Marico Limited
Conference Call of Marico Limited
Event Date/Time : April 28, 2010, 6.30 pm

SPEAKERS: **Mr. Milind Sarwate, Chief – Finance, HR & Strategy**
Mr. Saugata Gupta, CEO, Consumer Products Business India
Mr. Ajay Pahwa, CEO, Kaya Business
Mr. Vijay Subhramaniam, CEO – International Business
Mr. Chaitanya Deshpande, Head – M&A & Investor Relations
Mr. Aniruddha Joshi, Anand Rathi Securities

Operator: Ladies and gentlemen, good evening and welcome to the Q4FY10 Results Conference Call of Marico Limited hosted by Anand Rathi Financial Services. As a reminder for the duration of this conference, all participants' 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 need any assistance during this conference, please signal an operator by pressing "*", then "0" on your touch-tone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Aniruddha Joshi of Anand Rathi Financial Services. Thank you and over to you, sir.

Aniruddha Joshi: Thanks, Farah. On behalf of Anand Rathi Financial Services, I welcome you all to the fourth quarter FY10 Results Conference Call of Marico. We have Mr. Milind Sarwate, Chief – Finance, HR and Strategy; and Mr. Chaitanya Deshpande, Head – M&A and Investor Relations with us. I congratulate them for an excellent set of results. We also have Mr. Shirish Pardeshi, Senior Analyst from the Second Line. Now I hand over to Mr. Milind Sarwate for his commends on the results and then proceed for Q&A. Over to you, Mr. Sarwate.

Milind Sarwate: Thank you, Aniruddha and Shirish. Apart from my colleagues Chaitanya who is with me, I also have the CEOs of Marico's three businesses, that is Saugata Gupta who is the CEO of the Consumer Products Business India; Vijay Subramaniam CEO of our International Business; and Ajay Pahwa who has recently joined our team as the CEO of the Kaya Business. You would have had the results that we have published and also the information update we issued for some time now. So, I will not get into details except to say that it has been yet another quarter and year of consistent growth for the company. We have had a somewhat muted topline growth in Quarter 4 but the underlying volume growth has been quite robust at about 14% barring Kaya Skin India where we faltered during the year and details of which were communicated sometime in December. All other parts of the company have performed as planned and in many cases ahead of the plan. It has been a satisfying year except for Kaya in India. The result for this quarter and the year has some extraordinary items associated with them and we have brought out the details in the information update.

Just to sum up, we have closed the year with a turnover of 2,661 crores. In terms of the profit after tax, we are at 232 crores which is a growth of 23% over FY09. As we field the questions, nuances of the results would be available to the participants. So, with these few words, I initiate the Conference Call. We can have the questions please.

Operator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question comes from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on the Kaya Business; essentially those two closure cost, what are those exactly? Is it severance pay of employees? Is it one time because it says that by June 2010 we are closing all those seven clinics? So, will it recur in the coming quarter closer cost?

Milind Sarwate: Abneesh, 5.7 crores pertains to the decision on the withdrawal of the Kaya Life prototype. There are two components. There are some impairment of assets and there are also settlements for employees who we may not have been able to absorb in the system. We have absorbed most of the employees. So, yes, it will be a one-time cost. There is another much smaller number which we have not actually classified as an exceptional item. This pertains to few relocations of clinics and perhaps one or two closures of clinics in the Kaya skin business. These are planned to be done by June 2010. This amount is smaller and that has been considered as, part of business. Being a retail business, over the life of Kaya Skin, you could have other clinic closures or clinic relocations in say FY11 or FY12. So, that is not considered as an exceptional item. The Rs 5.7 crores pertains only to Kaya Life. We have introspected on the Kaya Business, and we have taken steps to put it back on track, Kaya Skin in India that is. In the process, we have contemplating either relocating or closing down seven of them. I doubt whether in future such a bunching would take place. As a high-end retail business, we will keep on churning our portfolio of clinics. I don’t think we will have a bunching of six or seven clinics together in future.

Abneesh Roy: And you have done a lot of introspection. So, I wanted to understand these six or seven closure, is it more in the prime locations or open areas or is it that it's not working in the suburbs? What exactly is the issue out there?

Ajay Pahwa: I don't think there is a particular pattern to this about metro or tier 2 city. I think it is very specific to an individual store. As the modern trade and the retail zones keep on changing, traffic patterns change, and where we might have put a clinic three or four years ago might no longer be in the most relevant place. So, it's more related to a site-specific situation than the business at large.

Abneesh Roy: My second question is on your Saffola Arice. It's a 400-crore branded rice market and you have said that till now it's as per track and expectation. But over the next two-three years' timeframe, what's the market share of this 400-crore we are planning to target? Why I'm asking this is because this is an invitation price, that's why expectations will be met but post price increase what's the market share you are targeting?

Chaitanya Deshpande: It's still early stage. We feel that things have gone as per expectation. There are offtakes that have taken place. There are refills that have happened in the market and things have been moving smoothly. So, we believe we can target about 10% of the market in a two to two and half year time frame. Our current estimate of the market is around Rs 400 crore, but it's a rapidly growing market. The market growth itself is 20% to25%.

Abneesh Roy: And how do we track the RM cost for that Saffola Arice apart from rice if there is any other commodity we need to track for that?

Chaitanya Deshpande: No.

Abneesh Roy: And my last question would be on your new introductions in cooling oil basically… you are competing against a very strong leader out there, Emami. I wanted to understand if that phase is too tough to really conquer because they have got very strong brand ambassadors, they have a legacy factor. So, where do we stand? You said that we are meeting expectation but wanted to understand better.

Saugata Gupta: As far as cooling oil is concerned, out proposition is sharply differentiated in terms being cooling oil that is far more nourishing. It's different in terms of colour. It's far more natural, and therefore, not a "me too" product. We have a differentiated product offering. We are also prototyping one of the products in one of our strong markets which is Andhra Pradesh while the other product is being prototyped in Bihar. We too have celebrity endorsement through Nagarjuna, a celebrity in Andhra Pradesh. But more than celebrities, we have a far more differentiated proposition. Initial trends are encouraging and I think there is room for the category to grow and there is room for more than one player to grow in this category.

Abneesh Roy: Okay, sir. All the best. Thanks a lot.

Operator: Thank you, Mr. Roy. Our next question comes from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar: Thanks. Good evening. Thanks for taking my question. First question is, how is the kardi crop this year, typically March, June is the period when harvesting takes place? How is it and of course what the first feelers like?

Saugata Gupta: The kardi crop is certainly better than last year and as you are also aware that import duty continues to be nil. So, given the situation we are fairly secure and extremely comfortable as far as the kardi crop is concerned.

Amar Kalkundrikar: You have mentioned in the information memorandum that Copra as well as Saffola price is going down to 20-22% Y-o-Y. What was the case for rice brand oil?

Saugata Gupta: Rice brand oil versus last year was around 11-12% down.

Amar Kalkundrikar: Okay. Thanks. In the International Business, can you please give the absolute amount of profit PAT that has been considered in the consolidated accounts separately for Bangladesh and Middle East?

Milind Sarwate: Actually, Amar, we would not be able to share regional profits in the International Business. We don't want to make that information public.

Amar Kalkundrikar: Okay. Last question for Saugata, in the Information Memorandum, you have mentioned that going forward you would like to increase the focus on rural markets and also create a basket of products more amenable to these markets. Can you share your thoughts on this particular aspect?

Saugata Gupta: As far as direct contribution of rural is concerned, excluding indirect reach through urban wholesale, our contribution of rural is 25%. We intend to take it up to 30%. As far as rural portfolio is concerned, we are looking aggressively at price points and special packs in the rural areas. Then we also have increased our infrastructure in certain rural markets which is beginning to show some results. We continue to prototype and extend it to other markets in the Hindi heartland. With that, we believe over a two- to three-year period, we will be able to increase our contribution from

25% to 30%. Based on AC Nielsen numbers which includes the indirect reach through wholesale, we should move from about 35% currently to 40%-42%.

Amar Kalkundrikar: So, this would be lower or let's say popular price points in the existing product categories and existing brands.

Saugata Gupta: Yes it would include popular price points. In addition it could include variations in secondary packaging. We are looking at the entire portfolio to determine whether we have a basket which is suitable for the rural market.

Amar Kalkundrikar: Alright. Thanks for taking my question.

Operator: Our next question comes from line of Yash Jhaveri from Enam Securities. Please go ahead.

Hemant: Hello sir, this is Hemant here. A couple of questions, the first one on international operation, you have mentioned you can't mention the PAT numbers but could we have a sense of what the operating margins are in FY10 and you did mention in your information update that you like to take this substantially over the next couples of years. But the margin seems to be muted in FY10. Correct me if I am wrong here.

Chaitanya Deshpande: No, actually, it has gone up, Hemant. The margin in the international business has increased during FY10 and we are currently above 11% EBITDA margin in the international business. What we would like to do over the next three years or so is to try and take this margin up to the current Marico average margins.

Hemant: And the reason why the difference between consol and standalone operating margins are lower because of Kaya is it?

Chaitanya Deshpande: Yes, that is right. If you have done a Consol minus Standalone and looked at the number, that has got influenced by Kaya and does not represent only the international business numbers.

Hemant: Okay, thanks. The other question I had was on Kaya itself. When do we expect the same clinic growth come back into positive territory? I mean how do you intend to bring this back? And when can we expect a breakeven in this business?

Ajay Pahwa: We are very confident that we will drive double digits same store sales growth in our existing Kaya clinics in the current financial year. And in terms of profitability, particularly stores that we have opened from the inception of the brand till 2007 are already profitable at the clinic level and we see this continued focus on building revenue at our existing stores by retaining our current customers and adding new customers. We are very confident about, I just reiterate, double digits same store sales growth in the coming years.

Hemant: The same store sales growth, do you think it is a factor of internal measure that you have stated or is it likely to be more of footfalls and conversions or the matter of trend?

Ajay Pahwa: Well, the same stores sales in the existing clinic is primarily a result of retaining more of existing customers. We have a strong base of 600,000 customers at Kaya. The idea is to keep them coming back and at the same time have a whole lot of new customers. So, it is a combination of driving footfalls from both those ends to ramp up our topline.

Milind Sarwate: I would like to add a dimension about the profitability or breakeven in Kaya. I think the profitability in the Kaya business will get driven by several factors. First of all, at the gross level and the clinic level, or the region .or the cluster level, it will get driven by what kind of footfalls we have and what is the number that walks into the clinics from time to time. At the corporate level, there are some issues about whether we advertise nationally or we advertise locally.

Again, when we open new clinics, there is a certain bunching of startup cost which affects the profitability. And an important factor is that if you have opened new clinics, a large number of the them during a high real estate scenario and thereafter the rentals have fallen, then we may be uncompetitive vis-à-vis certain other similar offerings. So, this is a mix of factors which works. In Kaya's case during 2009-10, there were two additional factors which came in. One was the service tax imposition from September 1, 2009 which we passed on in our pricing. The other factor was in the overall slowdown situation, resulting in some postponement of discretionary expenditure. And I think Kaya Skin India definitely got impacted by that. So, if you observe, it's a function of topline, which Ajay just spoke about in terms of building same clinic growth. Once we have that in place and once we have a certain scale of clinics in a certain region, I think profitability is just a derived function because the fundamental business model doesn't assume a very high percentage of cost of goods sold. It is important to utilize your capacity and with a national presence we can get the benefits of that national advertisement.

A case in point is just the Kaya Middle East business where we have not only broken even but have been profitable during the year also. Our belief in the profitability of this business is very strongly intact. In fact, a couple of years ago, we have registered a breakeven even in Kaya Skin India. But I feel that as custodians of our long-term business, we should not try to achieve these short-term milestones but we should rather look at building a robust business model, which pays in the long run.

Chaitanya Deshpande: Just one more point here. During FY11, we are looking at significantly reducing the loss from what we reported in FY10. However, it is an unlikely situation that Kaya Skin will break even in FY11. I think we need to set that expectation right. We are looking at definite growth, including same store growth, but we won't breakeven in FY11 and that will more likely happen only in FY12.

Hemant: Okay and on the broader business as a whole, you did highlight that there has been a little bit of slowdown in the second half of last year because of higher inflationary cost impacting consumers' wallets. Given the fact that we do expect inflationary expectation down to around 5% by the end of this fiscal, how do we see the trends in the volume growth rate across categories?

Saugata Gupta: We had taken certain pricing decisions in the second half FY10 by passing on some value to the consumers from the lower input cost. I think the volume growth rates could be double digits. We believe that the volume growth rate outlook as far as all our categories are concerned, we will continue to be robust. We expect some inflationary trend in input costs. We would think of passing some of it to the consumers over the second half of the year or from quarter two. As of now, we haven't taken any significant pricing increases other than in one of the SKUs in Parachute and some minor price increase in the refined edible oil component.

Hemant: Alright sir. Thanks a lot and best of luck.

Operator: Thank you. Our next question comes from the line of Ritesh Chadda from Emkay Global. Please go ahead.

Ritesh Chadda: Hello sir. Congratulations for a good set of number. First on the volume growth side, I just want to know if any promotional activities were there in the quarter which could have pepped up the volume growth a bit. Second, Saffola had a promotional activity going in quarter 3 and at that time we had about 18-odd percent volume growth for the quarter which came down to 13%. So, if you could explain these two questions?

Saugata Gupta: The promotional quantity in quarter 4 was far lower than quarter 3. As far as Saffola volumes are concerned, yes we did have a promotion but without the promotion also, the growth rate should have been around 10% to 11%. However, the promotion is not just for shoring our volumes. We believe that promotions have been strategically used to get trialists into the brand whom we hope to retain even after the promotion has been taken off. As a result what we have seen is post the promotion, our retained base has significantly increased. Last year the number of Saffola household had actually increased by over 12%. So, I think, it has increased the Saffola household base significantly which will lead to good growth next year too.

Milind Sarwate Ritesh, one more angle to this.

Ritesh Chadda: Yes, sir.

Milind Sarwate: Unlike many consumer product companies, we do not use consumer promos as a way of life. We generally won't find three bottles of Parachute coconut oil banded together and sold at the price of two. We usually use it very judiciously to gain certain specific marketing objectives. Generally about 75% of our Advertising and Sales Promotion expenditure is skewed toward Advertising and 25% toward Sales Promotion. This year there might have been some abberations, but directionally, three-fourths and one-fourth is what we target.

Ritesh Chadda: Okay. But just confirming again, Saffola had the promotion activity in quarter 3 and it was not there in quarter 4, right?

Saugata Gupta: There was one particular SKU that was promoted, but the promotion quantity in quarter 4 was far lower than in quarter 3.

Ritesh Chadda: And in the overall volume growth for the quarter, even the benefit on account of promotion activity was very minimal.

Saugata Gupta: Very minimal.

Ritesh Chadda: Okay. Third, Sweekar had a substantial contribution to volume growth in quarter 3. Any of it coming up in quarter 4 in terms of contributing to overall growth?

Saugata Gupta: Not really. I think the growth in quarter 4 was lower than quarter 3. Quarter 3, you are right. The reason quarter 3 growth was higher was to an extent due to a lower base in the previous year when the market was very inflationary and volatile.

Ritesh Chadda: And second, if you look at Sweekar contribution to the overall volume growth for company, it was pretty high. Is it the same now in quarter 4

Saugata Gupta: Fairly reduced.

Ritesh Chadda: Okay.

Milind Sarwate: Ritesh, I have a suggestion, up to you to take it or not, but I feel that we are running a business over a year. We do not run the business quarter to quarter. So, it will be logically incorrect to draw conclusions about elasticity of demand, etc., using a quarter's base.

Ritesh Chadda: No. I am just trying to dissect, nothing else. I am not drawing any conclusions here. Third, on the Ad spend side, if you could share your outlook for the forthcoming year because it has been a bit of a high last year, so if we could share it and share it in light of competitive activities on ground?

Saugata Gupta: Okay. Since we had lower input costs and were focused on growing the consumer franchise, some of the savings were diverted towards ad spend. We believe that the overall ad expend will remain around 12% over the next one year. Similarly we reinvested the savings from lower input costs in advertising in the international markets as well.

Ritesh Chadda: Okay. My one question on Kaya. If you could tell us two or three data points. One is at this stage, what is the capital employed in the business? Second, what kind of operating cash flow have we generated in FY10 on the capital employed? Third, has Kaya reached the stage whereby internal cash flow is sufficient enough to grow the model and you did not depend on the parent company’s balance sheet to grow that model. These three because these would give idea on the cash breakeven side of the business.

Milind Sarwate: I would answer the last question first. We have viewed the entire Marico Group of businesses as one. Kaya is a separate company due to certain historical reasons. If you recollect, initially we had a joint venture of partner. Then, we bought him out and we owned the company 100%. Separation of the company has also enabled us to build the service business culture in a separate outfit. Other than that, we do not view the Kaya business separately. We can fund it either by equity or debt whichever is beneficial from our group point of view. You asked the question about capital employed. I think Kaya has about Rs. 150-160 crores as capital employed. As we mentioned earlier, the return on capital employed in Kaya will improve only when the topline and the overall capacity utilization in the business improves. Right now, the current cash flows or the lack of cash flows would not have a great bearing on that. In all practical terms, Kaya is a part of the Marico Group. So, we are not viewing it separately as a company.

Ritesh Chadda: No. I am not directing in that area. I just wanted to understand the cash generating potential here in the business. At this stage, what kind of the cash does it throw? And how fast do you think that the model becomes self sustaining?

Milind Sarwate: As of now, the cash generation is negative as it has an operating loss, but again over there if we segregate Kaya Middle East and Kaya India, we would get very different pictures. So, I would say it is somewhat premature to get that number. The direction of your question is absolutely perfect that in the eventual run if the business is self funding, it would help but we are not at that stage as yet.

Ritesh Chadda: Okay. Many thanks and all the best to you, sir.

Operator: Thank you, Mr. Chadda. Our next question comes from the line of Percy Panthaki from HSBC. Please go ahead.

Percy Panthaki: Hi, everyone. My first question is on the gross profit margin. Gross profit margin in this quarter per my calculation comes to about 56% which is not only higher on a Y-o-Y basis which I could have understood, but it is higher compared to the previous quarters as well. Last previous two quarters, it used to remain in the range of about 50% to 53%. So, just wanted to understand why this time it is 56%?

Milind Sarwate: On a Y-o-Y basis, clearly the raw material prices are down and we were saying for the year as a whole, Copra is down about 20% and in the case of safflower it is down by more than that, about 22%. Price decreases passed on to customers were lower than what the drop in the raw material prices were.

Percy Panthaki: Definitely, that part I understand on Y-o-Y, I completely understand that. I just wanted to confirm two things from you, is that 56% gross margin is my calculation correct or am I getting something wrong? That is first. And if it is correct, I just wanted to sort of gain perspective as to why this 200-300 basis points on a sequential basis is expanding?

Chaitanya Deshpande: 56% is correct.

Percy Panthaki: Okay. Fine. So, you will get back to me on the sequential expansion part or do you have an answer right now?

Chaitanya Deshpande: The sequential expansion in the margins is largely on account of the fact that we did not run as many consumer promotions during Q4FY10 as we did in Q3FY10.

Percy Panthaki: Okay.

Milind Sarwate: Directionally, the business at the gross level, the business has turned out a very good performance. You will observe that because of the provision we have made for excise and the other one time cost, that is how the net profit number is somewhat muted.

Percy Panthaki: The provision that you have been making since the last few quarters, is there any change in the fourth quarter?

Milind Sarwate: No, not really.

Percy Panthaki: Okay. So, whatever policy you have been adopting of 100% provisioning, you have adopted in Q4 as well?

Milind Sarwate: To that extent there is a change because in terms of the statutory audit related certifications and fresh review in view of Kerala High Court case, we are now providing for 75% of the theoretical liability instead of 100%. However this does not enter the gross margin.

Percy Panthaki: So, this provisioning comes in your other expenses overhead's calculation?

Milind Sarwate: Yes.

Percy Panthaki: The 75% which you have made, is it only for Q4 or with retrospective effect?

Milind Sarwate: From the beginning.

Percy Panthaki: So, what is the total amount of the provision written back over the last three to four quarters?

Milind Sarwate: We have not written back. We have totally made a provision of Rs. 29 crores for the year.

Percy Panthaki: And as of December quarter, what was your cumulative provision for nine months?

Milind Sarwate: Nearly Rs. 27 or 28 crores.

Percy Panthaki: Okay. So, this quarter, basically, there has been no provisioning in effect?

Milind Sarwate: It was a provision of 1.1 crore.

Percy Panthaki: So, in the Q4 results, basically, you will have only 1.1 crore debit?

Milind Sarwate: Yes.

Percy Panthaki: Okay. Thanks. Second question was more on the outlook for Copra. Basically, I just wanted to understand how you see Copra cost panning out over the next few months and how it will compare FY11 versus FY10 averages?

Saugata Gupta: On an annualized basis, we believe that Copra cost range could increase between 7% to 10%.

Percy Panthaki: That is a FY11 average or a FY10 average?

Saugata Gupta: Yes. But we do have a strategic position. So, therefore, the cost to us might be slightly lower.

Percy Panthaki: So, around 5%?

Saugata Gupta: In the ball-park, yes.

Percy Panthaki: Yes. Okay. Do you think that this can be offset completely through price increases or you think that there is some amount of gross margin erosion that you might have to take FY11 over 10?

Saugata Gupta: As of now, we are comfortable. We will take a call on the pricing and the margin, closer towards the quarter 2 or quarter 3. As of now, there has been very little impact in the input cost of Copra in quarter 1.

Percy Panthaki: Okay. And my last question is basically on the demand front. I mean, our sales growth has gone down because the pricing element has disappeared over the last couple of quarters, but it is also a fact that the volume has also slowed down slightly and this is, of course, as you have been saying on account of food price inflation, etc. So, I just wanted to get your view on how long do you think this trend could continue and do you ever see us reaching back to the kind of heydays that we had seen towards the beginning of FY10 or towards the ending of FY09 in terms of growth, not price growth, I am talking only on volumes?

Saugata Gupta: If you dissect the volume growth carefully, I would say that it is only the price sensitive part of the coconut oil portfolio that has experienced certain softening. If you look at the hair oils, it is robust. In terms of Saffola it is robust. So, the softening is only at the lower end where we convert from loose and also face competition from "local players". We have now initiated certain pricing action in this segment. Now, you must realize that in a big brand like Parachute with strong depth in distribution, any pricing action takes some time to take effect because of pipeline stocks. We have already seen some impact in the Parachute small packs and expect an upward trend in other packs to follow. Having said that, the Copra price table this year will be higher than previous in the year. So, we are quite confident that we will get the growth back in the coming couple of months.

Percy Panthaki: Okay. And the premium that you had versus loose, I remember in your last conference call, you said it had gone up to about 110% and the comfortable level or the level you were working on earlier was somewhere around 70% level. So, what is that percentage as it stands today?

Saugata Gupta: We would try to maintain it at the comfortable level.

Percy Panthaki: At 70.

Saugata Gupta: Yes, in that ball-park.

Percy Panthaki: How much is it as of today? Has it reverted back from that 110% to 70% or you are not yet there?

Saugata Gupta: We are in the mid point. Rather than a sweet spot we can define it as a sweet band within which we like to operate and balance pricing and margins.

Percy Panthaki: Right. Sir, can you remind me what was the volume growth for the non-coconut hair oil segment in Q4?

Chaitanya Deshpande: For just Q4, the growth is 27% and for the year as a whole it is 16%.

Percy Panthaki: 27% volume growth?

Saugata Gupta: Right.

Percy Panthaki: Okay. Any thoughts you can share on that why that has been so healthy?

Saugata Gupta: I think, it is a combination of two or three thing. We have re-staged the brand Nihar with a new positioning. We have also taken some strategic price promotion in Shanti Amla which has also resulted in a significant increase in market share and growth. In the other two brands, Hair & Care and Jasmine, we experienced robust growth. So, it is an all-round growth which is also reflected in the share gain during the last quarter.

Percy Panthaki: On Shanti Amla, is the price reduction still effective?

Saugata Gupta: Yes, as of now, it is effective but it is a promotional price.

Percy Panthaki: Okay. Would you be able to share what kind of response you have got? I think, that was a brand, which had some 1.5% market share or something like that?

Saugata Gupta: I think, the response has been pretty good and we have been gaining share quarter-on-quarter. It has significantly contributed to the Q4 growth numbers.

Percy Panthaki: Okay. So, you have probably grown the hair oil segment faster than A.C. Nielsen numbers. Can you just give me a flavour on how you stack up versus Nielsen?

Saugata Gupta: If you look at shipment data of us and our competitors, they are far higher than the Nielsen numbers and as an FMCG industry and individually we are in conversation with Nielsen to ensure that there are certain corrections which are taken. It is just not restricted to hair oil category but there are a couple of other categories which are also similarly showing certain dips which are not really reflecting the shipment numbers of the individual companies.

Percy Panthaki: If the growth number itself is not trustworthy, maybe the market shares are also not trustworthy.

Saugata Gupta: I think, we look at market share directionally and therefore I think even if we do not look at the absolute number the relative shift is indicative.

Percy Panthaki: Okay. I understood. Thanks very much, gentlemen.

Operator: Thank you. Participants are requested to please limit their questions to two per participant. Our next question comes from the line of Amneesh Agarwal from Motilal Oswal. Please go ahead.

Amneesh Agarwal: I have a couple of questions. My first question is regarding Kaya Skin Care where we are relocating some of the stores and in Kaya Life we have closed some of the stores. But what I want to know is that have we decided finally to give a new direction to the company or do we believe that we have a right model in place at this of time to move forward so that this business can become profitable over a period of long term? Because in retail while in all formats when you have new stores, the new stores get lost for some time. That is fine but do you think if there are needs to redefine the model?

Ajay Pahwa : At the outset, I think, Marico's commitment to Kaya Skin Clinic is unparalleled. We believe in that model and I think earlier in the call Milind highlighted Middle East businesses have been a very fair demonstration of how robust and profitable this business can be. Now in any retail business, there would be a continuous need to relocate your stores to stay close to the customer. So, in my view, this is the first time over a period of seven years we are relocating stores and the idea only is to make our stores bigger, better in terms of size, scale, and location. So, overall the business is getting on track and we are confident about that.

Amneesh Agarwal: Secondly, sir, in our write-up you have mentioned that most of the debt which you are having which has got an average cost of 5%. Okay, that will come from repayment and you will be replacing it with the new debt. So, do you think there will be any incremental cost attached to that?

Milind Sarwate: There could be some marginal increase but we don't anticipate any thing that will be very material.

Amneesh Agarwal: So, the average cost of that will remain around 5% only.

Milind Sarwate: It could go to 6% or so but I don't think it will go beyond that.

Amneesh Agarwal: Okay. So, my final question is regarding the Copra prices where you have stated that they were down by 20% last year ending. Q4, they were down by nearly 9%. So, in this scenario, how could we explain the sharp increase Y-o-Y in our gross margins? Because in this quarter, it is only 9% impact coming from Copra and we have also reduced prices in some of the scales.

Saugata Gupta: We sometimes do strategic position building. So, therefore, our cost in terms of our long position cost is much more advantageous than spot market cost.

Amneesh Agarwal: So, it means that for us the average Copra cost in Q4 was not down by 9%. Was it more than that?

Saugata Gupta: That's right.

Amneesh Agarwal: Okay. Can you share that number with us?

Saugata Gupta: It will be around13%-14%.

Amneesh Agarwal: Sir, what could be the outlook for Copra in the coming year then?

Saugata Gupta: I have already stated. We believe that the Copra inflation could be between 8% to 10%. But that is on an annualized basis versus last full year.

Amneesh Agarwal: Thanks a lot, sir.

Operator: Thank you, Mr. Agarwal. Our next question comes from line of Hozefa Topiwalla from Morgan Stanley. Please go ahead.

Hozefa Topiwalla: Hi There, just a few questions. First is for the Parachute coconut oil segment, just to give a sense, Saugata, that you mentioned there are two key drivers. One is rural growth and second is conversion from loose to packed. From your perspective for each of these drivers, what kind of contribution could you expect to grow for the Parachute coconut oil segment?

Saugata Gupta: I would say there are only two drivers. One is conversion from loose to branded, and that happens both in urban and rural. Yes, we have a special focus on rural going forward. Between the two markets we are more confident about loose to branded in the rural centers. We believe we have the correct pricing strategy for that now. And in rural, we are implementing a further reach infrastructure drive. In the case of urban markets we believe the per capita consumption is also going to increase.

Hozefa Topiwalla: My other question is on Amla hair oil category. What is your ambition there?

Saugata Gupta: I think, Amla hair oil as a category, we have an aspiration in terms of increasing share through broader participation. Obviously one of the reasons we tried out the price promotional strategy was to check out what level of trialists we can get to the brand and therefore increase the base and retain them post the promotion. Our response has been satisfactory and I think we are in line for having our increased market share. Our market share has been increasing quarter-on-quarter. However, to attain a significant increase in market share in this hair oil component, we need to secure success in the cooling oils sub-segment which we are prototyping with the revised mix this year.

Hozefa Topiwalla: If I recall correctly, your market share in the Amla category was 7% before the launch. What would be the market share in the April or end March?

Saugata Gupta: I think it has increased by a couple of percentage points.

Hozefa Topiwalla: And where is the ambition? Is it 20% level? Is it 15% level? Is it 30% level? What is your ambition?

Saugata Gupta: Right now it is too premature to say. I think this is just a temporary promotion, which we have tried out to ascertain the impact of pricing. We had not gained market share in the last couple of years and this recent gain is a good sign. However, I don't think we are in a position to say what market share level this could settle at.

Hozefa Topiwalla: And the international segment, you mentioned that you expect a 20% growth for the next couple of years. What gives you the confidence that 20% kind of a growth is sustainable in the international business for the next couple of years?

Vijay Subhramaniam: Hi, Hozi, Vijay here. The growth has been about 36% and business level growth (ex foreign currency movements) has been about

30%. We have had healthy share increases of 1% to 3% across markets. We have also made a conscious investment and brand building etc. over the last two-three years and that's all coming together nicely. So, going forward, we are also embarking on a journey of certain synergy in terms of extension of brands from geography A to geography B and so on. These help us to estimate that we could achieve business growth north of 20%.

Hozefa Topiwalla: What is the competitive environment like in those markets now? Now that everybody has jumped onto that band wagon.

Vijay Subhramaniam: It's very different. It varies from market to market; so, you can't broad brush it at one stroke. The competition tends to be a mix of MNC players in certain markets, regional players, or both. The competitive intensity is reasonable and that again tends to vary from market to market. However I think with differentiated offering and right brand building growths and market share gains are immediately possible.

Hozefa Topiwalla: Okay. Perfect. If I were to reclassify international growth in the same store growth and new store growth which means growth from the existing country that you operate or existing markets that you operate in, what kind of growth are expected? What are your going to come up with new innovation and new markets?

Vijay Subhramaniam: Yes, I got that. During FY10 our growth has been largely organic and from "same country". The only acquisition which came into our fold was Code 10 but that was really in January and the size is also small. So, it is too minuscule to have an impact. So from 36% as overall growth, at best you can knock up a percent or so.

Hozefa Topiwalla: Okay**.** Thank you very much.

Operator: Thank you, Mr. Topiwalla. Our next question comes from line of Shreyas Pardesi from Anand Rathi Financial Services. Please go ahead.

Shreyas Pardesi: Good evening everyone. Saugata, one question for you. Can you please share in this quarter, what are the STRs**?** Are the STRs significantly changed because of the promo spend?

Saugata Gupta: There is no change in the STRs.

Shreyas Pardesi: Okay, my other question is that I read in your support brochure which had said that we have launched Nihar natural coconut cooling oil in Bihar and we are also having one more brand for Andhra Pradesh which is Parachute Advanced. Now what is the difference between two? Is it the price point difference? Is it the quality difference?

Saugata Gupta: We are prototyping. You must appreciate that the Hindi heartland consumers and the consumers in AP are different. Their brand franchises are different and as far as the equity is concerned, Parachute enjoys certain equity in a certain market and the Nihar enjoys certain equity in Bihar. The prototyping philosophy is all about experimentation based on the consumer insight. We are prototyping a different marketing mix and based on the results we will then scale it up depending on which franchise wins and which marketing mix is right. So, that is the reason we are prototyping two different brands and yes the product is also being formulated and tailor made for the preference of that region.

Shreyas Pardesi: So, how is it different in terms of price point?

Saugata Gupta: Pricing is more or less similar.

Shreyas Pardesi: Okay. So, you mean to say that these are the two independent brands you are trying and testing in two different states.

Saugata Gupta: That’s right.

Shreyas Pardesi: How confident you are this would deliver, I mean you would have initial shipment number by now and some feedback.

Saugata Gupta: I think it’s too early. While I would I say the first cut response has been good but I think it’s too premature to actually give a verdict as far as the prototype is concerned. I would think we should be able to give a far better picture in three months from now.

Shreyas Pardesi: And how many SKU this each brand has?

Saugata Gupta: There are two rigid SKUs and one sachet, which is a one-rupee price point.

Shreyas Pardesi: Okay. My last question, we have heard in the earlier part of the conversation that rural is contributing somewhere around 25% to 26% and we intend to take it further. Now largely if you can just tell us broadly what is the current coverage in terms of rural reach or how it is going to grow exactly and what are the packs and what the initiatives that you would be taking?

Saugata Gupta: I will give you a broad perspective of our rural reach, it’s a function of the portfolio and it’s also a function of the infrastructure, which we have. I think in certain markets where Parachute is strong our rural reach is extremely good. We believe that there is potential for going further down the pop strata. We are not that strong in the Hindi heartland and therefore that is one area which we are concentrating on in the coming years. And again it’s a function of strong brand and strong portfolio and the pricing which we have. Price points which we have not focused upon in the past few years are important. We are also looking at increasing our basket of brands and SKUs. So, it's a combination of several initiatives.

Shreyas Pardesi: Okay. Very lastly for maybe Milind or Chaitanya can answer. We made the provision on the account of excise and from 100% now we have dropped it to 75%. Now how likely this provision either would get paid off or would get reversal in this financial year? When can we expect the final result out of this keys?

Milind Sarwate: The key issue in this case is that the government has taken certain stand and one of the courts, which is Kerala High Court has actually laid down that the government is certainly not the authority to demand excise from Marico. So, the matter will get back to some other litigation which is currently going on and we expect that all these litigations would take at least another two years to resolve. Pending that we have the option of either not making any provision or making 100% provision. We have taken a financial or commercial view of this risk and we have made a 75% provision. I don't think that the picture would be clear during FY11. I am not even sure about FY12 because the speed at which the judicial machinery moves in these matters is not very high. So, I don't think I would be able to make a better guess than this.

Shreyas Pardesi: Okay. Thanks, Milind and Chaitanya and Saugata. All the best.

Operator: Thank you. Our next question comes from the line of Harit Kapoor from B&K Securities. Please go ahead.

Harit Kapoor: Good morning, everybody. Firstly, regarding your taxation, I just wanted to know we have provided for Rs. 97 million exceptional items for this year as well as Rs. 154 million impairment loss on depreciation numbers. Just wanted to know, are we receiving the tax benefit on the both these numbers?

Milind Sarwate: Not really. There are certain accounting adjustments. Typically if there is anything to do with fixed assets, the income tax law would provide for certain depreciation rates and typically you end up removing all asset related items and replacing with the statutory depreciation. So, we wouldn't get this.

Harit Kapoor: So, it has not been taxed. So, these are basically pre-tax numbers that you are talking about.

Milind Sarwate: Yes

Harit Kapoor: All right. And secondly, sir, I just wanted know apart from the cooling oil and the rice variants which we have launched, what further are we looking for in terms of FY11 and FY12 in terms of new categories and new products? I mean what is strategy going forward there?

Milind Sarwate: I think, largely you will have to be satisfied with the somewhat vague answer from us because we certainly would not make a new product launch plan announcement from this platform.

Harit Kapoor: No I just wanted to know as in broadly what are …?

Milind Sarwate: We define our playing arena as beauty and wellness and within that we are looking at hair care, health care and skin care. So, our forays would be in these three categories only and we are not at this moment planning to go beyond these three sub categories of the larger space. The only thing we can probably share with you is that between the two approaches, that is going brand forward and going consumer habit forward, we would choose to go consumer habit forward.

Harit kapoor: Lastly, I just wanted know what are the small depreciation impairment charge even in this quarter. Even if I adjust for that, there is slight Y-o-Y increase and depreciation charge is pretty high. It is close to 40%. So, I just wanted know if there is anything else that is missing in this or it is just a normal.

Chaitanya Deshpande: Part of the depreciation increase would be because we have added 13 Kaya clinics in the first part of this year which were not there in the previous year. Also there is a plant which has got commissioned in March 2010. However since that was at the fag end of the year, it would not have impacted depreciation much.

Harit Kapoor: Sir, regarding this new plant, do we expect the tax rates to be lower than FY10 on account of this one? I mean, if there would be any benefit on that front or it typically won't impact as much.

Chaitanya Deshpande: There will be an impact. Earlier we were giving an outlook of our tax for effective tax rate over the next one or two years to be around 22 or 23%. But, after these plants have come up; it will become sub-20%. Moreover with the increased share of international business, some parts of the business which are tax free like UAE and Egypt, the effective tax rate would also come down. So, we expect the effective tax rate to come below 20% over the next one or two years.

Operator: Thank you, Mr. Kapoor. Our next question comes from the line of Sumant Kumar from Elara capital. Please go ahead.

Sumant Kumar: Hi, good evening, sir. Sir, Q-o-Q, the company showing 10% degrowth. So, is it mainly of value realization degrowth or volume?

Chaitanya Deshpande: There is some degrowth on a sequential quarter basis because of some price adjustments in select packs of Parachute during the middle of Q3FY10, price drop in Shanti Amla in Q4FY10. Moreover Q3 is usually a larger quarter on account of the festive demand for some our products. Finally, Kaya has also been showing some decline in revenue.

Milind Sarwate: I think fundamentally the question you are asking is about sequential quarter but the kind of business that consumer product company is operate in, you need to look at what happened at the same time last year versus what happened in the quarter in the immediately preceding period. Mainly because the business of consumer product company is also, there are several new product launches, there are pricing changes, there are festivals as Chaitanya explained. There are seasonal issues; there are seasonal dislocations of sale. For example, it is somewhat similar to Cola companies where their sales in the summer would typically be much higher than those in winter. If you compare Cola sales in January-March and those during April-June, number should be pretty different. We are not like the IT business where sequential quarters make significant difference.

Sumant Kumar: So, hair oil business it is from during December, there is higher compared to this March ended.

Milind Sarwate: During the winter actually, in some parts of the country the hair oiling would be to the extent lower. For example, if you are talking of cooling oil, it is difficult to imagine that in winter, the sales would be high.

Sumant Kumar: Okay. But December, it should be lower hair oil business.

Milind Sarwate: It depends on what kind of hair oil you are selling and which part of the country you are selling.

Sumant Kumar: Okay. Thank you so much.

Operator: Thank you. Our next question comes from the line of Neelam Khubnani from First Global. Please go a head.

Neelam Khubnani: Congratulations, sir. My question is regarding the market share in branded coconut oil. As per the update, it is declining to 53% from 55% in the last quarter. So I just wanted to know it is because of some change in method of calculating the market share or are we really losing the market share?

Chaitanya Deshpande: This is not loss of market share. Typically one would want to look at 12 months moving averages to get a better indication. And also like we discussed sometime earlier on this call, there have been some issues with the A.C. Nielsen Panel, that need to be corrected.

Neelam Khubnani: Okay. Thank you very much. That's it.

Operator: Thank you. Our next question comes from the line to Ajay Thakur from Alchemy Shares & Stock Brokers. Please go ahead.

Ajay Thakur: Thank you for taking my question. I have two questions. First was can you just elaborate on the Parachute promotion that has been going on currently. I believe there is one promotion of, Rs. 45 per 500 ml of bottle, if I am right?

Saugata Gupta: It is a 250 ml super value pack which are prototyping. It is not a promotion as such. It is value offering, a new SKU which we are testing.

Milind Sarwate: Like an economy pack.

Ajay Thakur: Okay. A new SKU. And my second question was on Kaya actually. If we adjust for Rs. 5.7 crore of one-time loss of Kaya Life, then are we breaking even because our loss for the quarter has been Rs. 5.3 crore?

Ajay Pahwa: We have not broken even during FY10.

Ajay Thakur: No, I am talking about the quarter actually.

Milind Sarwate: No, we have not broken even during the quarter.

Ajay Thakur: Okay. That is all from my side. Thank you.

Operator: Thank you. Our next question comes from the line of Kaustubh Pawaskar from ShareKhan Ltd. Please go ahead.

Ashish: This is Ashish. Just wanted to understand on the international front since you are the CEO of the business. Sir, different geographies would be growing at a different pace they have at the different stages like Egypt, South Africa, and Bangladesh. Sir, Bangladesh would be a more mature kind of market for us. So, how is the growth rate there as of now and would it be new product introduction that will only drive the growth and organic growth will be very slow.

Vijay Subhramaniam: The growth has actually been healthy across all the geographies overall growth is at 36%. There has been no geography which has grown, let's say sub 20. Obviously, the more mature market with the higher base, the growth rates are logically likely to be lower. That's as far as the current year is concerned. Going forward I think one thing you must appreciate that we are operating in the emerging market space in certain categories where consumer penetrations are in the low to medium band. So, the headroom for growth for this category exists. So, if we do the right things and we are able to grow the category, I think we stand to reap the benefits. So, going forward, it will be mix of both. It will be strengthening our core brands as well as certain new product introductions.

Ashish: Okay and what are the plans for Bangladesh because in the writeup you mentioned some new product introductions are going to be there and how is the growth rate seen over there? Any ballpark numbers on the growth that you forsee.

Vijay Subhramaniam: No, like I said all markets have grown at over 20%. Our information update talks of introduction of Hair Code hair dye which we made earlier and in the first full year of operation, we have managed to secure a share in the region of about 19%. That again is a category where penetration levels are low and we intend driving that up in that market. Going forward we may look at certain other offerings although we will take it one at the time. We would like to focus on a few offerings and scale them up before moving on to the next.

Ajay Thakur: And what about Egypt and South Africa hubs that we have? What are the growth rates like? It will be across the board 20% plus that you were talking about.

Vijay Subhramaniam: Yes, as you know the average is 36%. So, these smaller geographies growth rate will be again 20% to 30% or 30% plus. There again, what I said earlier holds. The category penetrations are in the medium band and that signifies the growth potential.

Ajay Thakur: Okay. Sir, can you give a broad breakup of what this Rs. 600 crore of international business into these geographies, a very broad breakup if possible?

Vijay Subhramaniam: Typically, we don't give or share the breakup of countrywise but Bangladesh is the largest constituent.

Ajay Thakur: Okay. Secondly, I wanted to understand on the taxation front. You said that there is no benefit on account of the exceptional items in this result on tax front, right? There is no setoff of expense on the tax front.

Milind Sarwate: Yes.

Ajay Thakur: Okay. On the corresponding quarter of last year, I guess Sundari also 15 crore that we wrote off, there was no tax benefit there.

Milind Sarwate: There was a tax benefit on that.

Ajay Thakur: How much?

Milind Sarwate: Rs. 17 crore of tax benefits.

Ajay Thakur: Okay, but you wrote off, I guess, Rs. 15 crore. So, Rs. 17 crore was the benefit on that?

Milind Sarwate: Yes, there were certain accounting implications which resulted in this overall loss.

Ajay Thakur: Okay. So, one needs to write back Rs. 17 crore on the tax. Fine. Thank you so much.

Operator: Thank you. Our next question is a followup from the line of Abneesh Roy from Edelwiss. Please go ahead.

Abneesh Roy: Sir, one small followup. Saffola Zest, where do we stand? Why I am asking this, Pepsi has been aggressively advertising Aliva. So, they will not advertize if there is no opportunity being felt or the prototype is not doing well. So, where do we stand in terms of re-engineering the product and whether we have exited this completely?

Saugata Gupta: Like I said in the last call that we are on the drawing board. I think the prototype has given us a quite a bit of learnings as far as Indian consumer is concerned. The fact that taste is more important than health. And therefore, we are in the process of reengineering the product. We need to get it right and you must also appreciate that we have our sequence of new products which are lined up. So, therefore, at a suitable time, we will come back with an offering. We continue to be keen in participating in this segment.

Abneesh Roy: And one small on the retail part. In the Kaya, are we getting any revenue share in terms of rentals because in other formats, we are seeing revenue share happening?

Ajay Pahwa: No, we do not get any revenue share on Kaya.

Abneesh Roy: Any new opening, for example, you are planning to close some and open. So, in that also, you don’t expect any revenue share?

Ajay Pahwa: Not at this point.

Abneesh Roy: Okay, sir. Thanks a lot.

Operator: Thank you, Mr. Roy. As there are no further questions, I would like to hand the floor back to Mr. Aniruddha Joshi for closing comments.

Aniruddha Joshi: Thanks, Farha. On behalf of Anand Rathi Financial Services, we thank you all for being on the conference call. We thank the management of Marico and I hand over for the closing comments to Mr. Milind Sarwate. Over to you sir.

Milind Sarwate: Thanks, everybody. I think we had quite an engaging conversation for an hour and over. I hope we have given all the information that was needed. If there is anything which still needs some more information or clarifications, you could contact us on e-mail and we would respond. Thanks once again and hope to see you in the first quarter conference call sometime in July. Thank you, good night.

Aniruddha Joshi: Thank you.

Operator: Thank you very much. On behalf of Anand Rathi Financial Services, that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.