parachute you had mentioned that the rigid pack has grown by around 8% for this particular quarter in terms of volumes what I wanted to get a sense of is that despite the 8% price hike which is effective over the period of time, do we get a sense that non-rigid pack portion is growing faster than the rigid pack and is there a trend that consumers are moving to smaller size given the price hikes leading to the question that would we see down trading in couple of these categories.

Milind Sarwate: Not necessarily because firstly we have to realize that most of the products that we have in that zone of around Parachute are as it is low unit priced products in terms of the consumer understanding. For example if something is priced at say Rs.38 or Rs.34 or Rs.42 or something like that at that level down trading may not necessarily occur. What we are more concerned with especially when we go into the non-rigid pack is that we are converting consumers of loose oil into consumers of branded oil. And over there at the most, in case of an extreme downturn, there maybe some slip back into consumption of loose oil. So I do not think that we have witnessed any down trading as such on Parachute, certainly not in this quarter.

Hemant: Could you give us a sense of what proportion of your Parachute sales I think which is 40% indicated as that percent is overall sales is non-rigid pack.

Milind Sarwate: I think the non-rigid portion maybe around 20% to 25%.

Hemant: Of Parachute.

Milind Sarwate: Of Parachute. We have to keep in mind that in terms of number of packs sold these would constitute a very large number simply because the unit price is low for example we even have a Re.1 pack. So the idea you should understand is clearly to acquire new consumers and not necessarily to start with making money on those individual packs.

Hemant: Sure, I appreciate that.

Milind Sarwate: And if you look at the Parachute rigid growth pattern over the past few years it has tracked anywhere between 4% to 12% and currently we are somewhere in the middle range of around 8%.

Hemant: Another question which was again asked earlier in terms of Saffola the volume growth rate and it continues to baffle us in terms of the kind of volume growth rate that has come through what I would like to ask is that seemingly there is no kind of pressure either from the private labels which coming from the organized retailer nor is there any regional competition and the volume continues to improve. So what is a sense in that any particular reason that we can envisage on that.

Milind Sarwate: I think if I have to give you a clichéd answer I would say that Saffola is a very strong brand, but let me try and define it further. Firstly if you look at the healthy oil space I believe that there is a lot of clutter because I have not seen any oil which claims that it is not healthy. Every oil says that it is a healthy oil, now within that the consumers are looking for some authenticity and somebody who has stood for healthy oil, I think other than Saffola there is virtually no other player which has stood for heartcare and healthcare on a consistent basis over the years. Not only that the composition of Saffola oil which used to be only uni-dimension earlier; we have introduced blends and we have made it some kind of a progressive offering to the consumers. Thirdly, we have also gone into extensions of Saffola in non-oil categories like salt or atta mix for cholesterol management and now for diabetic management. As a result Saffola has acquired some kind of a thought leadership in this area. It is seen to be a brand which is serious, which is not flippant and which does not sell products only by showing puris which are very fluffy. So we have something which is more sensible. Moreover there is a rub off of the functional foods advertising on to the main brand. The fact that we have been consistent we have been the prime movers and the first mover in this space, I think that the flywheel effect of these years of work is kicking in and we are getting volume growth on that account despite being, I think, the next highest priced oil after olive oil. So that is the whole design behind a successful and a powerful brand.

Hemant: And one final question, in terms of the hair care range what would be that overall contribution to the sales the domestic and the international total.

Chaitanya Deshpande: Domestic hair care is about 13% to the overall Marico group sales. And the international business is about 15% of total group sales for us. It is almost entirely in hair care about 80% to 85% of international business is hair care.

Hemant: Okay and this 15% includes for international parachute as well.

Chaitanya Deshpande: Yes.

Hemant: Okay and domestic when you mean it is excluding parachute.

Milind Sarwate No we look at coconut oil as a separate category. We look at coconut oil and hair oils, the number which Chaitanya has mentioned was of the hair oil.

Hemant: Okay fine. Alright that is all.

Milind Sarwate: Our lead brands Parachute and Saffola together will constitute maybe 45% to 50%.

Hemant: Alright thank you sir.

Moderator: Thank you Mr. Hemant. The next question is from Mr. Biren Dalal of Kotak. Please go ahead.

Biren Dalal: Yes sir, last quarter we saw copra prices going up by 30% so what is the current status as of prices stabilizing or it is still on the rise and what is the outlook on copra prices and what kind of inventory do we carry on that.

Chaitanya Deshpande: It would be difficult to make a prediction on the prices so typically outlook on the commodity price is slightly difficult to comment on. We saw an increase of about 30% in the 1st Quarter. During the month of July we have not seen prices coming off and they continue to be at those levels. Having said that, typically in a normal copra price cycle the lowest month for prices in copra are between March and June, the arrivals for the crop start around late February and the best arrivals are during this period. And then of course it is a perennial crop so you continue to get copra throughout the year but typically prices do climb from July into November, December and then you see a decline once again. So the prices in July as compared to June are a little higher. In terms of the outlook now, I have to say it is extremely difficult to tell because now everything is getting linked to crude prices. You have the edible oils moving into bio diesel etc and it is extremely difficult for anybody to take a call on crude right now. You know, for one week it is $125 but who knows what it will be 2 months from now.

Biren Dalal: Are these copra prices linked to palm oil prices.

Chaitanya Deshpande: Yes there is some correlation.

Biren Dalal: And could you tell me on inventory whether how much inventory would you be carrying in.

Chaitanya Deshpande: Typically we are not very high on raw material inventories. .We maintain, maybe, about a month's inventory at best in the case of copra. (I am talking about raw material there would be of course some inventory pipeline in the form of finished goods etc.) In the case of safflower it is a little higher because in India safflower is a seasonal crop. Between the months of February and July is the highest availability of safflower in India. We do import material from the southern hemisphere too. We have sources in Australia and Argentina so those come in, in the later part of the calendar year, but even so, it will just depend on what opening stocks you have. So in safflower you could have 3 to 4 months inventory at times. In sunflower again it is about a month's inventory.

Biren Dalal: Okay so to counter this price hike in copra are we looking for any price hikes in the immediate future.

Chaitanya Deshpande: Yes we will have to consider something because we did not take an anticipatory price increase. In the month of May we took a 5% increase. Now copra prices which spiked then have not really come off but have remained at those levels. So we will have to look at a price increase sooner rather than later.

Biren Dalal: Okay sir thank you very much.

Milind Sarwate: Welcome.

Moderator: Thank you Mr. Dalal. The next question is from Mr. Prashant Kothari of ICICI Prudential AMC. Please go ahead.

Prashant Kothari: Sir just a conceptual question in this environment where inflation is too much do you think consumers could still be willing to experiment with your innovative products because innovation has been our great strength and we have seen how new product have got a strong growth in our top-line, but in this environment do you think consumers will still be experimenting or they will just stick with the old products that they have been using so far.

Milind Sarwate: I think much will depend upon where does the environment hit and in what manner. And again what is the type of product that we are introducing. We have to keep in mind that even in a slowdown when things become really difficult, there is still a craving for something which is new and something which offers value. So if, I agree with you that if we offer something which is very funky or innovative and which the value proposition is difficult to understand there may not be a taker for that, but if we look at our existing categories and within that we bring out some innovation which is easily understandable I think it will be tried. I think the wisdom, at least that I am taking from your question is that in this ambience it is difficult to sell a completely new concept however innovative it maybe because people may just want to play safe, so there I agree with you, but I think our whole business has been build around innovations which are not shocking or revolutionary. We are not the company which comes out with an Intel inside kind of new chips or anything like that. We look at something which is available and we seek some kind of uncommon sense into existing things.

Prashant Kothari: No sir like I was thinking about let us say these functional foods that you have launched almost Rs.100 a kg for cholesterol and I think some Rs.175 per half kg for diabetes thing. These things look very expensive because essentially these are just atta mixes and people would probably compare it with the atta price and would look to be 10 times higher than atta price. So how would they react to such a population.

Milind Sarwate: First of all there is a certain ratio in which it is to be mixed . The ratio is obviously not 1:1. So if they are priced at the same level it is not translating into a per kg price like that, but let us look at the target audience that we have for these products. It is essentially a SEC A. It is a target which is evolved and which is very conscious of health and which is actually seeking out such products which offer them a convenience and some authenticity through a brand. So yes, if you compare it with plain and simple atta, obviously they are very highly priced, but if you compare them with the health benefits that they offer, I do not think they are high priced and our experience with these products has been quite encouraging. Moreover, they are good products and they offer a value which is experiential. So whenever we have found trials have happened people have come and have had a repeat purchase. However, if we have to introduce a similar product for SEC C it may not find takers in this kind of an ambience, but that is not our plan either.

Biren Dalal: Okay sir thanks.

Milind Sarwate: Thanks.

Moderator: Thank you Mr. Kothari. Our next question is from Mr. Sanjay Manyal of ICICI. Please go ahead.

Sanjay Manyal: Hello sir.

Chaitanya Deshpande: Hi.

Sanjay Manyal: Yeah just wanted to know something about the Kaya services, are we really making the kind of money which we have expected in the services.

Chaitanya Deshpande: Yes I would say we are. You have not seen Kaya contribute to the bottom-line today because we are going on expanding with the number of clinics. Hence even for this quarter we have ended up with no PBT. It is at a zero level. However, you know 4 clinics were opened in India this quarter and one in the Middle East. Also,a lot of the clinic expansion that happened in the last year took place from the month of December to March. You will see these clinics ramp up during the course of the year and should see contributions from these clinics towards the bottom-line. It is a question of where you want to breakeven. You can breakeven at Rs.100 Crores turnover or you can breakeven at a 150 Crores turnover too. We see potential for growth and therefore we continue to increase the number of clinics. If you just stop the clinic expansion, you will see positive numbers from Kaya.

Milind Sarwate: If I interpret your question as whether our business model is successful and whether it yields profit, it does do that. It does do that because the fundamentals of the business are pretty simple that the clinic has to attract a certain number of consumers on a continuous basis and given that our oldest Kaya Clinic is more than 5 years old we have been making money on that clinic is a comfortable manner. I think the key was in terms of how do we keep on rejuvenating the services to people because, theoretically, if you have offered a lifetime guarantee on a particular service and we have had let us say 100 consumers, by definition those consumers are not likely to comeback to us again, simply because it was a lifetime guarantee product. So it depends on what kind of range we offer and what kind of continuous excitement we build into our offerings. So far we have been able to do that, we have 60 plus clinics in India and overseas and we have not had the compulsion to close down any clinic as yet. And we are a pretty hardnosed company and we will not run a clinic only on emotions or for a particular reason. If we stop and do not expand we would clearly make money on Kaya. We are not stopping expansion simply because, as I mentioned in my opening remarks, I think growth in the long-term is very important. We do not want to have a dazzling quarter and then not have anything for the future. So I think Kaya is clearly a business for the future and we want to get as big as possible in that before we sit back and enjoy the fruits.

Sanjay Manyal: Okay just wanted a few more things, if you can share some figures like what kind of expenditure you are having per clinic or you know does that vary from you know as you said your very first clinic is making money. So does that vary from the clinic to the newer ones.

Chaitanya Deshpande: No the expenses on the clinics do not vary significantly except to the extent that obviously in a city like Bombay and Delhi the rents will be higher than when we go to let us say a city like Chandigarh. So you will see some differences in the rents. Of course, we are talking about per square foot here and some clinics on basis of size may have larger rents. For instance, the first clinic we opened in Hyderabad was I think an 8 room clinic. So obviously it will pay a higher rents there and then there would be more people etc. To give you some overall sense of the kind of expenses, the largest item of expenditure for us is employee cost which is about 20% odd, rents are about 10%. Obviously gross margins in this business are high because consumable goods are not very high and they would be upwards of 80%.

Sanjay Manyal: Okay and what kind of targets you have in terms of the margins you will be earning in future.

Chaitanya Deshpande: It is possible to look at 20% EBIT margins in this business.

Sanjay Manyal: Okay, fine sir. Thank you.

Chaitanya Deshpande: Welcome.

Moderator: Thank you Mr. Manyal. Our next question is from Mr. Naysar Shah of Morgan Stanley. Please go ahead.

Naysar Shah: Hi, Chaitanya good afternoon.

Chaitanya Deshpande: Hi good afternoon.

Naysar Shah: Yeah Chaitanya in an inflationary environment and when you are saying such a cost boost your strategy has been to maintain absolute unit margin which in turn means that you are taking a hit on the EBITDA percentage assuming this situation were to reverse just a hypothetical scenario so in that situation given the volume growth remains strong would you be looking at maintaining the sales price and hence higher EBITDA and higher EBITDA margin would that be the strategy.

Milind Sarwate: It would obviously been an objective. If you step back about 3 years we have had a situation where the copra prices were reasonably high and we had taken price increases. Thereafter the copra prices dropped and we did not take a price drop. Actually if you look at the business say about 7 to 8 years ago our operating margins used to be in the range of 8% to 9% and through brand building and such steps like holding retail prices despite underlying inputs costs declining. These strategies have ensured that we moved up from 8% to 9% to a 12% to 13% range. I think going forward if the input prices come down and we have already build a consumer franchise at a higher level we would obviously like to maintain the prices and step up the margins. Firstly we will take them back to the earlier levels of 13% plus and then we may seek to increase them further. In fact that is the point I am trying to make that it is possible to regain the margins which have been lost, but it is very difficult to regain consumers which have been lost. And I think for a branded player it is very important to protect the brand and protect the future rather than bother about immediate quarterly margins because that is a very short term slice of the future.

Naysar Shah: Okay and my next question is on Kaya skin you said that you have taken about 10% price increase and the same clinic growth has been running at 25% you know in June quarter. And I believe last year that number was something like 8% to 10% so roughly about say 15% same store growth on the volume side or rather the you know what has changed in this quarter why suddenly the growth has accelerated in Kaya clinic.

Chaitanya Deshpande: We have been looking at various things. One is to try and improve the clinic capacity utilization. Some of it is to do with just better planning - calling out to consumers in advance so that you do not have any no shows etc. We have also been continuously looking at trying and introducing new services, new products etc. So if you have a consumer who has come in and done a laser hair removal, it is possible to try and cross sell other services and products to the consumer. Moreover you would have also seen that we have been looking at advertising over television now. In the past we were doing only press advertising . So that itself has had its own impact on customer acquisitions.

Milind Sarwate: Also Kaya is a pioneering business in India and we do not claim that we have all the knowledge at the beginning itself. So we also keep learning. And it is a question of continuously perfecting your offering. I think as I mentioned earlier, the way we conduct our business is for the long-term. So as and when we keep learning we keep ploughing those learnings into the business. So you can analyze that we are a slow company but we are very focused and in the long-term I am sure we will make a difference.

Naysar Shah: Okay thank you very much.

Moderator: Thank you Mr. Shah. Our next question is from Mr. Rohit Gajare from UTI. Please go ahead.

Rohit Gajare: Hi good afternoon.

Chaitanya Deshpande: Good afternoon.

Rohit Gajare: A quick question could you give me a breakup of your revenues in various functional divisions you have let us say Parachute, how much was it for this quarter.

Milind Sarwate: You want the breakup of revenues.

Rohit Gajare: Yes of the 601 Crores.

Chaitanya Deshpande: Yes I can give you a broad breakdown, Parachute is about 32%, Saffola is about 16%...

Rohit Gajare: This includes Saffola Active right.

Chaitanya Deshpande: Yes, then we have Sweekar is about 7%, Kaya is 6%, Hair Oil 13%, international business about 15%.

Rohit Gajare: Okay sir and do you have any target PAT margins for Kaya or how have you modeled it.

Chaitanya Deshpande: Like I was saying earlier on one of the earlier questions we can look at EBIT margins of about 20% in this business. So that is what we are planning for, but you will see that happening over a period of time.

Rohit Gajare: Okay that is all, thanks.

Chaitanya Deshpande: Welcome.

Moderator: Thank you very much Mr. Gajare. Our next question is from Mr. Vaibhav Kacholia of Trust Capital. Please go ahead.

Vaibhav Kacholia: Sir in the Kaya business wanted to check, are we not getting offers of rentals at lower rates now.

Chaitanya Deshpande: Actually, most of our leases will be long leases on average they are about 5 years. But yes when we are looking at opening up of a new clinic or when we are looking at renewal coming up it might be slightly better than it was let us say 6 months ago.

Vaibhav Kacholia: No sir my question was that in the past higher rentals causing a problem in opening new clinics.

Chaitanya Deshpande: No not really. Essentially we started off with Bombay, Delhi and then we moved into various other cities we are across about 20 cities in India now. It is not really the clinic rent that has determined the speed at which we were rolling out. It was getting our model right being sure that we are able to devote sufficient bandwidth across all cities. There is a lot of training to be done when a new clinic has opened. Typically a skin practitioner would be trained for about 3 to 4 months before she actually sees a client in a clinic. So these are the considerations rather than rent.

Vaibhav Kacholia: So what is the cost of rent, the total sales as a percentage.

Chaitanya Deshpande: It will be in the region of about 10%.

Vaibhav Kacholia: Okay so that was not much of a problem as such.

Chaitanya Deshpande: That is correct.

Vaibhav Kacholia: And sir this product revenues 13% where do we see this moving in Kaya.

Chaitanya Deshpande: Right now it is in the same ballpark of 13% to 14%.

Vaibhav Kacholia: Longer term what are our targets in that.

Chaitanya Deshpande: Longer term there is no specific target. I would say it is possible to take this to 20% or 25% over the next 3 to 5 years. We have seen similar clinics overseas who do even 30+. So in a long-term it might be possible to move there.

Rohit Gajare: That is a strong driver of the margins in that business internationally for competitors and other people.

Chaitanya Deshpande: I am sorry I did not understand that.

Rohit Gajare: Product sales is a strong driver for profitability for other people in that business is that the key driver.

Chaitanya Deshpande: It would not be profitability but increased revenues. You will make a higher margin on services but it will definitely drive turnovers and incremental business from the same space.

Milind Sarwate: Let me give you a different perspective also, this is Milind. In Kaya we are offering both services and products. In fact we started by offering only services then we added products. The idea is that you need to keep having continuous engagement with the consumer and in case of a service setting you would engage with a consumer for a while and then the consumer would go off. So through products we maintain a continuous connect with the consumer so that he keeps coming back to the clinic either for the products or for the services. That is how you will find that we do not market Kaya products in any traditional consumer goods outlet, they are sold only at a Kaya clinic in the presence of a medical doctor.

Rohit Gajare: Right.

Milind Sarwate: If you view products and services as a composite offering instead of asking whether we are stressing one or the other.

Rohit Gajare: Okay great and how much of the Kaya turnover is coming through these shop-in-shop kiosks.

Chaitanya Deshpande: At the moment that is quite small.

Rohit Gajare: So that model is not something which we are looking to scale up substantially.

Chaitanya Deshpande: We are still examining that model, it will take a while before we conclude on it.

Rohit Gajare: Okay and sir Kaya Life what is the size of the market and what are the key competitors doing right, who are doing really well in that business VLCC and stuff like that.

Chaitanya Deshpande: VLCC has definitely established itself over a period of time. They have a large number of centers as well. We think the market would be about 300 Crores.

Rohit Gajare: VLCC has 300 Crores turnover.

Chaitanya Deshpande: No I do not know VLCC's exact number. I am talking about the market as a whole, but definitely this is a market which will grow fairly rapidly. It is a very high consumer need today - shaping up, losing weight etc. The way we want to differentiate ourselves from other brands that offer similar services, is that we are looking at a sustainable weight loss. Most offerings in the market today show results but we believe over a longer period of time it becomes a little difficult if you have a very strict kind of regimentation on your diet, on your exercise patterns etc. What we try and do is work individually with each consumer to try and understand that consumer's motivators and demotivators. There is a lifestyle counselor that we have at a Kaya clinic who then tries to help design a package for you which takes into consideration your current lifestyle, what is the kind of cuisine you eat, we do not have a standard menu that we give everybody. We design a menu based on whether you are a South Indian, or North Indian. We take into consideration what kind of travel patterns you have and therefore how many times you eat out and what kind of exercises that you can do. So essentially you try and help the person to not make very drastic changes and there is not too much of stick being used. Therefore even after a 2 or 3 months period it is possible to sustain this program with a more sustainable weight loss. That is how we think we will be different.

Milind Sarwate: In that sense we may not be competing directly with any of the existing players because we are more into lifestyle counseling and helping the person manage lifestyle better. There is the same difficultly we had when we first brought in Kaya it looked as if we will be competing with say Lakme and we used to get this question asked every now and then about how are we compete with Lakme. But soon enough people realized that what we are offering was very different from a traditional beauty parlor and it was also very different from what typical doctors were offering by way of skincare clinics. So I think in the case of Kaya Life it is also a question of selling the concept of holistic lifestyle management leading to weight loss rather than only focusing on the weight loss. It is a more profound remedy. It is something which we will have to sell very, very carefully and we are currently in that phase.

Rohit Gajare: Okay great. Sir in all the international acquisitions we have done any hair colors and any plans of introducing that into India. And our thoughts on that the hair color market is something which we missed out on.

Chaitanya Deshpande: In the case of the South African acquisition the brand Caivil has a component of hair color but it is not a very large part of our portfolio. At the moment there is no plan to introduce that in India.

Rohit Gajare: Okay do you think that the market is too crowded and we have missed the opportunity or there was no good enough opportunity or was not fitting our targets as such.

Milind Sarwate: I think you have answered the question partly, the market is quite crowded. Secondly you need something which really differentiates yourself from the competitors. I think we do not have such a strong offering which has a differentiated proposition to the consumer at this point in time at least. I do not think it is a question of missing the opportunity because if you have something which is cutting edged and you know it is really different even in a cluttered market you can make that break, but we also are not focused on developing such a differentiated product.

Rohit Gajare: Okay great thanks a lot.

Chaitanya Deshpande: Thank you.

Moderator: Thank you Mr. Kacholia. Our next question is from Ms.Sneha Kothari of Subhkam Capital. Please go ahead.

Sneha Kothari: Sir just can you throw a light on the Kaya skin clinic, I just want to know that you are planning to launch 15 clinics during the year, hello.

Chaitanya Deshpande: Yes that is right.

Sneha Kothari: So where you would be launching those clinics.

Chaitanya Deshpande: Most of these will be in the current cities. We think there is enough room in these to take more - there is a demand in existing city itself. We would like to saturate these cities before we move to new ones. Of the 4 we have opened in the 1st Quarter there is only one in a new city which is Lucknow.

Sneha Kothari: And the plan to enter into other international markets like your vendor into the Middle East.

Chaitanya Deshpande: Yes for the moment we are going to remain in India and the Middle East, we do not want to really look at spreading ourselves too thin.Over a period we may look at some, territories where we have a presence - in Egypt for instance - but I am unable to comment on the timing right now.

Sneha Kothari: Okay and sir this holistic weight management is a scene that is in the Kaya skin clinic or something different model.

Chaitanya Deshpande: This is Kaya Life. They are separate centers that we have opened. At the moment we have 3 centers in Bombay there is one in Juhu, one in Bandra and one at Malad.

Sneha Kothari: Okay so what type of a margin and feed back you are getting from the consumer about this holistic weight management solution.

Chaitanya Deshpande: Feed back from the consumer is good. People who have come have experienced both weight loss as well as inch loss. So we find that the model is definitely working. Margins in this business. Being in the service business are reasonably good but we still have to hone the model.So it is too early to comment on what the numbers might be over a longer period of time.

Sneha Kothari: Any further centers where you are planning to open.

Chaitanya Deshpande: Not immediately. Like I said we are still honing this model. We will run with these three clinics for a few more months and then take a call on when and how rapidly to roll that out.

Sneha Kothari: Okay and sir in this Kaya skin the type of products you are offering are based on R&D that has been done in Marico or you are purchasing from others and putting the brand name of Marico.

Milind Sarwate: No we have our own R&D center we have more than 60 people who are working in our R&D center. And we focus on research for all our divisions together. So there is enough of understanding of the consumer and technology which goes into our products.

Sneha Kothari: Okay sir thank you sir.

Moderator: Thank you very much Ms. Kothari. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Joshi.

Aniruddha Joshi: Thanks Marina. On behalf of Anand Rathi Securities I thank all the participants and Marico's management Chaitanya and Milind to be on the call. Milind and Chaitanya if you have any final remarks to make.

Milind Sarwate: I just wanted to make two points, one is I started with telling you the broad philosophy which was in terms of continuing to invest into the future and ensuring that we are sufficiently broad based. That's what I wanted to reiterate. Secondly, we have had a pretty engaging session over the past 1 hour. I wanted to thank all the participants and if any of the people who logged in today have any specific queries they can get in touch with Chaitanya or me on phone or email. And if they have any feedback about any questions that we answered or they want to suggest any improvement for the future please do let us know. I also want to thank you and other people at Anand Rathi who helped this session and also Marina for conducting it.

Moderator: Thank you Mr. Joshi, Mr. Sarwate and Mr. Deshpande. On behalf of Anand Rathi financial services that concludes this afternoon's conference. Thank you for joining us and you may now disconnect your lines.