



# Marico Limited Conference Call

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Moderators:

**MARICO REPRESENTATIVES:**

**MR. MILIND SARWATE, GROUP CFO & CHRO**

**MR. SAUGATA GUPTA, CEO – CONSUMER PRODUCTS BUSINESS**

**MR. AJAY PAHWA, CEO - KAYA**

**MR. VIJAY S. SUBRAMANIAM, CEO – INTERNATIONAL BUSINESS GROUP**

**MR. CHAITANYA DESHPANDE, EVP AND HEAD – INVESTOR RELATIONS AND M&A**

**MR. VIVEK KARVE, EVP AND HEAD – CORPORATE FINANCE**

**Moderator:** Ladies and gentlemen, good day and welcome to the Marico India Q1 FY'12 earnings conference call hosted by IDFC Securities Limited. 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. Should you need assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Varun Kejriwal. Thank you and over to you Sir.

**Varun Kejriwal:** Thanks. On behalf of IDFC Securities Limited, we welcome you to the conference call of Marico Limited. With us on Marico team we have Mr. Milind Sarwate, Group CFO and CHRO, Mr. Saugata Gupta, CEO of Consumer Product Business. Mr. Ajay Pahwa, CEO of Kaya. Mr. Vijay S. Subramaniam, CEO of International Business Group, Mr. Chaitanya Deshpande, Executive Vice-President and Head of M&A and Investor Relations, and Mr. Vivek Karve, Executive Vice-President and Head of Corporate Finance. Let me now hand it over to Mr. Milind Sarwate for further comments on the business performance.

**Milind Sarwate:** Welcome to the earnings call of Marico's Q1FY12 results. We have already shared our information update on the quarter's performance with you. I will therefore only highlight a few points relevant in this quarter. I feel that this was one of those unusual quarters about which we feel good because despite a huge surge in the input prices we were able to record a robust volume growth across various categories in each of our three businesses. We also had a good beginning to the new product pipeline for the year 2011-12 in all the key categories, hair oils, foods, and in case of Kaya, the product segments that we are emphasizing upon. At the same time, there were some negatives which we would try and overcome in the coming quarter. The chief one was of course that the margins contracted as compared to the same quarter last year for which the input prices played a big role. We suffered about 600-basis point impact on account of raw materials, but we were able to make it up in some other areas and at the end of it we were just about 250 basis points down as compared to the corresponding quarter last year. So though imponderables about the input prices remain, with statistical or cyclical logic it cannot be said that the price surge will continue unabated even for this year. So there is some hope, but at the same time, we do not want to pretend to be experts in commodities. The other area where we would have loved to do better, but for reasons beyond our control could not was the Middle East and North Africa region, where the turmoil continued and the plans that we had for the region could not be translated into reality. We could cover the other areas through the Q&A session.

**Moderator:** Thank you very much Sir. The first question is from the line of Arnab Mitra from IIFL. Please go ahead.

**Arnab Mitra:** First question was on volume growth, as you said this has been exceptionally good given the price increases, so what would you say has really driven it especially something like value-added

oils where you have grown 32% on a very high base quarter and the same is true for Parachute coconut oil, so what are the trends you are seeing on the ground on this?

**Saugata Gupta:** As far as Parachute is concerned, we believe that the long-term volume growth can be 7 to 8%. Usually during inflationary times we do not pass on the entire price increases to consumer. Similarly, during deflationary times we may pass on the benefits to the consumer. Hence during continued inflation we are relatively more competitive while during deflation that competitiveness reduces. This year contrary to normal trends copra prices did not decline in the period during April to June that gave us that advantage over local competition. They were less active in the market. In addition Parachute also introduced two new budget packs, one priced at Rs 12 (instead of Rs 14) and the other at a sub 50 price point at Rs 45. Our rural thrust is also helping both Parachute and the value added hair oils. In Hair oils we are gaining market share by a broader participation in various sub-segments. Cooling and ayurvedic hair oil, which we launched in the South, are performing well. We expect to continue to grow in each of the sub-segments and we believe the medium term growth in hair oils can be 20% in volume terms..

**Arnab Mitra:** And in this 32% growth, approximately what part of this will be in the new products, which were not there in the last year, like the ayurvedic oil or the cooling oil?

**Saugata Gupta:** Around 3% to 4% came from the new products.

**Arnab Mitra:** At the market level, overall category level, any trend that you see in terms of it sustaining or actually strengthening in the value-added segment?

**Saugata Gupta:** In the value added hair oil segment we are seeing that benefit segmentation is playing a more important part. That is why cooling oil for instance has grown in the last five or six years as it gave a much more unique and a differentiated benefit. In the long term, we believe that the consumer will flirt between different categories of value-added segments and brands with strong benefits will ultimately benefit from this upgradation.

**Arnab Mitra:** Just one thing on this 45-rupee pack, what is really the insight behind this, given that it is not exactly a price point but was is this pack really based on in terms of consumer insight?

**Saugata Gupta:** We had moved the 200 ml pack which was selling at Rs. 40 up to Rs. 53, during the course of FY11. Psychologically, people wanted a sub 50 pack,

**Arnab Mitra:** Just one question on the cost side, the employee cost, I saw on an absolute basis up 30%, obviously there is a component of inorganic here where Vietnam would have come in, but still it looks a little high given that Vietnam has added some 7% to the growth. So would it be up 30% for the full year, is this the trend going for the full year also?

**Chaitanya Deshpande:** The higher number is owing to the addition of both the ICP business in Vietnam, and the Derma Rx Business acquired in Singapore

- Arnab Mitra:** Just one last question on Kaya, what would be the India same-store sales growth and anything you can comment on in terms of profitability of Kaya for this year?
- Ajay Pahwa:** You are aware that we announced in the last quarter changes we have made in the accounting to recognize revenue. For better comparability perhaps it would be better to look at the collections in this quarter versus the same quarter last year. India has recorded 15% same-store collection growth, which is a great leading indicator of where the business is heading. I could share revenue recognition numbers but they are very hard to compare with the same period last year.
- Arnab Mitra:** On profitability how would you look at FY'12 given the trend that you have seen in this quarter?
- Ajay Pahwa:** We have not really changed our position regarding the outlook on profitability. We forecasted that Kaya in India would break even in the next 24 months. Of course the picture is much better with the addition of the Derma Rx business in Singapore as well as Kaya Middle East, so at a group level the picture is looking much better. Our view on turning around the Kaya Skin India business within 24 months still holds true. It is only one quarter so I would not like to comment much, except to say we are on track.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** In your presentation you have given details on copra prices, what is the outlook. There has been correction from peak in June at 56 odd rupees per Kg, what is the outlook for the next coming quarters?
- Saugata Gupta:** These days commodities are extremely difficult to forecast,. Copra prices peaked at Rs. 70 per Kg and went down to the Rs. 56 and Rs. 57. These have bounced back in the last couple of days to around Rs. 61 and Rs. 62. Besides local supply and demand copra prices are also linked to international prices of Palm Kernel Oil and other things other commodities. It is extremely difficult to estimate how and when prices will move. Having said that we believe that at Rs 70 per Kg prices have peaked, the current price is Rs. 62, which is down around 10% from the peak it had reached sometime in May or June. We will wait and watch.
- Vivek Maheshwari:** Currently it is Rs. 62.
- Saugata Gupta:** Yes around Rs. 60, Rs. 62.
- Vivek Maheshwari:** May be slightly theoretical question, you took the prices by 32% in case Parachute right? At what point of time or at what level of copra would you start taking down prices of Parachute in order to accelerate the volume growth etc..., is there a number or it is difficult to put that number?

- Saugata Gupta:** Yes, we have a number arrived at after a number of years of modeling and going through a cycle of inflation and deflation. We have not reached that number yet. The change in price would happen initially in the recruiter packs.
- Vivek Maheshwari:** But, you are saying even at 62 to 64 we are far away from that, is it?
- Saugata Gupta:** Yes.
- Vivek Maheshwari:** For the others, nonrecruiter pack, does that imply that the blended margins for the company therefore we will move up as copra prices start correcting because you will not take down prices in those SKU's, is that a fair assumption?
- Saugata Gupta:** You must realize that ultimately we have to compare prices versus last year. Even if you see Q1FY12 versus Q4FY11 there has been an increase. Yes, you are right, to an extent there will be some increase in the gross contribution in the larger packs if copra price go down. However, we will pass on significant part of the drop therefore the margin expansion may be modest.
- Milind Sarwate:** I wanted to clarify an important point when it comes to reported earning. There is an inevitable time lag between the shifts in the commodity prices externally and the extent to which or the time line within which we can raise or decrease retail prices. There is the raw material inventory, there is work-in-process at the factories, and there is inventory in the whole pipeline, so it is not like a very dynamic market where you hear of a copra price fall and immediately you can change the prices. So theoretically even if we were to have a dramatic fall in copra prices today, I do not think there would be any impact on our Q2 earnings simply because we take that much time for the price to reflect in the market.
- Vivek Maheshwari:** Sure my question was slightly from a longer-term perspective, if you do not take down prices in case of nonrecruiter packs. Just one more thing on ASPs you have used as a lever at the EBITDA margin given the contraction in gross margin. For FY12, where should it settle down in terms of percentage of net revenues?
- Saugata Gupta:** Long term, we believe in investing behind brands so you could expect around 10.5% to 11% of sales.
- Vivek Maheshwari:** Which is like compared with a little over 11% in fiscal 2011, right?
- Saugata Gupta:** Yes and with an inflationary top line this will mean a higher absolute amount available.
- Vivek Maheshwari:** Just one last thing, anything on new product introduction or something that has hit the market or is in the final stages, other than the price changes that you have already informed in the new SKU?

- Saugata Gupta:** We have now scaled up Oats to most of South India and have rolled out cooling oil to more states. There is ayurvedic hair oil which is being prototyped in South India, and there are some products in Bangladesh. You could also expect to see a new prototype in foods this year.
- Moderator:** Thank you. The next question is from the line of Himani Singh from Elara Capital. Please go ahead.
- Himani Singh:** Congratulations on nice numbers. I wanted to know considering copra has again bounced back around 13% from the bottoms of 56 levels. How do you analyze this going ahead? How does that impact your competitiveness vis-a-vis the loose market, plus I also wanted to know what is the size of the loose coconut market? What would be their market share overall?
- Saugata Gupta:** The current branded to loose ratio is around 60 to 65 branded and 35 to 40 loose. Regarding your first question I think let us not conclude on just a weekly movement. As I said, we believe is that the copra prices have peaked and it will come down, to what extent we do not know and the time dimension we do not know. This is just a short-term spike we believe
- Himani Singh:** My next question was on your international business. Could you throw some light on how that has done over the quarter and what are your expectations for the next quarter?
- Vijay Subramaniam:** At an overall level, I would say that the year has begun in the right note. On a pure business growth basis, the international business, if you remove all the vagaries of FX and other external factors, pure business has grown by nearly 40%. Out of which about 20% is organic and the rest 19% odd would be inorganic, which is Vietnam. Obviously, we are facing similar challenges as in India in terms of immense cost push and inflation, etc., coupled with certain factors in Middle East North African region, which Milind outlined in the opening address though the situation in the Q1 is far better than Q4 last year. Our integration of ICP Vietnam has started. It is on track and our core brands are doing well. So overall the year has begun on a good note and I think we can continue this growth momentum into the rest of year as well.
- Himani Singh:** Sir could you also tell about the Nepal business?
- Vijay Subramaniam:** Nepal we have a fairly small-sized business, which is largely export led and it has got a portfolio comprising coconut oils and hair oils, the business has been growing in healthy double digits. We will have close to about 20% to 25% market share in the categories we operate.
- Himani Singh:** How has the Bangladesh business been?
- Vijay Subramaniam:** Bangladesh business like I said has done well. Our market share has increased by couple of percentage points so we are currently talking of a market share in the region of 80% or so for Parachute. As part of our plan to encourage consumers to use more value added products we introduced Parachute Cooling and Parachute Beliphool, which is a fragrant hair oil, and both of them are doing well. Similarly HairCode hair dye has performed well and it has now reached

29% market share. We are a stronger #2 player. I think the headroom for growth exists and I think we can continue this momentum.

**Himani Singh:** Sir my last question is on the employee strength, since employee cost has moved up around 30% Y-O-Y absolute number. After the acquisition that we have done what would be our employee strength now on a consolidate number?

**Chaitanya Deshpande:** Around 3000.

**Himani Singh:** Vis-a-vis last year it would have been?

**Chaitanya Deshpande:** 2300 or so.

**Moderator:** Thank you. The next question is from the line of Varun Lochav from Religare Capital Markets. Please go ahead.

**Varun Lochav:** Sir Congratulations on a great set of results. My question was on the Saffola franchise. First of all, if you could just throw some light on the packaged rice and the oats. You mentioned in the release that oats has been doing reasonably well but the rice has not been up to the mark, so if you could just throw some light on what are the plans going forward for these two?

**Saugata Gupta:** As far as rice is concerned what we have said is that the response has been mixed. We had earlier introduced only one variety of rice that was only acceptable in certain regions of the country and that is the reason we have launched basmati and a long grain variant, which will take care of certain other markets where the acceptability of the other grain was not there. So otherwise rice is on track and oats is available mostly in the South and certain modern trade outlets and is tracking above expectations as of now. Between oats and rice annualized exit number last year would have been Rs 40 to Rs 45 Crores. This year we should cross Rs 50 Crores .

**Varun Lochav:** Sir second question was more from a slightly longer-term perspective 3 to 5 years, in the whole Saffola franchise do you see the share shifting materially more from just being edible oil to a far more balance between functional foods and edible oil, and if that the case, will the pace of innovation or new product introduction increase significantly in the next couple of years under the Saffola brand?

**Saugata Gupta:** We believe that Saffola is an under-leveraged equity as far as health is concerned. It is one of the very strong brands driving health. If you look at consumer trends today there is a huge market for people adapting healthy foods. We would see some innovation as far as foods are concerned and we have an internal metric to measure how much of the Saffola franchise is coming from products other than edible oil. In the next 3 to 4 years that number is expected to increase each year. Having said that Saffola edible oil is also currently riding a trend so that is also expected to grow in double digits in terms of volume growth in the next 4 to 5 years.

- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Emkay Global Financial Services. Please go ahead.
- Pritesh Chheda:** Congratulations for the good set of numbers. From your press release, you have mentioned about the rural strategy and the whole idea of getting directly to the rural setup instead of the distributor sales. I just wanted to check, since when we have this strategy and number two is the contribution to volume growth on account of the strategy, if it is possible to share or any idea therein, and is it safe to assume that the incremental volume growth could be sustainable because of this strategy?
- Saugata Gupta:** I think let me first clarify, what we are doing. Earlier we used to reach a certain section of the rural market through indirect distribution which is super stockist and also through the wholesale. We have now taken some step to increase direct reach particularly where infrastructure is good and we have a critical mass. , We are doing it in a phased and focused approach rather than going all over the country. We have taken on one or two states every year. We are investing in distribution infrastructure and also ensuring that we have the right portfolio in terms of critical mass and price points to drive rural growth. Two years ago at 25% our direct rural contribution to total domestic sales was slightly lower than other companies. We have taken on the task to increase that to 30%.. Even this year, this quarter our rural contribution is 30%. During the last two years rural sales growth has outstripped urban sales every quarter. A number of factors such as increasing rural income and media reach have resulted in increased rural aspiration for branded products. In the long term it will increase rural consumption. Today, as you know we are less dependent on the vagaries of monsoon and other factors. So as long as rural incomes continue to increase and infrastructure continues to improve and we continue to invent, we believe that rural growth will outstrip urban growth over the next one or two years.
- Pritesh Chheda:** Has this strategy for us been implemented nationwide or it is in steps?
- Saugata Gupta:** We are doing it in steps because we believe that we need to focus and put all our energies behind it. So we were doing it gradually rather than going all over.
- Pritesh Chheda:** So that means the gain from this strategy to the volume growth will continue and if there is any impact of price rise on the volume growth can be offset by this incremental strategy, which you are implementing?
- Saugata Gupta:** Yes, because I think we will continue to have a differential pricing strategy for rural packs versus other packs.
- Pritesh Chheda:** These are new distributions, which can contribute your volume growth. Is it possible to share how much of it would have influenced since the last 3 to 4 quarters, when we had taken aggressive price increases yet the volume growth not getting affected? Is it possible, any idea? Despite the price increases that we have taken conventionally, one would have thought that there would be some impact on the volume growth, but the volume growth did not get impacted. So I



am just wondering this rural push of yours helped you offset whatever loss if any on account of the price increase on the volume?

**Saugata Gupta:** Not really because I think the urban growths have also not reduced. Parachute where we took about four price increases in H2 last year was impacted in a few pockets. However I think that has got neutralized and we had a healthy growth in Parachute this quarter.

**Pritesh Chheda:** Secondly, I just wanted to check was there any increase in the prices of rice bran and safflower oil in Q1. How much was it Sir?

**Saugata Gupta:** Safflower was 27% and rice bran oil was 45%.

**Pritesh Chheda:** That is YOY, I was just checking on a quarter-on-quarter basis?

**Saugata Gupta:** Between Q4 and Q1 there have been minor changes.

**Pritesh Chheda:** So that means the price increases, which we have taken on Saffola brand is enough to the extent of the price rise in the material prices.

**Saugata Gupta:** As of now yes, I think between Q4 and Q1 there is hardly any difference.

**Pritesh Chheda:** Lastly, in the oil imports that we have which is copra, Saffola and Kardy, sunflower and rice bran, if you could tell us the proportion mix in the input cost if it is possible any indicative idea?

**Saugata Gupta:** Copra will be approximately 40% of raw material cost, rice bran will be in the region of 17% to 18% and Safflower about 6% to 8%. Pritesh we have to clarify on one of your earlier questions perhaps this might help. If you look at the rural growth rates and the urban growth rates for us, the rural growth rates have typically been about 3% to 4% higher than the urban growth rate.

**Pritesh Chheda:** This is since the last four to five quarters. So rural has been 3% to 4% higher than the urban. This is the value growth or the volume?

**Saugata Gupta:** Actually you could look at it either way. It will be more or less the same.

**Moderator:** Thank you. The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

**Gaurav Bhatia:** Sir I had a question on gross margins in your hair oil business. What has been the trend, have we lost some gross margin in hair oil business. Why I am asking this question is we have clearly been ahead of the industry in terms of volume growth. Have we lost some gross margins and this is the result of that?

- Saugata Gupta:** If you look at it we have taken some price increases in most of the hair oil brands; however, hair oils have liquid paraffin, some vegetable oils and packaging components which also have seen some cost push over the last one year. So I think other than some of the recruiter packs where we have maintained price points, the loss in gross margin has not been significant. It is only in one or two recruiter packs, which are strategically used in urban and rural markets to drive volume and market side. There could have been some dip in gross margin.
- Gaurav Bhatia:** I am asking the same question in a different form. If the industry has taken a price hike of X, have we taken a price hike higher than X or it is about the same?
- Saugata Gupta:** It is almost the same, other than may be one or two packs.
- Gaurav Bhatia:** Sir my second question is on volume growth in coconut oil franchise. If you include both rigid and the recruiters packs, what has been the volume growth in coconut oil?
- Saugata Gupta:** It is around the same 9% to 10%.
- Gaurav Bhatia:** Another question on international business ex- Bangladesh, what has been the organic growth there because if I consider Bangladesh to be growing at about 30% which is about half your international business and international giving a 20% odd kind of a growth that means my other organic growth in international business would be in single digit. Is that correct?
- Milind Sarwate:** You are right and large portion of that has been led by MENA, Middle East North Africa where apart from some business impact due to political unrest, we are restaging our Parachute creams and oils, and have gone for a conscious pipeline reduction of the old pack and we are launching the new pack in Q2. So that would have played a role as well.
- Gaurav Bhatia:** Fair enough Sir, one more question Sir I heard Milind on the television talking about divestment in Kaya business and if the price is right may be we could think about divesting Kaya. Is that correct understanding?
- Milind Sarwate:** I am surprised to hear this. I have not said this at all. This is not the correct understanding. We were always committed to the Kaya business and more so now when it has been showing an improved performance over the last 3 quarters
- Moderator:** Thank you. The next question is from the line of Nitin Mathur from Espirito Santo. Please go ahead.
- Nitin Mathur:** Can you give me an overview of your M&A strategy in terms of to target geography or the product group where you think there is a void, which needs to be filled? Is there a clear outline strategy that you can share in this forum?

- Chaitanya Deshpande:** We are a fairly focused company in terms of the categories that we are looking at. We are keen on beauty and wellness. In beauty it's largely hair care and skin care. In wellness, it is in processed healthy foods. In foods we will probably focus only on the Indian market. In terms of geographies apart from India we would look at other markets in Asia, mainly South East Asia and Africa.
- Moderator:** Thank you. The next question is from the line of Ashit Desai from Batlivala & Karani Securities India Private Limited. Please go ahead.
- Ashit Desai:** Can you let us know what is the inventory on copra that you are carrying currently?
- Saugata Gupta:** Not much, around a month
- Ashit Desai:** Sir for Parachute could you breakup your volume growth for recruiter and non-recruiter packs?
- Saugata Gupta:** The small packs growth has been around 13% and other packs have been around 9% to 10%.
- Ashit Desai:** How different was it in Q4?
- Saugata Gupta:** Q4 had a growth of only around 4% to 5% so that time I think the small packs grew around 7%. The gap was 2% to 3%. I think the gap is around the same.
- Ashit Desai:** Lastly Sir, what has been the value growth in hair oils or if you can give me what has been the price hikes in hair oils?
- Saugata Gupta:** The value of growth in hair oils has been 54%. So the price hike should have been 21% to 22%.
- Harit Kapoor:** Normally in Q1 probably spillover in Q2 we have some consumer offers on Saffola and Parachute franchise. I just wanted to know what was the status of that in Q1?
- Saugata Gupta:** In terms of consumer offers in Saffola there has been a significant reduction in the consumer offers around 27% reduction in consumer offers. Parachute has been more or less constant.
- Harit Kapoor:** So basically the consumer offers in Parachute, which is in this quarter, would have been in the base quarter as well.
- Saugata Gupta:** Yes. That's correct
- Harit Kapoor:** Sir my second question was on Kaya, I just wanted to know this 15% growth that we have seen in same-stores in India, could you just elaborate on what have we done for this, apart from the new products. Also whether what kind of sustainable number do we see in the same-store growth?

- Ajay Pahwa:** First, let me just explain what are the two or three initiative which have delivered this 15% sale growth. One you have obviously seen that Kaya has a strategic thrust in positioning itself as a skin care solutions company and hence the product portfolio is growing and broadening. So part of his growth has been coming from growth of products particularly the advanced range of Kaya products that have been added from the Derma Rx acquisition. The second aspect of this growth has been innovation that constitutes thrust in the regular skin care. We continued to add and broaden our Aqua Radiance services so there was introduction of new services there, as well as in the area of laser hair reduction where Kaya is the leader in India. We also added a new technology which now makes Kaya the only place in India, which can offer you comprehensive solution for any form of laser hair reduction \_normal laser hair reduction, pain free as well as spot reduction. I think continuation of these initiatives have been the underlying fact. What we also had in this quarter was consumer promotion, which was during the month of April, which has undoubtedly aided growth in this quarter. I think going forward our view is, we have a very strong focus on driving same-store sales growth. Obviously there is not a straight line to this in every quarter, but when we are looking for the full year picture, we would be targeting same-store sales growth in the range of 15%.
- Moderator:** Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.
- Nillai Shah:** I have two questions here, the first one is basically on the volume growth in Bangladesh, would you be able to share that?
- Vijay Subramaniam:** The volume growth in Bangladesh is in the region of about 9%.
- Nillai Shah:** The second question was basically on the conversion of loose to banded in Bangladesh versus India, Bangladesh has been faster in that aspect as compared to India. What is the key reason for that, is it just availability of the raw material out there?
- Vijay Subramaniam:** Actually availability of raw material is not an issue. I think what we have been able to do is take advantage of our learnings in India and replicate the learning in such a way that we have been able to achieve or catalyze this conversion in a short period of time. The other factor has also been that the degree of competition of local brands available and their approach towards investments and brand building etc., have not been so strategic. It is a combination of these two reasons
- Nillai Shah:** In India, are you facing incremental competition or is there an increase coming through, I mean excluding the small period where the copra prices have gone up, but otherwise generally are you seeing more competition with the regional players or is it similar to the level about three years back?
- Saugata Gupta:** I think there has not been any significant increase in competitive intensity apart from varying intensity from local and regional players with cycles of inflation and deflation.

- Moderator:** Thank you. The next question is from the line of Yogesh Bhat from ICICI Prudential. Please go ahead.
- Yogesh Bhat:** One is on the value added hair oils, earlier we had discussions and there was some indication that light hair oil segment which you were eyeing at, is there any progress on that front?
- Saugata Gupta:** We had a presence in light hair oil through Hair & Care. As far as value-added oils are concerned, broader participation with benefits is what we are prototyping. There are no other specific light hair oils I have referred to I think in the past.
- Yogesh Bhat:** Okay and second question is basically nothing from the quarter, some small questions on the balance sheet if I can ask sir? On the balance sheet of March 2011, page 46, fixed asset schedules is showing a note of trademarks of 71.68 Crores pending registration and you have intangible asset which shows trademarks and copyrights is 56.82 Crores being added there, I have some indication on what these additions are for and what is the 71 Crores pending registration?
- Chaitanya Deshpande:** These represent the Intangible assets acquired during acquisition of Derma Rx in Singapore and Code 10 in Malaysia. The process for registration has been initiated. Additions represent the Intangible assets acquired during the year in Derma Rx in Singapore and Ingwe in South Africa.
- Moderator:** Thank you. The next question is from the line of Aniruddha Doshi from Anand Rathi. Please go ahead.
- Aniruddha Doshi:** Can you just give us some breakup of hair oil business among the various ayurvedic oils, cooling oils and we are having a huge amount of portfolio over there, so which are the top 3 to 4 brands within hair oils accounting for revenues and profitability?
- Chaitanya Deshpande:** All the brands are growing in double digits. The big brands are basically Hair and Care, Jasmine, Shanti Amla and Nihar. These are the four top brands.
- Aniruddha Doshi:** Okay what is the contribution of hair oils to overall profitability of Marico business now?
- Chaitanya Deshpande:** We do not want to discuss every brand segment in terms of its profitability. We have shared in the past that the Parachute's coconut oil's profitability is obviously much larger than the company average, Saffola is close to company average. We have been sharing international business margins – around 11%. You know that Kaya is making losses at the moment. That is about what we can share,.
- Aniruddha Doshi:** Okay, compared to three to four years ago, has there been any considerable shift in the contribution of hair oils to overall profit?

- Saugata Gupta :** As long a category grows faster then obviously it will increase The contribution to total growth from hair oils has been growing faster than most of the other categories. It terms of share of profits too there has been an increase.
- Moderator:** Thank you. The next question is from the line of Himani Singh from Elara Capital. Please go ahead.
- Himani Singh:** We had seen 40% kind of growth in the value-added hair oil segment. Have you seen up trading from non-value added segment coconut oil to your franchise or from where is this 40% growth coming from?
- Saugata Gupta:** I think mostly through share gain in the value added oil segment. We have gained around 5% share points in the last three years.
- Himani Singh:** This 5% market share is coming from where?
- Saugata Gupta:** Different competitive brands.
- Himani Singh:** Have we taken on some of our own Parachute consumers upwards?
- Saugata Gupta:** As I said, we have gained shares, one is the category growth and the share gain, which has been happening in the value, added hair oil segment.
- Himani Singh:** How is that category growing?
- Saugata Gupta:** Category has been growing around 12% to 13% in the last couple of years.
- Himani Singh:** And sir my next question is our food business. Could you please elaborate one is how oats is doing and what is our future growth strategy to be in the food business, are we getting into the breakfast category maybe cereals, flakes, oats, flavoured oats or Indian breakfast what is our strategy in that segment?
- Saugata Gupta:** I obviously will not be in a position to share our entire new products plan for the next one or two years, but as I said we are quite keen on entering the health foods space through Saffola because it is an under-leveraged equity. As regards oats performance is concerned, oats is today distributed mostly in the south and in certain modern trade and key outlets in the rest of the country. It is tracking very well. As you know the category has been growing at around 30% to 40% and we have made significant inroads into that category, given that our brand strength is high.
- Himani Singh:** So, what would be our market share there?

- Saugata Gupta:** We are not calculating market share in oats because as I said we are not present nationally, but in certain markets wherever we are present we should be significant.
- Himani Singh:** Sir in this or in any other category what could be a time line. Could we see new launches in the coming six months?
- Saugata Gupta:** Yes, you could see some prototypes in the coming six months.
- Himani Singh:** That would again be towards South, to be launched in south?
- Saugata Gupta:** As I said that we cannot discuss specific marketing plan.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Emkay Global.
- Pritesh Chheda:** There is a change in the Marico for the last seven to eight years we have added leverage in the books now. The leverage stands about Rs 772 Crores. Could you share your broader thoughts on the de-leveraging aspect or strategy overall running behind Marico?
- Milind Sarwate:** I feel that you have to look at the leveraging that we have done in the context of where the funds have gone. You will find that largely this has been done to exploit the opportunities in inorganic growth that came along and you will recall that at one point we were far more leveraged than what we are today. Our debt-equity ratio had crossed 1 and then we took a call to bring it down below 1 and currently it is about 0.74. So, it is in fair degree of control from a financial prudence angle. In a company like Marico, you have also to look at what is the debt servicing capacity that the company has and with a fairly healthy operating cash flow our ability to service debt is quite good. Another factor is we have been able to contract some very attractive rates for our borrowing and as a result of that our net borrowing cost is very small, it would be below 5% at the total portfolio level. So from a pure financial structure point of view it makes sense to tap the debt route as compared to tapping internal accruals or equity. Having said that there is another angle of keeping your debt-raising capacity intact for future inorganic growth opportunities and that is why we would keep our debt equity ratio certainly below 1 and closer to 0.5 or even lower than that if we are in a position to do that, does that answer your question?
- Pritesh Chheda:** Yeah partly. I was just wondering, which also indicates that the balance sheet would actually be used for future inorganic growth and probably absolute de-leveraging will not be there on line?
- Milind Sarwate:** I would say that our objective is not creating a desired balance sheet, it is about making the company grow. So, if we do not use the balance sheet then what do we use it for. To the extent growth requires we will use our assets. At the same time, we need to be prudent. So, we will keep that balance in mind, but I feel that if we are going to feel good about having zero debt and then we issue equity for inorganic growth, I think it would be retrograde step would you agree with that?

- Pritesh Chheda:** Obviously.
- Moderator:** Thank you. The last question is from the line of Karan Gandhi an Individual Investor. Please go ahead.
- Karan Gandhi:** Sir could you throw some perspective on the edible oils market and how it is shaping up, in terms of total volume growth, value growth, how are the customers reacting to the price hikes?
- Saugata Gupta:** I think the refined edible oil market given the fact that either there is a gradual shift towards healthy oils. Obviously whenever there is a price increase there is some down-trading or a deceleration in up trading that happens. Having said that I think we believe that those who are in the area of differentiated brands and leveraging new trends in terms of providing healthy oils are likely to grow and therefore the refined space will grow and there is going to be growth in both super premium and the premium space.
- Karen Gandhi:** Sir and in terms of the competitive intensity in the sector, newer players are coming in and there had been some consolidation also in the market. So if you throw some light on it and what impact do we see over a period of three to four years on our margins and the overall margins of the sector?
- Saugata Gupta:** I think obviously there would be new players coming in and as I said there are three clear strategies as for as refined edible oil is concerned. One is the volume game at the bottom end where it will be much more on cost advantages and volume and supply chain efficiency. There will be a super premium mix, which is operating due to organized retail. There is another segment, which we operate and in which is offering a differentiated offering which is healthy and which is based on consumer franchise and advertising. So these are the three segments,.
- Karen Gandhi:** When consolidation is happening right now at the lower end of the edible oils the lower premium edible oils, do we see pressure on the super premium and the premium segments also and do you see any hiccups while price increases, etc.?
- Saugata Gupta:** I do not think. As I said that is an extremely secular trend to move towards healthy oils and as the disposable income grows, people are moving in and people are upgrading because there is a lot of consciousness in terms of what kind of oil I use for cooking. Therefore I do not see any hiccups in the growth, because those who are with brands which are considered more healthy and offerings which are more healthy are more likely to grow faster than the other brands.
- Karen Gandhi:** Okay Sir and the last question is that you have introduced cereals ,oats etc., under the oil brand. So I just wanted to understand what was the thought behind introducing it under the oil brand as against a separate filler brand.



- Saugata Gupta:** Saffola is not exactly an oil brand. Saffola stands for good health and therefore I think it was natural that anything which is healthy and good for heart health. Oats as you know is very good for a healthy heart and so Saffola is more of a lifestyle brand than an oil brand.
- Moderator:** Thank you. I will now hand the floor over to Mr. Varun Kejriwal.
- Varun Kejriwal:** Sure, sir just a couple of questions from my side. First question is given that we have sold Sweekar, which would essentially be a very, very low-margin business. If you would just compare apples to apples, last quarter and this quarter how much of raw material cost as a percentage of sales have changed because of this diverting.
- Saugata Gupta:** It would not be significant because as I said Sweekar is around 6% to 7% of the top-line for the India business and around 5% for the group, so it would not be significant.
- Milind Sarwate:** And if you exclude to Sweekar then our the sales value growth in the Indian business would be significantly higher, it is over 47% instead of 36%.
- Varun Kejriwal:** Sure I was just to trying to get a sense on how the margin profile would have really changed given that this is essentially your commodity business, which you are trying to fix it?
- Milind Sarwate:** May have shifted by 30 or 40 basis points
- Varun Kejriwal:** Sure got it, clear on that. The second question that I really had is if you are looking at the portfolio and from what you talk about the categories where you want to play in the future as well, will we be able to kind of look, three to four years from now, are we increasingly trying to establish presence in premium part of the portfolio or are we comfortable just keeping our core categories strong and then focusing on the mid year strongly as well.
- Saugata Gupta:** See I think there are two parts essentially. We will continue to invest behind the core so that the core generates enough revenues and cash to fund newer initiatives. Our approach will be essentially based on our ability to win and which categories are attractive and therefore we will play in perhaps both the mass segment as well as the top end. In food there will be more premium while in the other categories more mass.
- Varun Kejriwal:** All right and you see that continuing, so you are open to essentially playing on both side of the price spectrum the premium end as well as the mass end.
- Saugata Gupta:** That is right.
- Varun Kejriwal:** Okay all right that is really what I had from my side. On behalf of IDFC I just wanted to thank everyone for joining this conference call. We just handed over to the management now for closing comments.



*Marico Limited*  
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**Milind Sarwate:**

I hope your questions were answered satisfactorily. If there are any specific queries any of you have about the financials or any other aspect, you could always contact us. Chaitanya, Anubhav or I would be glad to help you. Thank you and have a good time.

**Moderator:**

Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us.