



Marico Limited

Conference Call - Q4FY12 Earnings

Event Date / Time : **3rd May 2012, 6:00 PM IST**

Moderators Mr. Milind Sarwate - Group CFO
Mr Saugata Gupta – CEO – Consumer Products Business
Mr Ajay Pahwa – CEO Kaya Limited
Mr. Vijay S. Subramaniam - CEO, International Business Group
Mr Vivek Karve – EVP and Head – Corporate Finance
Mr Chaitanya Deshpande – EVP & Head Investor Relations & M&A

Moderator: Good evening ladies and gentlemen. I am Daniel, moderator for this conference. Welcome to the conference call of Marico hosted by Kotak Institutional Equities. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Amrita Basu of Kotak Institutional Equities. Thank you and over to you ma'am.

Amrita Basu: Hi everyone and thanks Daniel. On behalf of Kotak Institutional Equities, I welcome all of you to Marico's Q4 FY12 and year ended March 31st 2012 earnings conference call. I would like to welcome the Marico team, Mr. Milind Sarwate, Group CFO, Mr. Saugata Gupta, CEO of the Consumer Products business, Mr. Ajay Pahwa, CEO of Kaya business, Mr. Vijay S. Subramaniam, CEO – International Business Group, Mr. Chaitanya Deshpande, Executive Vice President and Head M&A and Investor Relations, Mr. Vivek Karve, Executive Vice President and Head Corporate Finance. I will now hand over the call to Mr. Milind Sarwate, to discuss the recently announced earnings. Thank you and over to you sir.

Milind Sarwate: Thank you. Good evening everybody. Welcome to the Marico earnings call. I will share with you a few highlights of the results, because a lot of data would already be with you through the information update that we had issued. I presume most of you would have gone through that. And if there is any data gap, we can always cover it through question and answers. To my mind, the year that we have just closed, it signifies the crossing of two important milestones. One is that, our turnover has now just passed Rs.4000 crores and our operating margin has touched Rs.500 crores. So, in terms of statistics, these two were important milestones. More importantly, we see that our growth is now getting more and more broad based. If you look at our Indian business, the reliance on coconut oil is probably the lowest in the



recent years. Even in the international business, our reliance on Bangladesh has gone down, because we have acquired Vietnam and other territories are also doing well. In case of even Kaya, the Indian business is now just about half the total Kaya business. Our other growth cylinders like rural as well as modern trade have been firing quite well. In fact in both these areas we have massed up growth ahead of the average. Our new products seem to be doing well and we seem to have fallen into a very healthy pattern of successful new prototypes and new products.

This quarter has been a strong volume growth quarter with about 17% volume growth for the group. Our profit has also been reasonably healthy. Optically of course, the number is down as compared to the corresponding quarter of last year. But, if you make the rightful adjustments for extraordinary items last year, you would recall that we had sold the brand Sweekar during Q4 of FY11, we had also written back excise duty provisions which were considered unwanted at that time. If you adjust for these and some of the other things which were outlined, you would find that we have actually grown by about 9 percent in profit in this quarter.

New products have continued to do well in the form of Parachute Advanced body lotion. Hair dye in Bangladesh continues to do well. Saffola Oats, a prototype in India has done well. And as you all know the story of the quarter was our signing the acquisition deal for Paras personal care brands. We have raised equity to pay the purchase price, which is yet to be formally closed in terms of fund flow. But, it has been approved by our shareholders yesterday. We expect that the formal closing of the acquisition deal would happen in about ten-twelve days time. So, those brands would come into our fold and they would have only a partial impact for this first quarter. From quarter two, the Paras personal care brands will have a full fledged impact on Marico Group.

So, with these few highlights, I throw the floor open for questions. So, over to you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from, Mr. Abneesh Roy from Edelweiss Securities. Go ahead ma'am.

Abneesh: Hi sir, this is Abneesh here. Thanks for the opportunity. Sir, my first question is on Saffola. We have seen this dip in volume growth, which you have said is largely one off and this will recover. So, what we have seen in other consumer companies results and some of the discretionary food segments like soups and noodles, we have seen a similar slow down. So, my question is, this canteen related and the promotion related stuff which you have cut down, if you can quantify in terms of percentage of sales what it was there in Q4 last year, it will help us understand better.

Saugata Gupta: Okay. It's like this Abneesh. If you look at last year, which is '11-'12 quarter four, 23% of our volume was promoted, this year '11-'12, only 1% of the volume was promoted in terms of extra products. So, if you just knock off that extra product that was given away as promotion last year, the growth would have been 10%. Now, coming to CSD, there was very little order in February and March, so therefore CSD which contributes to 15% of our sale, there was hardly any sale in February and March. So, I think if you correct both of these, it will be a double digit growth and as trends go, we are very confident about getting back into healthy double digit growth for this quarter.

Abneesh: Sir, coming to CSD, how does it look in FY13 and how much are the margins lower in the CSD segment?

Saugata Gupta: There will be a little bit of lower margin, but see as I said CSD contributes around 13% to 15% of our total Saffola volumes and we believe that it will be back on track.

Abneesh: And for the two last months, obviously there won't be any recoup in FY13, right? It doesn't work like that, right?

Saugata Gupta: It doesn't work like that.

Abneesh: And no impact in Parachute because of CSD?



- Saugata Gupta:** The Parachute sales in CSD is far lower. The significant amount of sales is in Saffola and some hair oil, but the highest is in Saffola.
- Abneesh:** Sir, coming back to the promotions, it has been extremely volatile in terms of number, 23% versus 1%. So, when do you really decide that now I should cut back on promotion, basically on raw material inflation and price led inflation?
- Saugata Gupta:** See, I think we have done a full year based correction. If you look at Saffola, this year we have reduced our overall promotion by more than 50%. We believe that we will rather push more money in ATL or we will give away sampling of our Saffola foods instead of giving extra products. So, as a conscious call we have taken, we have done the base correction as of full last year and we will therefore maintain the promoted quantities less than 10%. It had gone up to around 20% in the '09-'10, '10-'11. So, we have done that correction and we will continue to keep it at these levels.
- Abneesh:** And in the exit month, any market share numbers you want to share on Saffola? Is there any change there?
- Saugata Gupta:** No, as I said there is a gain in this quarter. So it continues, so therefore there is no change in the exit market share. To give you a perspective, there is a double digit growth as far as off take is concerned, whether it is in modern trade or any other place. So, in retail off take there is no cause for concern. These are the only two corrections which have happened, and as I said that we are extremely confident based on certain trends that we will be back on healthy double digit growth this quarter.
- Abneesh:** Sir, my second question is on new products. You have said oats, you have gained good market share. So, this market share which you have shared is in those two States?
- Saugata Gupta:** National market share, but obviously most of the oats and the market is in the South. We are present only in modern trade and certain food outlets in oats, in the balance part of the country as far as oats savories is concerned. We are only present in three States, that is Karnataka, Kerala and Tamil Nadu and some parts of AP. We have run out of capacity, because of the fact that it has exceeded our expectations. As soon as we get the capacity, we will take a call.
- Abneesh:** Sir, what is the data you are sharing on cooling oil?
- Saugata Gupta:** Cooling oil market share is south. The only market share data that is south, is cooling oil, whereas oats is national.
- Abneesh:** So, how we have done in that, cooling oil? Quarter on quarter, how is the movement?

Saugata Gupta: See, cooling oil has not moved up to be honest, it is around 6½% to 7% and therefore we have got new revised product and packaging and communication, everything in place. As you may be knowing we have signed on Dhanush. And we are confident that it will give us a fillip in the new positioning having said that, we will persist with it. We believe that we have a differentiated proposition, but anything takes time. And this is the third year, but we are confident this year. But we will continue to remain in South till we get a critical mass.

Abneesh: Sure. Sir, in rice have we seen any traction quarter on quarter? You have always said that this will be a longer gestation?

Saugata Gupta: See, we have said this earlier that in rice it will be a long haul. There are two factors. One is consumer's willingness to pay a premium. As you know that consciousness about low GI is very, very low in India. But, if you see in the developed world, I think GI is a very critical factor and people have positive preference for low GI foods. Secondly, obviously there would be a trade resistance, because at the end of the day it is a branded commodity. We faced the same resistance on Saffola, maybe twenty years ago, but somehow we overcame it. And therefore, we will persist with it. We are not giving any incremental investment towards rice; it is more of a Saffola master brand platform and our entire investment is going more behind oats, which is showing traction, having said that we will be present in rice. In certain categories what happens, you see is that they are stagnant when they are niche and during the formative years, but they suddenly get to what I call a point of inflection. This is a tailwind category and some day it will have a point of inflection, so we will put our feet out there as far as this category is concerned.

Abneesh: Sir, my final question is on Bangladesh, you said that their growth has suffered and the reason you have pointed out is currency and inflation. In India also we are facing those same issues, currency and inflation, but in India we are still doing much better. So, what is the disconnect between India and Bangladesh growth rates?

Vijay Subramaniam: See, you will have to keep in mind, in case of Bangladesh it is an import dependent economy. So, what happens is, almost for most of the industry the raw materials are fundamentally imported. And because of the overall liquidity, soft macros, what has also happened especially towards Q4 or later part of the year, if you see the local taka to USD has sharply devalued, increasing the overall cost. So, there has been a huge cost push and therefore there has been some price increases that has resulted and this happened across. Since it happened across the entire FMCG and other sectors as well, it has put some degree of softness in the overall economy. So, in that way it would be different versus India.

- Abneesh:** Okay, okay sir. Thanks and all the best.
- Moderator:** Thank you very much sir. The next question comes from Mr. Richard Liu from JM Financial. Go ahead sir.
- Richard Liu:** The first question I had is with respect to the gross margin expansion that you had for the quarter for the consolidated entity. If you can help us in understanding how much of this expansion is because of the fact that the proportion of Saffola was actually lower in the total revenue base and how of it was because of the material price inflation?
- Milind Sarwate:** I think the Saffola impact is not significant, because the factors that impacted Saffola are very specific and restricted. I don't think that is going to be causing an upheaval in our overall cost sheet. If you see the information update lays out the difference in this quarter's cost versus the corresponding quarter last year and I think a significant gain is in the material's row itself.
- Saugata Gupta:** Actually just to add to that, the contribution of Saffola to the total has changed by just half a percent, so it is immaterial. So, it is more towards raw materials.
- Richard Liu:** Okay, got that. Just to have a clearer understanding, I know you talked about double digit volume growth, excluding the promotional volumes, but would you have a number on, in terms of the number of units sold for Saffola?
- Saugata Gupta:** That is exactly the point I said. Units sold is 10%.
- Richard Liu:** Okay, alright thanks. And one more on Paras if I may, would you have decided on the strategy that you would like to adopt for Paras? Would it be a margin conscious strategy or would it be a very ASP aggressive strategy?
- Milind Sarwate:** It's too early to disclose these things. And in any case, you would not want us to disclose confidential information from a competition angle.
- Richard Liu:** Okay, got it. Understand that, thanks a ton and wish you all the best.
- Milind Sarwate:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Percy Panthaki from Daiwa Capital. Go ahead sir.
- Percy Panthaki:** Hi sir thanks for taking my question. I joined in a little late, so I am not sure if this has been answered. But, the main thing that stands out in your P&L this time is the increase in the ad spends.



So, can you comment on what was the reason behind such a sharp increase in the advertisement spend?

Saugata Gupta:

Yeah, it is a combination of India and international. Last year, ad spends were muted, so the base was low because of the fact that last year, by January and February there was a sharp increase in the raw material prices. This year, in the Indian business we have invested behind body lotion and ayurvedic hair oil and oats. We have scaled up in oats in the South. And in the international business, they were invested behind new launches in both Bangladesh and MENA. So, therefore that is the reason, but if you look at overall, I think we are still at 11% and that is the number we are going to look at in the coming one year. I think it is better to look at A&P more from an annualized basis rather than quarter to quarter, it's just a one time blip, but we will maintain this kind of a number around 11% for the next year

Percy Panthaki:

Right sir. And second question is on the back of coconut oil prices having softened, what is your sort of thought process on how you will price your products? And also in relation to what probably is one of the risks is that the market share of the unorganized trade increasing in this scenario?

Saugata Gupta:

See, if you look at two things, I think while there has been a drop in the coconut oil prices, I don't think it's going to be permanent. There would be some escalation, given the fact that if you look at the other price tables, which are palm and crude and all that, has increased. As response to your second question, most of the drop has happened by January. In Jan, Feb, March, in terms of growth and in terms of market share, we continue to gain. Actually there is a general trend you will observe in FMCG, as the disposable income of the consumer increases people have a tendency to move towards branded products, because they are aspirational. Number two, there is a consolidation of market share that is happening amongst the top two-three players and you will see this not only in our category, but lot of categories. So, I think there are scale advantages and consolidation is happening in the industry. Yes, the risk remains, but we are aware of that and we have developed a far more sophisticated pricing models to ensure that we take any price triggering action in recruiter packs, should something like this occur. But, we are not seeing any risk in the immediate term.

Percy Panthaki:

Right. And finally, Vijay can you just give an update on the international business in terms of what are our priorities and key deliverables going to be for FY13?

Vijay Subramaniam: See, like you are aware, the choice of market and the choice of categories we have made are such that where our consumer penetration level, category penetration levels are low and there is headroom for growth, whether it is male grooming or nourishment



business. So, we will continue to adopt that strategy, because the strategy has been working quite nicely for us. So, we are clearly saying, we will continue to focus on emerging markets within Asia and Africa. In the geographies where we are already present, whether it is under the master brand Parachute or whether it is our various male grooming brands that which we have acquired and integrated, we will continue to focus on strengthening the core offerings. We have also this year and the year gone by made certain entries into the newer segments and the initial response across most of these launches have done well. We would like to scale that up. And so we will continue to adopt the same strategy going forward.

Percy Panthaki: So, what are these initiatives that you are talking about?

Vijay Subramaniam: See, if you take Bangladesh, we made an entry into hair dye last year, so that brand has this year reached a 29% market share. It has become number one. This year we also gave a thrust on the entire value added hair oil space, when we launched Parachute Advanced cooling and Beliphool, which is a jasmine variant that has done well. So, our share in the value added hair oil space has also grown in a very healthy way. We have recently launched Nihar, which is in Q4 in Bangladesh. Early days still, so possibly next quarter we will have a better read. Similarly if you look at our Middle East, North Africa market, we had restaged our base brand Hair Code and we have restaged the packaging of the whole range. So, that is getting traction. We had also restaged, you will recollect possibly couple of quarter results before, Parachute Gold, which is our flagship cream brand. So, that is doing well. And we have recently, about four months or so ago launched a brand called Parachute Secrets, which is in the MENA belt, which is based on the local Arabic consumer insights. So, there is a slew of new initiatives and portfolios which we have kind of unleashed. And I think these will continue to play out in the coming year.

Percy Panthaki: Right. And in terms of geographies which are the ones which are going to be the high focused ones?

Vijay Subramaniam: See, if you see the analysts update notes, it has got the percentage contribution by geographies there. So, you will see roughly Bangladesh is about 40% of the total business; MENA is at about 25%, 10% or so is South Africa and the balance 25%-26% is South East Asia. Seeing a lot of traction, be it in our newer geographies, be it in Vietnam or be it in Middle East, North Africa, in fact in the quarters gone by Middle East, North Africa region we have grown by almost 35%. So, overall we will continue to focus on these geographies, plus we will try and see if there are any geographies to enter, but that time will tell.

Percy Panthaki: Okay, that's it from me. Thanks and all the best.

Vijay Subramaniam: Thanks, thanks Percy.

Moderator: Thank you sir. The next question comes from Mr. Vivek Maheshwari from CLSA.

Vivek Maheshwari: Hi, thanks for taking my question. My first question is on the A&P spends, so while you have mentioned that full year 11% is what we should look at for fiscal '13 as well. The second half number is closer to 12.8% on a consolidated basis. Is it fair to assume a good part of this will be for the new initiative that you would have taken something like oats or body lotion and this should continue? So, do you think 11% is a number that you can achieve or it can be higher than that?

Saugata Gupta: See, that is because if you realize that the body lotion has a seasonal skew towards winter and this time we are actually back loaded into the second half. While in next year, which is this coming year, there will be far dispersion of the NPD activities. So, therefore 11%-11½% obviously is a fair kind of number which we are looking at. And I think with scale also there are A&P advantages.

Vivek Maheshwari: And on oats, do you think you will still in fiscal '13, you will restrict it to Southern markets or do you plan to take it national?

Saugata Gupta: We will see. I think it is early to say, but as I said that we should first be getting to a saturation point in the Southern markets, we still believe there are opportunities for growth there and we will gradually think about taking it national. The plain oats we should be able to take it national in the coming months.

Vivek Maheshwari: Okay, okay. And are you ready now to share details on body lotion? You I think promised it last quarter that perhaps by fourth quarter you will give some numbers?

Saugata Gupta: Yeah, it is around 25 crores this season. And we have a market share of around 5.1% nationally. So, we are number three in the body lotion market. And the category is growing at around 32% and 35% with the penetration up around 18%. So, we believe that this is a category which is going to grow based on current consumer trends. And earlier we started participating in winter and now we have a summer variant also which we have launched in March. It is early days yet, but the initial signs are reasonably positive.

Vivek Maheshwari: Okay, okay. And on Paras, would share anything on the ramp up, profitability at this point of time?



- Milind Sarwate:** No, because it is too early. We have not yet started operating these brands. They would come into our fold only next month. So, bear with us till we meet again in July or early August.
- Vivek Maheshwari:** Okay. And one thing, I don't know if it was previously asked, but hair dye, do you plan to get it into India at some point of time?
- Milind Sarwate:** Difficult to say, because as you know we are using a brand which we have acquired in Egypt for hair dye offering in Bangladesh, so it was clearly an experiment that we had carried out. Now, it depends on what are our learning. Our experience has been good, but the learning to what extent we are able to transport them across geographies, so we will have to take a view on this. So, here again I think I will have to ask you to wait for some more time.
- Vivek Maheshwari:** Okay. And one last thing was there any difference between the average copra prices and the exit copra prices? Are the quarterly prices is what where the exit prices are?
- Saugata Gupta:** See, there is a marginal decrease that was there in February after that the market has been more or less stable. So, there will be hardly any marginal difference, I think it will be just 1%-2%.
- Vivek Maheshwari:** Okay nothing, basically fairly stable.
- Saugata Gupta:** Around 1% or 2%, because market has been pretty steady in March. And April also it has been steady at that level. See if you ask me, the prices have been much similar for around 45 days.
- Vivek Maheshwari:** Okay. And any views on copra? Do you think the volatility is behind now?
- Saugata Gupta:** Yeah, I think it is as difficult as predicting crude, so I do not want to give any prediction for copra. But, we believe that there could be certain increases in the prices, given the fact that if you look at the external factors which impact copra, which is basically crude prices, palm oil and palm kernel oil prices, if you see those parities, there is a chance that copra is likely to move up.
- Vivek Maheshwari:** Okay, thank you very much and all the best.
- Milind Sarwate:** Thank you.
- Moderator:** Thank you sir. The next question comes from Ms. Amrita Basu from Kotak Institutional Equities. Go ahead ma'am.
- Manoj:** Hi, this is Manoj here. Just only one question which is mostly on the hair oil growth. We heard recently from a competitor quoting these Nielsen numbers that the overall hair oil growth is around a



percent and particularly the coconut oil has kind of pulled it down. So, is it factually true?

Saugata Gupta: See, I think we have shared with you the value added hair oil growth and the market share gain. So, I think there will be obviously some issues in pick ups and all that. But over the long term we believe that in the value added hair oil space, we will continue to grow between 15% to 20% and also continue to gain share.

Manoj: Okay. Now on the value added hair oil specifically on the cooling; now you have launched it in a big way in Tamil Nadu, so what is the kind of progress and anything you would like to share on that?

Saugata Gupta: I think we are at around 6% to 7% market share in the South. We have a journey to make in the South. And I think in any category, unless you are 15%-20%, you are not a meaningful player. So, I think I would urge you to wait around this season and perhaps the next season to get into that kind of a level. And without getting that market share, I think it is pointless to look at other markets.

Manoj: Understood. Sir, on the Shanti Badam activity which has been there for the last year or so, if you were to think about, let's say turn the clock back 18 months back when you started and where we are today, your met expectations exceeded expectations? How do you rate that?

Saugata Gupta: I would say they have marginally exceeded expectations. It has given not only a great boost to the overall hair oil growth, but also it has provided a critical mass in our portfolio and also enabled a much more distribution expansion and rural thrust in our markets, especially in the North where we are relatively weak. So, I would say overall it has exceeded expectations to a certain extent and it has contributed significantly to the hair oils market share gain and also the growth. But, having said that, all the other brands in the franchise have also grown. All the franchises have grown by double digit, so it's been overall a holistic journey rather than only a Shanti Amla driven journey in hair oils.

Manoj: Understood. Actually this question I was trying to link to the rural distribution angle also that is it that Shanti is now kind of the lead pack which is taking you to the North India rural or any such angle here to understand?

Saugata Gupta: Yes, I think it is one of the lead packs in the rural and as I said that, it has also helped the other brands to ride piggyback on that portfolio. So, we now have a level of critical mass in terms of rural. And if you really look at our rural contribution, it has improved from 25% to 30% and we tend to take it up to 33% and 35% over the next three-four years. So, this is one of the critical plans in that.

Manoj: Understood. Sir, on the rural distribution part, is there any infrastructure cost which you will be able to identify and share with us? Let's say as a percentage of sales or as a percentage of EBITDA in terms of X has gone into kind of as an investment this year, which you will get the results continued for the next few years.

Saugata Gupta: See, I think if you really look at urban versus rural distribution, the cost of sale is hardly 1% or 2% higher, because you know that in urban there are other incremental cost of visibility and other things which is then invested in rural towards infrastructure. But, our belief is to invest ahead of the curve and we are also investing not only in India's infrastructure, also in IT. And if you look at it, in year three or year four you start getting the payback. So, I think in any rural market our investment pays off in two-three years.

Manoj: Okay, okay, thanks. If I have something I will come back.

Moderator: Thank you sir. The next question comes from Mr. Nikhil Vora from IDFC. Go ahead sir.

Nikhil Vora: Hi, couple of things, just couple of things. Firstly, on the acquisition, does this at least signal a departure from what we have done till date, which is about starting to compete in main line brands and main line categories? So, is there a lot more confidence that we have as an organization today that we can compete in main line categories than we have had ever before?

Saugata Gupta: See, I think the approach I have shared with you before is that we have a category choice made on market attractiveness and our right to win. And our right to win is based on our capabilities in terms of the strength of the brand and channel. If you look at even both in foods and in skin care where we have entered, we have entered in categories where we have a differentiated proposition, category penetration is low and obviously the category growth, the path or the CAGR and the potential CAGR is anything between 20% to 30%. Another big shift which we have done is, focus on doing few things, but doing it big, investing behind it and persisting with it. So, I think it is not a question of confidence, I think it is a question of better choice making framework. And I think also a much more sharp focus developing those execution capabilities, either building them or buying those capabilities. And therefore we will continue to choose some of these categories and go along with it. And I think we are getting the results. But, we will not go with the category with a 'me too' offering, we have to have a differentiated offering and therefore have a high right to win.

Nikhil Vora: Fair point. Just the second part and I don't want to get into the quantification of it, but just the fact that we paid say, Rs 740 crores



for a Rs 150 crores company, what does it necessarily signal as far as our understanding of how do we leverage these brands? So, are we willing to give a signal to investors or for ourselves that it is going to be pretty much impossible to create a brand on its own right now organically or inorganic growth albeit at a smaller startup point, which is Rs 150 crores is still worth it for an amount of Rs 740 odd?

Milind Sarwate:

I think you are thrust upon the very hypothesis that we have built upon, that yes, it is always possible to grow something organically. But, one has to factor in the probability that you will succeed. And as opposed to that if you have a category which you want to be in and there is some proven success, then it is a judgmental call, whether to go by the proven success or to try and develop something of your own. I think these are areas where the management exercises its own judgment. So, I wouldn't draw up a rule for that. I think to some extent you are also influenced by the consideration that has been paid for this deal. I feel it is the cost of entry into new category, also a cost of addressing the new segment in the form of youth. So, there is definitely judgment involved in every M&A decision and it's only time that will prove whether this decision was right. But, it will always remain unknown as to if we had attempted our own brand, how much we would have spent for it and by when we would have been ready for it. As opposed to that if you look at some other area like skin care, mass skin care where we have gone with Parachute, which has not really been a skin care brand, but we have succeeded so far so good in that. So, it depends upon each category and the management's approach towards that. I will also say that there is some element of confidence that comes into play, because each category has a different degree of experience for us and we will decide based on that.

Saugata Gupta:

Just let me add to this. If you look at all the three categories, where we have Paras, the main Paras brands play in, two of the categories we have enough experience both in the Indian market and the international market. Now, in any category which is a fast growing category and where there is a crowding in happening, there is time value of getting in early. And also to add to that, I think we now have a readymade funnel of innovation which is available in international markets. So, rather than developing a new brand here, if you get a brand and a readymade platform of Rs 150 crores plus, you actually build on with a ready made innovation funnel which is available in the international markets, I think we can fast forward our growth category, growth trajectory.

Nikhil Vora:

Good. Thanks so much and congrats and all the best.

Milind Sarwate:

Thank you.

Moderator: Thank you very much sir. The next question comes from Mr. Puneeth Jain from Goldman Sachs. Go ahead sir.

Aditya: Hi, this is actually Aditya. Quick question on your other expenses, I noted that the proportion of other expenses to sales has increased in the quarter and on the year as a whole, despite you not taking the provision for excise on 200 ml pack. What could be the reason for this?

Milind Sarwate: Which other expense are you referring to, because if you look at quarter to quarter, they are actually fallen for both the quarter as well as the year.

Aditya: No, I am talking about the other expenses as a proportion of sales.

Milind Sarwate: Yes, if you look at the information update, in quarter four of FY11 they were 18%, this quarter they are 17.7%. So, maybe you are referring to two different numbers. But, directionally there is no significant shift, if at all with rising turnover we will get skill benefits and overheads would keep dropping as a percentage of turnover.

Aditya: Yeah, but then the overheads should have dropped even more right

Milind Sarwate: They are dropping, because the other costs of 18% of quarter four are down to 17.7%, so I am a little lost to understand where these numbers are coming from.

Aditya: Okay, I will just get back to you on that.

Milind Sarwate: Maybe we could discuss offline if you have a different angle to this. Hello.

The next question comes from Mr. Arpit Kapoor from UTI Mutual Fund. Go ahead sir.

Arpit Kapoor: Thanks sir for taking my question. The question might not be very relevant to the company per se, but just wanted to know your views on the new packaging norm and whatever little impact that it would have on the company.

Saugata Gupta: See, I think the industry bodies are in conversation with the Government to find out what is the win-win, in the sense that I think price point packs do drive consumption and I think it is important to drive the consumption story and penetration in India, so that the Indian consumer experiences branded goods. At the same time, it has to be fair to the consumer, so I think there are conversations going on with various industry bodies and we will see what happens.



- Arpit Kapoor:** So, to that extent you feel that recruiter packs or the products at less than Rs.10 price point might not come under the purview of this?
- Saugata Gupta:** So, I can't comment on it right now, because as I said it is being discussed at the highest level, but as I said that I think there are certain ways to find out a win-win solution. However, the percentage of group turnover coming from non standard packs is not very high.
- Arpit Kapoor:** Okay, thanks a lot sir.
- Moderator:** Thank you sir. The next question comes from Mr. Amnish Agarwal from Motilal Oswal. Go ahead sir.
- Amnish Agarwal:** Sir, I have a couple of questions. The first question is regarding the Paras acquisition, where we have paid around Rs 740 crores. So, can you take us through that, in addition to the preferential issue of the shares we have made, what is the means of funding of this? And secondly, can you throw some light on the likely profit margin and when do you think it can start contributing to the bottom line? I am not aware whether it was asked earlier, because my line disconnected.
- Milind Sarwate:** Amnish, I will answer the first part of your question. The second part, I don't think I will be able to answer. The first part of funding, we have outgo of around Rs 740 crores, out of which Rs 500 crores is what we are going to fund using equity, that is already in place. In fact the shareholder meeting yesterday approved the equity issues. So, the formalities for that are almost through. The balance we will be funding through internal accruals. We were carrying kind of a war chest or a surplus. We will run it down, so that we can fund this acquisition. We are not going to get into any specific borrowing for the balance. There may be some readjustments of borrowings that we have for other reasons, but not for this particular issue. It would be very premature to comment on the profitability of the brands and exactly how we will run them. I would urge you to wait until our next call, which will be in early August.
- Amnish Agarwal:** Okay. But, any timeline you have in mind that by what time it will start contributing?
- Milind Sarwate:** It will come into our fold during the next month. So, this quarter we will see, this quarter as in Q1 of FY13, we will see a part of the period being run with Paras personal care brands. Quarter two, we will see a full show. Of course, these are early days, there will be transition related issues, because whenever a brand changes hands from one to another, there would be one time issues which could cloud the numbers, both top line as well as bottom line. So,



I would say that to gauge this brand in a steady state situation, it would take maybe a couple of quarters.

Amnish Agarwal: Okay. Sir, my second question is regarding the CAPEX which you have given for the next year, which includes Rs 130 crores for the corporate office. Sir, can you throw some light on how much will be the total CAPEX on the new corporate office building and in how many years it will be spread?

Milind Sarwate: Our current plan is that we will spend close to about Rs 140-Rs 50 crores on our new office. This would get spent during the current financial year. I am not in a position to give you the exact quarter wise details, but broadly it would be in this timeframe of the next two or three quarters.

Amnish Agarwal: Okay sir, it is going to be only in one year and the total is Rs 140-Rs 150 crores.

Milind Sarwate: Yes.

Amnish Agarwal: Okay. And sir, finally my last question is regarding Saffola, where we are indicating that part of your slowdown in growth is because of the inventory destocking in the CSD channel. So, some of the other companies are also indicating some sort of a slowdown in CSD, but are we selling some of the other products also to CSD and is there some sort of a destocking there also happening?

Saugata Gupta: See, if you really look at it, the biggest contributor to CSD sales is Saffola and that is where a significant destocking has happened, because certain brands are ordered centrally, and certain brands are ordered locally and centrally and Saffola is one of them, which is done in both ways. So, yes, there has been a general destocking in CSD for some of the other brands and other companies also. But, as I said it is a temporary phenomena and only brand which have a significant contribution to CSD would have got impacted in this case. As I said in Saffola, 13% to 15% of sales come from CSD. So, there has been an impact there.

Amnish Agarwal: Okay. But, how much is the contribution to Parachute from CSD?

Saugata Gupta: Far lower. It is in the single digit.

Amnish Agarwal: Okay sir, thanks a lot.

Milind Sarwate: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Gaurang Kakkad from Religare Capital Markets. Go ahead sir.

Varun Lohchab: Hi, this is Varun Lohchab. Thanks for taking my question. Sir, I had a query in the Kaya business. If you could just share that



what is really driving this kind of a healthy same store collection, now which we have been seeing for the last few quarters in terms of how much of this is price led versus the customer's entry. How is that moving up? And within that, is it that you are acquiring new customers or the same customer is coming more often? So, just on this whole piece, if you could share some of the finer details on the Kaya business?

Ajay Pahwa:

Okay, hi this is Ajay. There are three primary reasons driving this growth. First, is the brand positioning which I have been consistently conveying from cure to a cure plus care brand. So, which is making the brand more relevant and it is driving customer frequency of existing customers as well as it is bringing new customers. So, some of the indications for that if you see is that the product contribution overall is growing and it has steadily exited Q4 at 25% in India. So, overall footfall and frequency is growing. The second thing that we are also doing is linked to point one in repositioning the brand is that innovation that goes behind it. So, we have introduced a whole array of regular skin care or beauty services, which are highly differentiated from spas or salons. So, we have launched for example, the Kaya Signature Face Therapy, very recently prior to that we had Aqua Radiance, prior to that we had Everyday Radiance and numerous other examples. So, that kind of innovation is further supporting the big brand positioning. I think the third thing which we have also been working on is we have changed the way we acquire the new customers and as well as the way we retain our new customers. So, some of that while it was being done by CRM, we are building on that and I am just now taking a fast forward scenario, where Kaya has also launched a loyalty program, a very comprehensive loyalty program, which would rival an airline or a hotel or for that matter something like First Citizen from Shoppers Stop. So, all these things will further spur and continue this trend in the future.

Varun Lohchab:

So, you think double digit growth in the same store collection is sustainable over FY13-14?

Ajay Pahwa:

I think more than that I will say, first it is desirable and essential to ensure that we have the physical capacity to do that. We position the brand correctly. We have the marketing budget to be able to do that. We believe that is something we want to achieve and the brand has the fire power to achieve that.

Varun Lohchab:

Okay. Thanks a lot, that's it from my side and all the best.

Ajay Pahwa:

Thank you.

Moderator:

Thank you very much sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

Again, please press * and 1 on your telephone keypad to ask your questions.

The next question comes from Mr. Pritesh Chheda from Emkay Global. Go ahead sir.

Pritesh Chheda: I joined the conference late, sorry if it is repetitive. I just wanted to know a couple of things. One, in the A&P absolute amount, is there something extraordinary in the quarter? That is the first question. Second, in the gross margin expansions which we have seen in the quarter, is it now driven largely by the copra oil price correction, copra price correction?

Saugata Gupta: See, if you really look at A&P, we need to look at it on an overall year basis and overall year, it's around 11%. In Q4 what had happened is, in India we were supporting the two new launches, which was Parachute Advanced body lotion and oats. Oats were being scaled up and Parachute Advanced body lotion is a seasonal brand, more towards the winter. And we are also supporting new products in Bangladesh and MENA. And as a result, that number is looking at 14% and also the delta is also because last year this quarter four, we had cut down on A&P a bit, because that was the time when copra prices really shot up in February last year. So, overall again as I had mentioned earlier, we can look at 11%-11½% A&P for the full year, this year also. So, it's just a short term aberration and it's I think advisable to look at A&P over a longer period rather on a quarterly basis. Your second question was on copra, can you just repeat it please?

Pritesh Chheda: The gross margin expansion in the quarter.

Saugata Gupta: Yeah, what was it? Yeah, it is to a substantial extent because of copra pricing actually.

Pritesh Chheda: Lastly, actually it was asked earlier, I just want to understand the other expenditures head in the absolute number. That number if you look at last year, actually had the excise provision. Now, is there any expenditure head which is actually growing substantially this year, if you want to highlight it? Because, one would have looked at in correction or fall in the number.

Saugata Gupta: The number for last year Q4, the other expense number does not include excise, because the excise duty write back that we did in Q4 last year was included as exceptional items. So, that is number one. Number two, when you look at the other expenditure, there are quite a few variable expenses which move in tandem with the sales growth, which are also part of other expenses. So, contrary to what you may feel that these are fixed overheads which need not move at the same growth rate as that of sales, may not be completely correct. Moreover, ICP Vietnam was only consolidated for about 45 days during FY11 whereas the consolidation is for full year during FY12. This will lead to increase in all elements of income statement and balance sheet in absolute terms.

- Pritesh Chheda:** Okay, okay. Many thanks to you and all the best sir. I am done with my question.
- Saugata Gupta:** Thank you.
- Pritesh Chheda:** Thank you.
- Moderator:** Thank you sir. Next question comes from Mr. Anshul Mishra from ING Mutual Fund. Go ahead sir.
- Anshul Mishra:** Since your view is that copra prices can be volatile ahead and there is this possibility that it can go up, any kind of an inventory call you have taken?
- Saugata Gupta:** Yes, we do take calls, depending on opportunities provided. And obviously as a scale player and market leader, we would have certain strategic advantages.
- Anshul Mishra:** So, if you can please mention what kind of an inventory would we be having right now as compared to probably previous quarter end? Just to have an idea.
- Saugata Gupta:** I will not be in a position to share that data please.
- Anshul Mishra:** Okay, okay, that's it. Thanks.
- Moderator:** Thank you sir. The next question comes from Ms. Amrita Basu from Kotak Institutional Equities. Go ahead ma'am.
- Manoj:** Sir, Manoj again here. Just one question on CSD. We have actually been hearing a few players in the consumer industry that there is CSD impact on the sales. Is there any big picture happening? There doesn't seem to be any company specific issue on CSD.
- Saugata Gupta:** No, it's just that I think there has been some inventory correction, nothing much. So, as I said that our overall CSD contribution is around 7%. Only in Saffola, it is 12% to 15%, in other brands it is far marginally less. So, it's a one time thing. The current feeling is, just sometimes there could be some one time stock correction they do and cleaning up and new norms being introduced, that's it.
- Manoj:** Is there a timeline to it, because at least in my five years this is the first time actually I am hearing something like this. So, basically these terms of trade are done for five years or either a time sort of an angle to it?
- Saugata Gupta:** No, it is, in general sometimes what happens is, obviously different customers have different stocking loans policies and just that people do one time correction.

- Manoj:** Okay, okay, thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Nirav Dalal from Sharekhan. Go ahead sir.
- Kaustubh:** Good afternoon sir. Hi, this is Kaustubh here sir. My question is on Kaya. Now, we have been seeing that Kaya is gaining a growth rate of around 15% to 16% in terms of same clinic sales growth for past few quarters. So, now is company looking at enhancing its stores presence? Basically I just want to know whether the company is going to add any new clinics over the next two to three years.
- Ajay Pahwa:** Yeah, the short answer is yes, particularly in India. We will do this selectively. But, the continued focus will still remain on same stores sales growth. There is still further headroom for growth. We have the capacity. We believe that it will further immediately have an impact on the ROCE. So, our priority is to continue with same stores sales growth and continue with selective store opening. We could open anywhere between four to eight clinics during the course of this financial year.
- Kaustubh:** Okay. And my second question is, can you just give me, what kind of contribution was from Derma Rx in this particular year, if you could just share that figure?
- Ajay Pahwa:** In terms of total turnover, as a percentage it is coming now to almost 20% of the Kaya turnover.
- Kaustubh:** Okay, okay, thanks. Thanks.
- Moderator:** Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Sarwate for closing comments. Go ahead sir.
- Milind Sarwate:** Thank you everybody for having joined the conference call. I guess there were some difficulties for some of the people to log in and some of you may not have been able to log on in time. For those, we can always be approached separately for a one off discussion. Also, I realize that there were some glitches during this conference call as in the names announced were not necessarily those of the people who had actually asked me the questions, so my apologies for those goof ups. I hope you all got the information that you wanted from us. If there is any shortcoming, please do approach us separately. And I look forward to talking to you again in about three months time, in the first year of August, when we declare the Q1 FY13 results. Thanks a lot and have a great time ahead. Bye.



Moderator:

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