Marico Limited
Conference Call of Marico Limited
Event Date/Time : October 28, 2009, 5.30 pm

Speakers: **Mr.Milind Sarwate, Chief – Finance, HR & Strategy**
Mr.Chaitanya Deshpande, Head - M&A and Investor Relations
Mr. Nikhil Vora, IDFC-SSKI Securities

Moderator: Good evening Ladies and Gentlemen. I am Manjula, the moderator for this conference. Welcome to the Marico Conference Call hosted by IDFC-SSKI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to International Bridge. After that, the question and answer session will be conducted for participants in India. Now, I would like to handover to Mr. Nikhil Vora from IDFC-SSKI. Thank you and over to you sir.

Mr. Nikhil Vora: Thanks Manjula. It is a pleasure to welcome you all for the Q2 Earnings Call for Marico. We have with us representing the senior management team at Marico, Milind Sarwate, Chief of Finance, HR, and Strategy and very old hand at Marico; and Chaitanya Deshpande, who is heading the M&A and Investor relations. I will hand it over to Milind to make the opening remarks and then show the way forward and open the floor for Q&A.

Mr. Milind Sarwate: Good evening everybody. Let me begin the call by capturing the highlights for the quarter. This was yet another quarter of profitable growth for us. That completes 40 consecutive quarters of profit growth for the company. We have also been growing in turnover for the past 36 quarters, so I feel glad that we keep fulfilling the motto of sustainable profitable growth quarter after quarter. We also had healthy financials across all the business segments and all the geographies where we operate – an all around performance. There was strong volume growth in almost all categories led by the consumer product business in India which was as high as 15%. Another feature was growth in operating margins by almost 150 basis points from 12.2% last year to 13.7% this year. That makes this the fourth successive quarter of margin growth, so we have been stepping up operating margins for almost a year now every quarter. We have had a strong growth in net profit despite a conservative and a prudent provision that we have made for the contingency of excise on coconut oil. That is about 12.5 crores. One more event which took place this quarter was the IPO of shares in Marico Bangladesh. The shares are now listed on the Dhaka Stock Exchange and the Chittagong Stock Exchange, and as of yesterday, the market capitalization of Marico Bangladesh was about Rs. 900 crores. We have continued to be an acquisitive company while we have not recorded anything in the register as of now, there are opportunities which we have cited and evaluated in Asia and Africa, and hopefully if things work out well in the coming half, we should be able to report something. We have continued to build capability for future growth in terms of investing in our power brands, investing in new products, investing in the building blocks such as consumer insighting and innovation. All in all, this was yet another quarter of sustained efforts and sustained growth. I will now throw the floor open for questions. I am accompanied by Chaitanya, so we will field the questions as they come along. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to International Moderator to conduct the Q&A for participants connected to International Bridge. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you Salvia.

International Moderator: Thank you Manjula. We will now begin the Q&A session for participants connected to the International Bridge. Please press 01 to ask a question. The first question from Mr. Karthik of Buena Vista Fund Management.

Mr. Karthik: Hi Milind and Chaitanya. Good evening, this is Karthik here from Buena Vista. Couple of questions. Firstly on Saffola, I think this is the second consecutive quarter where we have run this 20% extra promotion, and we have had low single digit value growth, so I am just curious to understand whether at the existing price point of Saffola, given the current inflationary conditions, there is a resistance on the part of the customer and secondly on the Kaya business, this is also the second consecutive quarter where same store sales has been low single digit. So, what kind of timeline are we setting right now for Kaya breakeven and what is our outlook for the second half for Kaya.

Mr. Chaitanya Deshpande: I will take the Saffola question first. The promotion offers where we gave this 20% extra was not run throughout the quarter. In the second quarter, it was run primarily in the month of September and we selected two of the variants, which are Saffola Gold and the orginal Saffola to run it on. In Saffola Gold, we ran it on the 1 L and the 5 L pack. On the original Saffola, we ran it on the 5 L pack only. So, it is not as though the 20% was run throughout the quarter on the entire portfolio of Saffola. Now, if you make some approximation of what might have been the growth without this promotion, we believe that instead of showing a 21.9% volume growth, it might have come off by 3% or 4%, but the rest of it is actually base growth that is happening. So, having corrected the premium over the other refined edible oils to 25% to 30%, we are fairly comfortable with that kind of premium. So, I would not really say that Saffola is being faced with any severe pressure on volume growth. In the case of Kaya, it has definitely taken more time. We believe this is linked to the overall economic environment. We have shown same clinic growth of about 5%. In fact, if you break that up a little further, the Middle East clinics have shown a fairly good growth, and the same clinic growth in India is actually negative. It is a 4% or 5% decline. Now, if you look at sequential quarters, however, between Q2 and Q1, there has been a 4% increase. I am talking only same clinic growth right now, and we define same clinic growth as clinics that have been in existence for 12 months or more. So, there seems to be some reemergence of growth. It has not been enough for us to show a positive number on same clinic growth, but going into quarter three and quarter four perhaps you will see that coming back. On top of that we have growth coming from the new clinics, so we should see fairly good growth happening in Kaya. In terms of the bottom line, we have a loss of about 2.1 crores in the Kaya skin care business for this quarter. This is primarily on account of the new clinics, where we would have incurred expenses ahead of the revenues ramping up be it in terms of rent or training for new employees. Therefore, that is what is dragging the bottomline down. We believe by the end of this financial year, we should be able to show some positive number on Kaya; however, it is not going to be as high as we might have thought in March or April this year. Our estimates for the bottomline are definitely a little lower. This I think more or less covers what you had asked.

Mr Milind Sarwate: Karthik, I wanted to add a point about Kaya. Towards the end of the quarter there was also a new incidence of service tax on Kaya offering, so to some extent it may have dampened the consumer sentiment. That is a factor which will unfold more clearly during the current quarter. Also, we keep getting a lot of questions about Kaya bottomline, so I just wanted to share with you some empirical data. If you view the Indian retail universe, Kaya would perhaps be the business in that segment which has demonstrated a breakeven in perhaps the shortest possible time. It did so in the fourth or fifth year. The question is in a business like Kaya, where obtaining and retaining consumer franchise is the primary driver, should we get swayed by a recording of temporary bottomline or should we be focused on building a strong consumer franchise. I think businesses like Kaya are about building value in the long term. This does not mean that we should ignore profitability, but if you look back what we have done in this business, we have demonstrated the viability of the business model by recording a profit in Kaya in the year before last. Having done that, we are aware that we can make profits. There is also a ratio of mature clinics, that means those which are in existence for 12 months or more, and the new clinics. If the ratio is skewed in favor of new clinics as it is the case right now, we are bound to see negative bottomline simply because the investment in the new clinics will be significant. I expect that as this ratio gets skewed more and more in favor of mature clinics, at that time one could definitely see a very steady profit emerging from Kaya. Finally, as a responsible business entity, we would definitely want Kaya to make money but not at the cost of its long-term. That is the broad scheme.

Mr. Karthik: Okay, great, fair enough, and lastly, you had indicated that you might have some good news on the M&A in the second half, would you be in a position to give us more detail on what geography it is, what business it is at this point of time?

Mr. Milind Sarwate: No deal has taken place as yet. Having said that, I feel that there are two factors which contribute to the M&A optimism. One is that the whole process of economic downturn and then the recovery has thrown up lot of opportunities relating to consolidation, people rethinking their business models, etc. This applies not only to Marico but to every acquisitive company, so we are not unique in that. Secondly, our performance during the current year, emboldens us to look at more growth opportunities because despite an unforeseen provision that we had to make for coconut oil excise, we have recorded fairly good numbers. Our balance sheet is in a healthy shape, and in terms of the appetite for future inorganic growth, we are very well placed. In the M&A game, having told you all this and probably raised your expectations, it could very well happen that nothing is recorded, but I think you will give me that much poetic license.

Mr. Karthik: Okay, great, thank you very much and all the best.

International Moderator: Thank you sir. To ask a question, please press 01. Please press 01 to ask a question. At this moment, there are no further questions from participants at the International Bridge. I would like to handover the proceedings back to India Moderator, Manjula.

Moderator: Thank you very much Salvia. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line, we have Mr. Praful Kumar from Edelweiss. Please go ahead with the question.

Mr. Praful Kumar: Hi Milind, hi Chaitanya, congratulations on a great set of numbers.

Mr. Milind Sarwate: Hi, thank you.

Mr. Praful Kumar: Just want to quickly ask can you just state the overall revenue growth in terms of volume, price, and may be currency led growth, and also what would be the volume growth in Parachute brand per se, and second question would be the premium on Saffola versus other brands in quarter two, and what was the same number in the corresponding quarter last year in Q1 '10?

Mr. Chaitanya Deshpande: Overall, revenue growth is 14%. Our overall volume growth is 15%, and there is a 1% de-growth in terms of pricing.

Mr. Praful Kumar: Right.

Mr. Chaitanya Deshpande: In the international business share of revenue in the group turnover for this quarter was 25%. That may or may not sustain for the rest of the year. It may end at 22% or 23%.

Mr. Praful Kumar: Alright.

Mr. Chaitanya Deshpande: For this quarter, international business showed a 49% growth. Excluding currency fluctuations the growth was 33%

Mr. Praful Kumar: Alright for Parachute, the volume growth?

Mr. Chaitanya Deshpande: 10%.

Mr. Praful Kumar: Alright, and the premium of Saffola versus other brands in Q2 and same number in quarter one?

Mr. Chaitanya Deshpande : In this year Q2, it has been about 25% to 30%. It was in a similar range in quarter one of this year. Last year, it had gone up to about 50%.

Mr. Praful Kumar: Alright. Thank you so much and all the best.

Mr. Chaitanya Deshpande: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Anirudh from Anand Rathi Securities. Please go ahead.

Mr. Anirudh: Hello sir, congratulations for excellent set of numbers. Just wanted to know we will be experiencing strong margin improvement in FY'10. Now, the company has not increased prices in this year, plus we have reduced prices. So, even if raw material prices move up a bit in FY '11, do you see that the pricing power will enable to improve margin even in FY'11?

Mr. Chaitanya Deshpande: The drop in the raw material for this year has been very significant. It has been about 25% or 27% in the key and that has led to this wide expansion in margins, some of which we reinvested in terms of our investments behind the brands. Answering this question for the next year is a little difficult because as you might understand making a forecast on commodities is something that will be extremely difficult and something that at least I personally would not want to stick my neck out on. Yes, we did not raise prices for any of our brands this year, and on certain SKU's there have been either these consumer offers or a marginal price drop. Going into the next year again our stance continues to be one of trying to maintain the absolute margins per unit. so if in a situation of commodity price changes , for the near term at least, what the company is trying to do is expand consumer franchise and focus on volume growth. Then the benefits of increased margins can be reaped over the medium term in the future. Right now, we don't want to lose any opportunity to try and grow the consumer franchise itself. Sure, ultimately, you know, if we get an opportunity where we see that volume growth is in the ballpark that we would like to see it in is coming in with increased margins, yeah sure we will pocket that.

Mr. Anirudh: Okay, but do you see any margin pressure in FY '11 or then probably it will be just our decision to invest back in the business?

Mr. Chaitanya Deshpande: That again, Anirudh, will depend on how the commodity prices really move and it is very difficult to give a very confident response to that. Having said all that, the other thing that we have been continuously stating and we strongly believe in is that our brands are strong enough to pass on commodity price increases, so I don't really see a situation where we will be under lot of margin pressure. Again, that depends on what you define as margin pressure. The margin this particular quarter without the provision of for excise is in excess of 15%. Now we may not want to rake in 15% or 15.5% margins in the near term, so you might see that coming down to 14%. We will be comfortable with that in the short term.

Mr. Anirudh: Okay, and what would be the…if you would like to give any guidance on the growth in international business in constant currency terms?

Mr. Chaitanya Deshpande: That has been about 33% for this quarter. I think going forward we could look at numbers between 25% and 30%. We had given a lower guidance in April 2009. Having seen the performance in the first half, we can expect a growth of at least 25% going forward into the second half and may be into the next year as well. This will be achieved by both growth in the current geographies and by seeking entry into geographies. We will use Egypt as hub for getting into some of the other North African countries. From South Africa too we have tried to move into some of the neighboring countries like Botswana and Angola.

Mr. Anirudh: Okay, thank you very much.

Mr. Chaitanya Deshpande: Welcome.

Moderator:	Thank you very much sir. Next in line, we have Mr. Ritesh Shriram from Emkay Global. Please go ahead.
Mr. Pritesh Chheda:	Hi, this is Pritesh Chheda. Hi Milind and Chaitanya.
Mr. Milind Sarwate:	Hi Pritesh.
Mr. Pritesh Chheda:	Couple of questions. First on Saffola, adjusting for those extra promotion offer, if you could tell me what is the volume growth for the quarter?
Mr. Chaitanya Deshpande:	We can only make an estimate of what that would have been. The volume growth reported for the quarter is 21.9%. Our estimate is it would have been about 4% lower.
Mr. Pritesh Chheda:	Okay, so around about 17% to 18%.
Mr. Chaitanya Deshpande:	Yes.
Mr. Pritesh Chheda:	Okay. Second, on a sequential basis, there is this 300 basis point expansion in gross margins. If you could just highlight key reasons for this sequential because when I plot the index, I did not largely see a sharp drop in any of the costs or may be if you could help us out for the 300 basis points expansion.
Mr. Milind Sarwate:	Correspondingly, you should also look at our investment in ASP, that is also significantly higher in the second quarter as compared to the first one. If you compare at the operating margin level, we would be going up only by about 50 basis points.
Mr. Pritesh Chheda:	Yeah, I just want to say at the cost level only, that is at the material level, any key material which has gone down or you know any other significant change that has happened, if you could highlight it, if it is there?
Mr. Chaitanya Deshpande:	There isn't a major shift. In terms of copra we had seen a little over 20% decline in quarter one, and in quarter two it is at about 25%. In the case of safflower, t is almost the same. It is 25% versus 27%.
Mr. Pritesh Chheda:	Okay, so it is largely to do with copra.
Mr. Chaitanya Deshpande:	Moreover in the first quarter in Parachute, we had run a promotion with 20% extra on two of our largest SKUs, which are the 200 mL pack and the 500 mL pack. However, during the second quarter, there was no consumer offer on those packs. We had a smaller consumer offer on the 100 mL flexi-pach, which is on a much smaller SKU.
Mr. Pritesh Chheda:	Okay, okay, so I think I got those answers. It is largely due to the promotional offers, okay, and lastly on this provision front of 12.5 crores, this excise duty that you have provided for is for sales until

quarter two straightaway, the entire provision has been made or how have you made the provisions for it.

Mr. Chaitanya Deshpande: It is based on the dispatches made during the quarter.

Mr. Pritesh Chheda: So, it is purely to do with the quarter only.

Mr. Chaitanya Deshpande: That is correct.

Mr. Milind Sarwate: Yes, this 12.4 is for the quarter. Similarly, in the first quarter we had a 4.8 crore provision, but that was for the period beginning on June 2009.

Mr. Pritesh Chheda: Okay when the first claim or whatever….

Mr. Milind Sarwate: The circular was issued on June 3, 2009.

Mr. Pritesh Chheda: Circular came up, okay, many thanks to you and all the best.

Mr. Milind Sarwate: Thank you.

Moderator: Thank you very much sir. Next in line, we have Percy from HSBC. Please go ahead with the questions.

Mr. Percy: Hi sir, congrats on a good set of numbers.

Mr. Milind Sarwate: Thanks Percy.

Mr. Percy: Just one question on Parachute, like if you look at learning from Saffola about a year back when your premium to other brands went up too high, you suffered later on in terms of volume. Do you think there is a probability that the same thing might happen with Parachute with the commodity having dropped so low and we have not taken any price reduction. I know that right now there is no impact on demand, but do you think there could be a delayed impact when people start realizing that other lesser known brands or even loose is available at a significant discount to Parachute.

Mr. Chaitanya Deshpande: Percy, that is a very valid question. I would say a yes and a no. The no part comes from the fact that the unit price for Parachute is much lower. So let us say if I have to go out and buy 200 mL pack which is the largest selling pack today at Rs. 39 it's different from when I have go out and buy Saffola where I consume 5 liters of Saffola, where the ticket size goes to more than 500 bucks. Then the differential in the pricing versus competition pinches the consumer's pocket. In the case of Parachute, it may not be so for the 200 mL bottle or a 100 mL bottle. However, the yes part is on the small town markets, and we are looking at our flexi-packs, (though the rigid packs where we make better margins are the focus packs for us). However the flexi-packs are more likely to be the recruiter pack for people moving from loose oil into branded oil. Now, if you have price variance coming in there, as we have already begun observing, there will be a little bit of a pressure on growth, and I think your point is very valid on that. While we have not taken any pricing action as yet except as I mentioned earlier we did 20% material extra on a 100 mL pouch, we believe that in the third quarter, it might be necessary for us to selectively make some price corrections in certain markets and across certain SKUs. For instance if I have a pack selling for 12 bucks, I may want to bring it to the 10 rupee price point or if I am looking at certain flexi-packs, I might have to make this limited period, extra material offers at the same price etc. So that will be done tactically in specific regions where we feel that, local competition or some regional competition is higher. We may not take it as a price reduction across the board, but we are conscious of this fact and we will try to address it in this manner.

Mr. Percy: Sir, your coconut oil price being low, as I understand it, most of the supply and demand is consumed within India and therefore the effect of the global commodity movements, although there on coconut oil is not so pronounced as in case of let us say a palm or a crude oil, so just wanted to understand that if it is just the demand-supply dynamics, what is the reason that it has fallen so low. Has there been a bumper crop or is that demand is lacking due to some reason, what is the basis reason why the oil prices are low?

Mr. Chaitanya Deshpande: The crop is slightly higher, I would not call it a bumper crop, but the crop is slightly higher. In terms of the international markets and Indian markets being insulated from the international markets, actually there is some following of palm oil prices, but it might happen with a lag. In the Southern states and in Coastal India where coconut oil and palm oil are both extensively used for cooking, there is a preference to use coconut oil as a cooking medium, but they might consume palm oil when the differential is very high. Once the differential starts narrowing, then people would say okay at a small premium if I can consume coconut oil, I will do that and then switch. So, international prices do impact the local prices, but it is with some kind of lag. Overall, like I mentioned earlier, there is a slightly better crop this year than last year, but other than that, no significant external reason for the price to be that low. One also has to see it in the context of the fact that last year, the prices were abnormally high, so it is correcting to historical levels. It is not as if this year, prices are much lower than the averages of the 3 years prior to FY09.

Mr. Percy: Okay, and one question on Kaya. If you could just share what is the EBIT margins for the stores which are one year or older than one year, and out of your 100 stores, let us say 70 stores are 1 year plus, what is the EBIT margins for those 70 stores, allocating the appropriate corporate overheads also on top of that?

Mr. Milind Sarwate: It would be about 15%, but from a pure business, steady state business standpoint, there may be room to take that up also because what we call as a nature clinic, we are only about say 15 months old or 24 months old, and there may be still some stabilization yet to happen.

Mr. Percy: Okay, and what kind of sales revenue topline would you be targeting let us say in FY'12 from the Kaya Skin business?

Mr. Milind Sarwate: It will depend upon the number of clinics that we….

Mr. Percy: At your current plan?

Mr. Milind Sarwate: I think it would be close to 300 crores because our Kaya Skin Clinic story is playing out really well in the Middle East and also in Saudi Arabia on a smaller base. The joker in the pack would really be the Middle East. If that growth sustains, then we could target 300 crores fairly easily.

Mr. Percy: So, this 300 crores would assume about 25 to 30 clinics more, India and Middle East put together.

Mr. Milind Sarwate: Yes. In addition we are speaking of Kaya Skin here. Our prototype in Kaya Life is still under evaluation, so that is something which I am unable to comment upon at this stage.

Mr. Percy: Okay, thanks very much sir.

Mr. Milind Sarwate: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Ashish from Share Khan. Please go ahead with the questions.

Mr. Ashish: Hi. On the 200-mL SKUs that the excise circular that has come, so this provision that you have made, it would be recurring going ahead because till the matter is subjudiced, I mean what does the company plan to do on this front because this quarter, the increase in the margins has protected negative impact on the margin because the raw material cost declined, but going ahead do we need to take any price increases in these SKUs, but these seemed to be basically price sensitive kind of SKUs, so how do you go about it going forward?

Mr. Chaitanya Deshpande: At the moment, we have made this 12.4 crore provision this quarter, and may be on an annual basis, it could be about 40 odd crores. In terms of what exact action we may be able to take would depend on some developments that take place with regard to this issue in judicial terms. You are right that with margins being much more comfortable this year, it is easier to make that provision during the course of this year, and we are cognizant of the fact that we may not be in as comfortable a position next year and it can lead to tightening of margins.

. Mr. Milind Sarwate: There are a couple of other factors which we have to keep in mind. First of all, we only made an accounting provision. There are legal and tax related issues about whether we are admitting that coconut is excisable or not. So, without prejudice to that contention, we have just made an accounting provision. In reality, if we were to charge this excise to consumer there would be a price increase on that count itself, and that could impact volumes logically because if price goes up, the demand has to come down in some way or the other, so those are the imponderables in the actual price increase scenario. Parallely, in terms of risk mitigation measures, we will have to work out a proper strategy. We have done that to a large extent, and over the next 8 to 12 months, we will unfold that in any case. There is also another macro economic development which will bring about some difference to the whole story. If all goes well, then from April 1, 2010 we would have the GST regime in place, and what treatment that gives to the whole area of edible oils, refined oils, etc., that is something which is to be seen, so what we have done in these circumstances is that having been faced with a situation of regulatory issue, whether we should just ignore it or make an accounting provision, that was the call to be taken, and we have taken the call to make the financial provision. There is a certain commercial response, and there is a certain judicial response, so we are working on all these counts, and it would be difficult to predict a financial outcome without recognizing the interplay of all these factors, so what I would urge is we will have to wait at least till the fourth quarter of this financial year to get better clarity on this issue. Meanwhile, we feel good that our business performance has been so robust, that we have been able to take this provision in our stride, and yet report numbers which seemed to have met the expectations of most analysts.

Mr. Ashish: Sir, what percentage of total revenues does this below 200-mL category comprise?

Mr. Chaitanya Deshpande: It is about 65% of the coconut oil sales. Coconut oil in India is about 37% of Group revenues.

Mr. Ashish: Okay, fine. Sir, can you give us a sense of any kind of impact of the monsoons that you are looking at in any specific geographies in India.

Mr. Milind Sarwate: No, if one goes by the volume increases that we have recorded, the impact has not been there unless one claims that had the monsoon been alright, we would have grown even more than the current level.

Mr. Ashish: Okay, so going ahead, we are not looking at any kind of impact basically in the next quarters?

Mr. Milind Sarwate: My view has always been that the monsoon impact is not so direct as in monsoon does not directly determine the demand for our products, but there is a indirect impact which a bad monsoon has. In terms of the buying behavior, in terms of the overall ambience of the consumers or the feel good factor demand would get depressed, so it would be very arrogant of us to say that monsoon has no impact on us. But as compared to companies which are deeply into agrarian geographies, we are reasonably well protected.

Mr. Ashish: Sir, finally, one more question on the international operations, you have told us what you expect on the topline front, so can you give us a sense of how the profitability is in our international operations, and how do you see going ahead>

Mr. Chaitanya Deshpande: There is some improvement in the EBITDA margins for the international business. Part of that has come from backroom initiatives that we have taken. We have put up a copra crushing facility in Bangladesh. We have put up a factory in Egypt. These are longer-term sustainable margin improvement measures that we have taken, and we think that, that can improve margins by 125 to 150 basis points. Also, some price increases were last year similar to the domestic market leading to higher margins during this year when the raw material prices have fallen. Directionally, while the mandate for the international business team is to grow the overall franchise, there is also a mandate given to try and move the international business margins to at least the Marico average margins, over a 3-year period or so. So for this year, you might see a little bit of step jump, and after that may be a gradual increase, let us say, it might be 40 or 50 basis points each year.

Mr. Ashish: Okay, so what are the margins as of now in international business put together?

Mr. Chaitanya Deshpande: We are just about in double digits?

Mr. Ashish: Okay fine, thank you so much.

Mr. Chaitanya Deshpande: Welcome.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press * followed by 1 on your telephone keypad. I request the participants to ask two questions at the initial round and then come back for the followup question. Next in line, we have Mr. Ashish Desai from BNK Securities. Please go ahead.

Mr. Ashish Desai: Hello sir?

Mr. Milind Sarwate: Hi.

Mr. Ashish Desai: Sir, just a few questions on the international business front, out of the 33% growth, how much would be volume growth for the quarter?

Mr. Chaitanya Deshpande: It is approximately half and half, volume and pricing.

Mr. Ashish Desai: Okay, and where do we see this volume growth going ahead?

Mr. Chaitanya Deshpande: Overall, like I said we expect 25% to 30% growth. In terms of a mix of volume and value, quite honestly I don't have a break right now, but we have been noticing over the last three quarters or so, this growth has almost always been equal between volume and value, so perhaps going ahead that would be a similar situation.

Mr. Milind Sarwate: Coincidentally, the exchange led growth has also been of a similar magnitude, so the 49% growth roughly is spread equally between volume, pricing, and foreign exchange?

Mr. Ashish Desai: Okay, okay, and sir, in the domestic market if I see a volume growth that is at 15%, but if I see the standalone sales, topline growth is just 5%. Could you put some light on why this deflationary impact, is it fully driven by Saffola price correction or some other products also?

Mr. Milind Sarwate: See, a large part of our portfolio consists of refined edible oil, and that market is driven by an oil price table, which is governed by several oils. It is unlike the coconut oil market, where the interplay between various oils is limited, so that market has far greater price fluctuations than anywhere else. At the same time, one more thing I would point out is that from an inflation control regime for the macro-economy controllers, edible oils and refined edible oils is a very significantly category. That category is always in the limelight, so we had a period of sharp inflation followed by sharp deflation, and that deflation since in value terms the edible oil, refined oil sales in our portfolio are pretty large. There is a very pronounced impact of deflation on our portfolio. You would have observed that in terms of bottomline, the impact has not been significant, but in terms of value sales, the impact has been large, so I think there is a huge statistical effect it has on our value sales, just as from a 15% volume growth we come down to almost 5% value growth sheerly because of deflation. I think the only way is that we have to ensure that it does not impact our profitability and it does not impact our consumer franchise, so in many ways we have tried to have a glide path towards deflation or price reduction by giving a price offer instead of a straight price reduction and so on, so those strategies will continue. I think in future we will have to be ready with this at all times because unlike the coconut oil market, which moves in longer term cycles, the edible oil refined oil market does not move in such long-term cycles. We will have to be ready with response if and as and when the fluctuations occur. I want to highlight this deflation is not a value eroding deflation, although it is a topline eroding deflation.

Mr. Ashish Desai: Sir, assuming if commodity prices remain at current levels, when do you see this deflationary impact disappearing in how many quarters?

Mr. Milind Sarwate: You can't really say, but it depends on the crop cycles and when the new crop starts hitting the market. Also, with greater globalization of this entire area, there are many factors which work on this aspect, apart from the political regulatory factor which I mentioned, so it is not really easy to predict when the deflation will end and inflation will begin. If you look at even little unconnected thing like the RBI policy, there is a strong message about controlling inflation, so perhaps it is likely that the refined oil prices will move in a narrow range, in which case we may not see a major shift from the current situation.

Mr. Ashish Desai: Without any price changes from now, then how long do you see deflationary impact?

Mr. Chaitanya Deshpande: Another two quarters.

Mr. Ashish Desai: Okay, and sir for the….

Mr. Milind Sarwate: Last year, we had an inflationary feature and from then we suddenly moved to a deflationary feature, so the statistical impact gets enhanced by that.

Mr. Ashish Desai: Right. Sir, lastly, on you're A&P spend we have seen almost 40% increase for the first half, and I think for the year, what could be our guidance for the A&P to sales spend, if you look at I think we will be looking at launching the cooling hair oil and Saffola Zest again in the coming quarters?

Mr. Chaitanya Deshpande: Typically we would be looking at 12% to 13% to topline, as the advertising expenditure for the year, there may be some swings from quarter to quarter depending timing of launches or rolling out prototypes but between 12 and 13 for the year is what we would be comfortable with.

Mr. Ashish Desai: Okay, sir, lastly, what is the asset impairment of 8-1/2 crores for?

Mr. Chaitanya Deshpande: This is on two counts. We have made an investment in new facility for our R&D. Currently, the R&D is housed in an college in Kalina, so we needed to move out of there. There is a new property in Andheri that we are moving to. Thee impairment is on some of the initial expenses like architect's fees, etc. The larger portion however is related to the soaps brand Camelia that we had acquired in Bangladesh. The overall performance of the soaps portfolio in Bangladesh has not been moving as per earlier expectations, and as you know we had acquired two brands, one was Camelia, the other was Aromatic. Of the two, Aromatic is the larger one, and therefore whatever focus that we do give to the soaps business in Bangladesh is likely to be centered around Aromatic. Camelia would be more or less on a float, and therefore out of this total amount almost 5 crores is related to impairment on Camelia.

Mr. Ashish Desai: Thanks a lot sir, and all the best for the second half.

Mr. Chaitanya Deshpande: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Abhijeet from Antique Stock Broking Market. Please go ahead.

Mr. Abhijeet: Hi Milind. Hi Chaitanya.

Mr. Milind Sarwate: Hi.

Mr. Abhijeet: Congratulations on a very good set of numbers. My question was quite related to the earlier question asked on the advertisement expenditure. Going forward, you know, in the next two to three years, we would see higher spends on advertisements if we have to play between ad spends and pricing or say promotions, I believe you would spend more on advertisements, right, so as a percentage of net sales, ad expenses should go up?

Mr. Milind Sarwate: You are right that in terms of approach unlike many other FMCG companies, we have been spending almost 75% of our ASP on A, that is above the line advertising, so that trend will continue. The other point is see in an era where we can reap very good margins, we have a strategic choice to make and that is whether we keep so to say milking the market and reaping higher and higher margins, or we build our future in a very constructive way by getting consumer franchise, and as we have repeatedly mentioned in similar forums earlier or even otherwise that we feel that getting consumer into our fold is far more important. Consumer acquisition is more important than margin improvement because margins typically follow if you build a franchise just as Warren Buffet says that there is a difference between a business and a franchise, so we are here to build franchise and towards that if we see margins going beyond a certain number, we would typically find ways of deploying those enhanced margins into building brand. That is what Chaitanya mentioned some time ago that if we see margins going significantly above 14%, we would find ways of building our brands, and then you will probably find a surge in the ASP expenditure for the next two or three quarters. It is also true that for investing we need a right brand, and it is not always that we keep investing in our main resource engine. So, it really depends upon what is the requirement at that given point in time, but directionally if we were to change complete character of our operating margins statement, we used to spend between 8% and 10% on ASP a few years ago when our margins were in that 8% to 10% zone. Now that our margins have moved up probably conclusively beyond 13%, our ad spend will also likely to move up in that range. What I am saying is that as we earn more, it is our responsibility as market leaders to build the market and create a larger consumer franchise, so you are bound to see an ASP increase.

Mr. Abhijeet: Sir, in your other income, it has been moving up on a consistent basis at a strong pace, any specific reason for that higher cash. What would you attribute it to?

Mr. Chaitanya Deshpande: It is to do with financial investments. It is the higher cash that has got temporarily invested, particularly in Bangladesh, but also in India. What we have also done if we know that we have a certain medium term borrowing to be made the treasury many take a call and go ahead and make it without breaking temporary deposits. It is essentially cash which has got generated from the business which has got temporarily invested.

Mr. Abhijeet: Okay.

Moderator: Thank you very much sir. Next in line, we have Mr. Gaurang from Religare Capital. Please go ahead with the questions.

Mr. Gaurang: Congrats on a good set of numbers sir.

Mr. Milind Sarwate: Thank you.

Mr. Gaurang: Sir, I just had one question on your employee expenses. You employee expenses have gone up on a q-o-q basis and is currently at around 50 odd crores, and if I look at the past historic data, Q1 used to have the highest employee expenses, and Q2 would generally have the lowest, so just wanted to know if there is anything one-time item in this or what this was regarding?

Mr. Milind Sarwate: I think basically our employee cost numbers would get driven by the fixed cost to the company, and there is a certain provision that we make for the variable incentive that accrues to our employees.

Mr. Gaurang: Right.

Mr. Milind Sarwate: You would agree that based on the outlook that we have for the year or the factors such as base CTC, etc., we would keep refining the provision for the variable pay. Also, depending upon the attrition scenario in the economy, there would be movements in and out of the work force, and also has its own past implications in terms of either recruitment costs or settlement costs, and there is also a vacancy cost saving. If you don't fill up say 10% of your rolls for 6 months, then you will end up saving on that cost.

Mr. Gaurang: Right.

Mr. Milind Sarwate: What I am saying is that the quarter to quarter movement in employee cost will get driven by these factors on year to year.

Mr. Gaurang: But then that variable payment is generally in Q1. There is nothing in Q2.

Mr. Milind Sarwate: We have an annual payment of variable pay.

Mr. Gaurang: Okay.

Mr. Milind Sarwate: As quintessential accountants, when we make the provisions in quarter one, we would make a very conservative provision. It could also be some wishful thinking that everybody will get the maximum possible incentive. Nobody would really challenge that assumption in quarter one, so in quarter one we probably could see a higher provision. As the year unfolds, you keep refining that.

Mr. Gaurang: Right, so for the balance of year, this 50 odd crores would remain stagnant?

Mr. Milind Sarwate: May be. Actually, it would be more sensible to take say 4 or 5 quarter moving total because that evens out these assumptions which play out from quarter to quarter.

Mr. Gaurang: Okay, okay. Yeah, that is it. All my questions have been answered. Thank you.

Mr. Milind Sarwate: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Hemant Patel from Enam Securities. Please go ahead.

Mr. Hemant Patel: Hi Milind.

Mr. Milind Sarwate: Hi.

Mr. Hemant Patel: Milind, I have a question for you broadly on the strategic front. We have been actually growing our global or let us say our brand portfolio, category portfolio by acquisitions across various markets over a period of time. The question is when are we likely to see some of these categories coming to the Indian markets to improve the volume growth rates in the domestic markets through new categories, and the other question being you are trying to introduce quite a few new products in the hair care segment, and some of the other FMCG products and foods over a period of time, how much of these new products contribute as a percentage of your sales, probably let us say in another 2 or 3 years time from now?

Mr. Milind Sarwate: I think you have two separate questions. One was about our overseas acquisition. Our overseas acquisitions except have been in the existing categories only, which are hair care, health care, and skin care. It is only in South Africa that we are additionally into a little different category of OTC products, but that also is small in relation to our overall turnover size. The second thing I would say is when we acquire a brand and let us say in Egypt, our primary focus is that the brand should do well in Egypt, not that it should do well in India. It is difficult to imagine a situation where there is a very successful brand in Egypt, and it can come down to India and succeed from day 1, so the chances of an Egyptian brand succeeding in India and rank new brands succeeding in India are almost the same, so why would we jeopardize franchise over there into India. Having said that, there are always interesting possibilities available. For example, we acquired a brand called Hair Code in Egypt, the brand operates over there in hair cream and hair gel, while we have taken the same brand to

Bangladesh and put it in the hair dye segment, and it has done quite well and in about 7 months it has got a market share of 14%, so these interesting possibilities always remain. I think Indian market, we are not running short of brands for building new franchises. We have enough of pipeline with us, that brings me to the second question. If you recall, till about 4 to 5 years ago, we used to specifically target anything new or anything acquire that we have in our portfolio and work it out as a percentage of our total turnover. Later on, we stopped measuring that because significant part of our turnover has come from new activities in the recent past, but if we were to restart that calculation, it would be somewhere close to 10% in terms of new things introduced in the past 5 years. At a strategy determination level, our endeavor would be to take up this percentage from 10 to say 15 over the next 2 to 3 years and then assuming a base of say anywhere between 2,500 to 3,000 crore turnover, we would target adding anywhere around 150 crores from these initiatives and new products, counting out inorganic growth that would happen, but this working, let me clarify is pretty theoretical. Our first preference would be to target a large category where we are quickly able to drum a large scale turnover.

Mr. Hemant Patel: Alright sir, thanks a lot.

Mr. Milind Sarwate: Thank you.

Moderator; Thank you very much sir. Next in line, we have Mr. Ajay Thakur from Alchemy Stocks and Shares. Please go ahead.

Mr. Ajay Thakur: Hi Milind, hi Chaitanya.

Mr. Milind Sarwate: Hi Ajay.

Mr. Ajay Thakur: Most of my questions have been answered. I have just one question. If you can give the volume growth in the domestic business and also what is the deflation in the domestic business?

Mr. Milind Sarwate: We discussed this question at length some time ago, and I tried to bring out the enormity of the deflation, which the refined oil portfolio can cause. If you look at the volume growth in the domestic business, it has been pretty robust at 15%. In fact, it is very strong number but the deflation has also been very significant, and counting that our value growth for the domestic business is just around 5% or 6%. There is a 9% to 10% deflation which has happened in this quarter in India.

Mr. Ajay Thakur: Okay, okay, thanks. That is all from my side.

Mr. Milind Sarwate: Thank you.

Moderator: Thank you very much sir. Next in line, we have Kalpana from Marwadi Shares. Please go ahead ma'am.

Ms. Kalpana: Hello, good evening sir.

Mr. Milind Sarwate: Good evening.

Ms. Kalpana: Congratulations for the wonderful numbers. I have a few questions like how much growth are you expecting for FY'10 and FY'11 as a whole like India and international and also India specific and what will be your marketing strategy going forward sir?

Mr. Chaitanya Deshpande: The overall numbers for the company have been about 15% or 16% if you look at the first half. I think it works to about 16%. We think for the rest of this year, it might be a little lower than that because you still see some more impact of deflationary pressure. The international business which may constitute about 22% of Group turnover could grow by 25% to 30%. in that part of our portfolio. Overall, strategy in terms of marketing may take too long to discuss on this call, but we could capture the key things that we are doing. In the case of brands where we are established, we try and figure out ways to try and increase the market size itself, so for something like Parachute, it would be increasing the market size of branded products, chiefly conversion from loose oil to packed oil. In the case of Saffola, - it is strongly positioned as a brand that is good for your heart, so we are looking at growing the edible oil franchise of Saffola itself. You know, there is a big issue on heart care and heart related ailments in the country, so we are actually riding a wave in this case. We are also taking Saffola beyond being a refined edible oil into the functional food space, making it a lifestyle brand, and you have seen the early initiatives where we have tried to do something in Saffola Rice which has a low glycemic index. We are doing some rework on Saffola Zest, but we will come back with that. So, over a period of time, we will introduce a range of products where somebody who is concerned with heart health, can reach out to a Saffola product through the day. In the case of hair oils, where we are a No.2 player to Dabur, the idea would be to try and improve market share. One of the ways is quite clearly to participate in the cooling oils category where we are absent now, but we have begun our prototype in Bihar through Nihar, and under Parachute in the State of Andhra Pradesh. We are hopeful that we will be able to take this prototype national by the time the next summer arrives, so there would be new product introductions like this. Then of course, there is in the international business, we would look at growing the businesses in the base countries themselves, the hubs, as well as to try and take the products into neighboring territory. So from Egypt into may be an Algeria or a Morocco, from South Africa into Angola or Botswana. We would also look at new product introductions in the international portfolio, so we are doing a lot of consumer insighting work that has thrown up some interesting possibility for new product introductions in those territories. We would also look at geographic expansion and focused territories would be Africa and Asia. In Kaya we would want to increase the number of clinics by may be 12 to 15 each year, and we believe that some of the existing clinics also have the potential of improving capacity utilization as well as to try and improve the share of products in Kaya's turnover, which is currently 13%. We will improve the portfolio of products available and we should be able to push that up gradually to15%, 17%, and 20% etc. This is broadly the way we try and grow our businesses.

Ms. Kalpana: Okay, thanks a lot sir for the answers and all the best for your further quarter.

Mr. Chaitanya Deshpande: Thank you very much.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Anand from Reliance Equities. Please go ahead sir.

Mr. Anand: Hi Milind, hi Chaitanya.

Mr. Milind Sarwate: Hi Anand.

Mr. Anand: Just one question, have you seen any decline in gross margin in our international business?

Mr. Chaitanya Deshpande: No, they have increased. But why do you ask?

Mr. Anand: If I subtract, I mean, basically consol and minus tangible numbers, that shows me decline in gross margin.

Mr. Chaitanya Deshpande: Anand, I will need to check that but it is perhaps on account of inter-company numbers.

Mr. Anand: Okay, fine, I will check with you later. Thanks.

Moderator: Thank you very much sir. Next, a final question comes from Mr. Ritesh of Dolat Capital. Please go ahead.

Mr. Ritesh: Good evening sir. Again on international business, do you see that some of the profitability which was consistently improving in the international business would go away if exchange rate goes the other way around?

Mr. Milind Sarwate: To some extent, yes, that is right, but hopefully we will be able to grow faster than that and try and improve the margins. Yes, it would put pressure on margins, but we may need to take corrective action in that case.

Mr. Ritesh: But we are not doing any hedging for that. Or is it possible to do any sort of hedging practices for that?

Mr. Milind Sarwate: No, it is not possible to hedge for forex fluctuations on translation, and we are clear that we are in the business of Consumer products and services, not in the foreign exchange business, so we don't try any adventures either.

Mr. Ritesh: That is a great answer sir, and second is, is any write-off has been happening because of the Zest redesigning.

Mr. Milind Sarwate: It won't be a write-off because these are normal parts of….

Mr. Ritesh: Okay.

Mr. Milind Sarwate: So all the expenditure on redesigning would not be great. The whole purpose of doing a prototype is to avoid getting badly hit by an initial design which needs to be improved.

Mr. Ritesh: Okay, if I say that total investment which would not have recovered is not more than 5 crores?

Mr. Milind Sarwate: It will be much less than that.

Mr. Ritesh: Okay sir, that is all, thank you very much sir.

Mr. Milind Sarwate: Thanks.

Moderator: Thank you very much sir. We have a one more final question, that is from ms. Priti Panchal from SBI Cap Securities. Please go ahead.

Ms. Priti Panchal: Hi Chaitanya, hi Milind.

Mr. Milind Sarwate: Hi Priti:

Ms. Priti Panchal: Congrats for a good set of numbers.

Mr. Milind Sarwate: Thank you.

Ms. Priti Panchal: Just a couple of more questions, there has been a very increase in the purchase of traded goods in this quarter, so what is that on account of?

Mr. Chaitanya Deshpande: We have put up this copra crushing facility in Bangladesh, so it is copra that is being sent from here to Bangladesh subsidiary.

Ms. Priti Panchal: Okay, and we have seen a rise in the tax rate in the standalone books, so can you assume the same rate going forward also, I am talking about the standalone numbers?

Mr. Milind Sarwate: The effective tax for the year as a whole, we are looking at a number of 21% or 22%, and I suggest you go by that guidance.

Ms. Priti Panchal: Okay fine. Congratulation on excellent set of numbers and all the best. Thank you.

Mr. Milind Sarwate: Thanks.

Moderator: Thank you very much ma'am. At this moment, I would like to handover the floor back to Mr. Nikhil Vora for final remarks.

Mr. Nikhil Vora: Actually, Milind there are a still a couple of more questions unless you are tired out.

Mr. Milind Sarwate: You can take more questions.

Mr. Nikhil Vora: Manjula, there are still couple of pending questions, and we can take that on?

Moderator: Sure sir. Participants who wish to ask questions, may kindly press * followed by 1 on your telephone keypad. Next, we have Mr. Abhijeet from Antique Stock Market. Please go ahead.

Mr. Abhijeet: Sir, I had the question on this new product forays going ahead in the next 3 to 4 years, would at some point in time skin care would be of interest to you, anyways you are there in the category through services and there is a part of it in products as well.

Mr. Milind Sarwate: You have answered the question.

Mr. Abhijeet: So, essentially, what I wanted to understand was if you want to get into, over a period of time you would like to get into product category rather than being in the niche market.

Mr. Milind Sarwate: We would look at that. Actually, our skin care journey started through skin care services in Kaya. From then, we went to Kaya products which are again high-end skin care products.

Mr. Abhijeet: Right.

Mr. Milind Sarwate: We have had a very small soap business in Bangladesh and in India. It is also skin care of sorts. We need to explore other categories in this particular segment. That work is on and it will take a while before we zero on something which is very specific. We would not typically get into a me too product, so unless we have a strongly differentiated proposition, we will not get into more areas of the skin care market.

Mr. Abhijeet: Okay sir, thanks.

Mr. Milind Sarwate: Thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover to Mr. Nikhil Vora. Please go ahead sir.

Mr. Nikhil Vora: Thanks Manjula. Thanks everyone for being on this call. Milind, just in case you want to make any final remarks or we can end the call.

Mr. Milind Sarwate: I would just want to thank all the participants for asking a set of very incisive questions. These questions help us look at newer aspects of our business and management, so they help us in running our business. So thanks you everybody for that. If I were to sum up the quarter, as I have said, fundamentally this was a quarter of growth in volumes and margins. It was a quarter of growth across various segments and geographies that we are in, and I think going forward the critical success factors would be how do we handle the newer things, the newer products or the acquisition thoughts which are on the anvil and so on, and another factor would be the economic revival because that has had an impact on Kaya in some way or the other. All in all, we are quite positive on the future, although we are not bullish just because deflation has been impacting our value sale, so let us hope that when we are back again at this forum after 3 months, we have a similar better news to share with all of you. Thanks everybody.

Mr. Nihil Vora: Thanks Milind, thanks Chaitanya, and thanks everyone for your time.

Mr. Milind Sarwate: Thanks for your role also.

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
