



Marico Limited Conference Call

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Speakers : Mr. Milind Sarwate, Chief – HR, Finance and Strategy
Mr. Saugata Gupta, CEO – Consumer Products Business
Mr. Ajay Pahwa, CEO – Kaya
Mr. Vijay Subramaniam, CEO – International Business
Mr. Chaitanya Deshpande, EVP & Head – M&A and Investor Relations
Mr. Kaustubh Pawaskar – Sharekhan Limited

Moderator: Ladies and gentlemen good day and welcome to the earnings conference call of Marico Limited hosted by Sharekhan Limited. As a reminder, all participants' 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, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Kaustubh Pawaskar of Sharekhan Limited. Thank you, and over to you, sir.

Kaustubh Pawaskar: Thank you Vivian, on behalf of Sharekhan Institutional Research, I welcome you all to the third quarter post result conference call of Marico Limited. To discuss the results we have with us Mr. Milind Sarwate, Chief Finance, HR and Strategy, Mr. Saugata Gupta, CEO Consumer Product Business, Mr. Ajay Pahwa, CEO Kaya, Mr. Vijay Subramanian, CEO International Business Group, and Mr. Chaitanya Deshpande, Executive Vice President & Head, M&A and Investor Relation. Now, I would hand over the floor to Mr. Milind Sarwate to quickly run through the result highlights, and then we can move to Q&A session. Over to you, sir.

Milind Sarwate: Good evening everybody. Welcome to the Marico earnings call. This quarter was very significant quarter for us because we were met with some unusual circumstances on the raw material front. Nevertheless we've had very strong overall revenue growth, and more particularly a very strong volume growth of over 15% for all our businesses put together. Leading this 15% growth was the international business which grew by 25%. We also had a



10% volume growth in our Indian consumer products business. The Kaya business grew by about 42% aided by the acquisition of Derma Rx earlier this year. However even the same store growth in Kaya in India that was 10% and coming on the back of the downtrend we had in Kaya last year. It was very heartening to see Kaya move up. One of the features of this quarter has thus been strong volume growth. Another feature is that Kaya has been doing well for the second quarter running. It has turned in a positive PBIT. It has done well not only in the Southeast Asia business that we acquired, but also in the Middle East and in India.

The situation in India was quite tough because we saw copra cost inflation as high as 62%. We were able to manage a large part of it. To give you the perspective in terms of operating margin, the raw material and packing material cost push was about 520 basis points out of which we were able to make up about half through cost control and judicious use of advertising and sales promotions budgets. We were able to contain the impact on our operating margin to about 250 to 260 basis points. Our operating margin at this stage seems to be significantly lower than recent quarters, but if you take a longer term view of three or four years, I think we have kept up a certain basic minimum level of operating margin, and ensured that we do not lose consumer franchise. Our volume increase in the light of the cost pushes was reasonably good. If you look at the longer term situation in India, I think there is a very strong consumer led consumption story emerging, and it is important that we capture a large part of the story as early as possible. So our emphasis has been on retaining consumer franchise, and not retaining margin as much. We're confident that when the commodity price cycle turns for the favorable, we will automatically have a positive effect on our operating margins. So, with those words I open the call for any questions that you may have.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may kindly press * followed by 1 on your touchtone phone. If you decide you want to withdraw your question from the question queue, you may press * and 2. Participants who wish to ask a question may kindly press * 1 at this time. The first question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Well good evening sir.

Saugata Gupta: Good evening.

Pritesh Chheda: Good evening Chaitanya, and good evening Saugata. Couple of questions, one just running through the press release, didn't get much of the time to see that, but press release mentioned 24% price increase taken probably in the weighted price increase taken in the



Parachute coconut oil portfolio. If you could tell us the exact timings of the total price increases throughout the year, and there is another comment of this 9% incremental price increase, will that cover thereafter the total cost increases which have come in this particular product?

Saugata Gupta: The total price increase of 24% was taken in three tranches. These were 5% in August, 8% in October and about 10% in December 2010. This covers a significant portion of the total cost push which we've had in copra. At the same time we want to ensure that we have a fine balance between of promoting volume growth while delivering a certain margin. We have taken the price increases after taking a view on the likely copra prices over the next few months. Our price increases should cover a significant portion of the input cost increases that we've had in the last four months.

Pritesh Chheda: Okay, so 24% includes this last 8%.

Chaitanya Deshpande: No it does not. The last 8% mentioned in the release is now being implemented in the market.

Pritesh Chheda: And should that get that reflected in the market from February onwards, or there is a certain pipeline stock which would then ensure that these price increases come next, the impact comes next quarter?

Saugata Gupta: It is being implemented as we talk, so you will see the impact of the price increase in the market in February and March.

Pritesh Chheda: Okay, any changes in terms of the copra input management that we have undertaken post quarter three, or the input cost management or strategy remains the same in terms of?

Saugata Gupta: The strategy remains the same. However we should recognize that this year's input price increase is unprecedented. We believe that after some time there will be a lowering and a softening of the prices, but it's very difficult to actually predict the exact time. If you look at the past however, it's a cyclical process, and therefore it is likely that it will soften at some point in time.

Pritesh Chheda: Okay, on the Saffola side as well does now the price increases match the corresponding input cost increase or there is a difference there?

Saugata Gupta: Again we have absorbed a significant portion of the increase.



- Pritesh Chheda:** Okay lastly, why is this Saffola volume growth slightly on a lower side at 13% versus what we have done in the recent past running at about 16 odd percent, your comments on the same.
- Saugata Gupta:** Last year during the same quarter Saffola has run a promotion wherein we had offered extra product to offset the drop in input prices. As a result there was a significant proportion of “promotion based” volume last year. Growth in Saffola in “non-promo” terms has been very high at about 40% whereas there has naturally been a drop in “promo volumes”. Taken together there is a weighted average growth of 13%.
- Pritesh Chheda:** Okay, and lastly on your progress in the new product categories, Saffola oats and Saffola rice
- Saugata Gupta:** We had indicated in the last two quarterly calls that we believe that between the two of them we'll have an annualized turnover of around 40 crores. We still stick by this. As far as oats is concerned the performance has been better than expected. We have a focused strategy with south and modern trade where a significant portion of the markets are there. In Rice, we're looking at increasing the product offering in line with the preferences of different regions. So we're in the process of extending the rice portfolio as we speak. Between oats and rice we should be able to end FY11 with annualized exit revenue of INR 40 crores.
- Pritesh Chheda:** That's both taken together and individually 40 crore?
- Saugata Gupta:** INR 40 to 45 crores annualized exit turnover for both taken together
- Pritesh Chheda:** Okay many thanks to you and all the best to you.
- Saugata Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nilesh Shah from Morgan Stanley. Please go ahead.
- NillaiShah:** Good evening. Sir, one question on the strategy basically on one hand you said that you want to focus on judicious mix of pricing because volumes are important. On the other hand effectively what's been 20 days you've taken about a 20% price increase in the CNO portfolio, so the focus clearly is then on margins, so can you help me understand exactly what you were talking about earlier?



Saugata Gupta: The last price increase that we took was implemented in mid December 2010. The price increase that we are talking about now is in the process of getting implemented. Therefore, effectively there will be a gap of around 40 days

Nillai Shah : And any guidance on what could be the volumes for 4Q?

Saugata Gupta: Under the current circumstances it is difficult to hazard a guess. However we believe that in the long-term Parachute can grow in volume by around 7 to 8%. We might not want to look at this on a quarterly basis but target a more of a long-term range of 7 to 8%.

Nillai Shah: Okay the second question is basically on Milind's comments earlier when he said that once the cyclical input cost pressures come down, you will see a margin expansion. Why are you so confident especially when the volumes have come under pressure? So wouldn't you again go back to a scenario where in to increase volumes, you bring down prices rapidly with a fall in input cost, and why you are so confident of expanding margins? That's my question.

Saugata Gupta: Nillai, we're confident because we expect that the power of the brand will kick in. Also the current ambience is of overall inflation across the entire food sector which **is limiting** the consumer's availability of surplus for discretionary commodities. I think the situation will not remain the same forever. At some stage there will be an adjustment, and the stronger brands will always come out shining in those times. So, we're basically saying that the stronger brands will win this battle of riding over commodity cycles. And if you really look at last two years last cycle when we took a price increase based on inflation, we didn't pass on the full increase to the consumers. Similarly, when we dropped prices we retained some part of that margin. So it need not be not be proportionate either way. That is why I would ask you to take a longer term view of the entire commodity price cycle and the retail pricing that we have adopted. If you take a very sliced view of a particular quarter you will have issues to be explained. But if you will take a longer term view, you will find that eventually as the brand gets stronger, your pricing ability gets that much better and over time you are able to charge a reasonably high premium over the loose oil

Nillai Shah: The only difference in my view between 2006 and 2008 and again 2011 is basically the fact that volumes this time around are significantly lower than what they were earlier. That's the only difference, so I thought that in such an environment, it will be difficult to retain prices higher for longer, but I will move to the third question. The third question and the last one is any price increases in the hair oils portfolio. The 31% volume growth out there, what is driving that, and what are the price increases in that portfolio?



- Saugata Gupta:** We've taken 8 to 10% price increase in the hair oil portfolio. The volume growth is a combination of the growth in the base brands such as Nihar, Shanti, and Hair & Care. In addition to that, we introduced two prototypes which is the South based Ayurvedic oil, which is being extended to some other markets in the south this month, and the cooling prototype in Andhra Pradesh. So it's a combination of NPD as well as, performance of the base brands which has contributed to the growth in both market share and volume.
- Nilesh Shah:** Is it sustainable? I mean 25% plus number would that be sustainable in your view?
- Saugata Gupta:** As we have indicated in the note its better to look at the average of Q2, and Q3 because the festival season came in Q3 this year while it was in Q2 last year. That's the reason our Q2 growth was a little dull. , Taken together NPD and the base brands can grow at 15-20% in volume sustainably over the near term.
- Nilesh Shah:** Thanks Saugata that was very helpful. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to two per participant. The next question is from the line of Harish Zaveri from Deutsche Bank. Please go ahead.
- Harish Zaveri:** I do understand the price increase part, but is it that the price increase has been taken after considering that the inflation in copra may slightly be more structural, and was that a thought when you took this decision over a period of this five months that's one particularly the last one, and the concern, and I don't know how you would answer this, but the concern that I have is, is there a growth in rigid packs? Can it swing the other way, is the main concern that I have after this price increase that if you can address that will be helpful?
- Saugata Gupta:** We don't see any structural shift in the copra pricing. As we have mentioned in the note copra is linked to palm oil and palm kernel oil prices. Now, they are also linked to crude and biodiesel and various other factors, so there is a very strong interlinkages between crude, edible oil, palm oil and copra prices. At the same time there is an elastic part of the copra demand in India. If you really look at it there are two factors. One is the copra flush season is coming up in February and March, and to look at historical cycles, while we can't predict the time, this cycle is bound to see a decline in prices. Now whether it's in March, April, May we don't know. Similarly how much it will come down by, we have to wait and watch. We will take action accordingly and pricing action would be more likely in the recruiter packs. As far as the second issue is concerned, yes we're cognizant



of the fact that there could be certain volume impact. However if you look at the competitive landscape the ability of a loose player to hold on to prices in the face of a cost push is very limited.

Harish Zaveri: Okay and just a one follow up to this one, could you have used this period itself, and I quite agree with you that the inflationary period is actually better for you? Could you use it to drive the entire recruiter pack and the market share, or was it a collaboration that you would want to maintain operating profit at a given level?

Saugata Gupta: We intend to maintain the operating profit within a certain band. The last two cycles have actually given us certain confidence in terms of actually managing threshold level of premium and having lead indicators to see what happens to the volume. So, should we see any impact, we will take some action, but at the same time, we need to find a sweet spot where we maximize volumes while optimizing margins.

Harish Zaveri: And could you disclose what that margin band would be that you would be comfortable with in that division itself, or that is something that you wouldn't want to disclose?

Saugata Gupta: It's within the weighted average three year margin band.

Harish Zaveri: Fair enough. Thank you Saugata, and all the best.

Saugata Gupta: Thank you.

Moderator: The next question is from the line of Percy Panthaki from HSBC. Please go ahead.

Percy Panthaki: Hi. I would like to do a bit of detailed, sort of deep dive into your other hair oils category. I mean you've grown 31% on volumes, of course part of it is on account of new product launches, but I mean can you give a sense as to what has been the industry growth rate trends over the last one or two quarters? How you stack up versus that, and it were not for the new product launches, would you have then gained or lost market share and approximately by how much?

Saugata Gupta: In the first quarter, we grew by 27%, second quarter by 15%, third quarter by 31%. As far as the category is concerned, the average growth this year, and I'm talking of a maximum kind of a growth is around 14%. Now, we have gained around 150 basis point share.

Percy Panthaki: What is your share right now?

Saugata Gupta: 22.8%



- Percy Panthaki:** Okay.
- Saugata Gupta:** 12 month average, so we have gained around 150 basis point share. Now, this is partly due to our existing brands and partly due to NPD. The NPD contribution is not that high. , All the base brands which are Nihar, perfumed oil, Hair & Care and Shanti all have recorded healthy growth.
- Percy Panthaki:** So, whom are you taking shares from?
- Saugata Gupta:** It will be a combination of players.
- Percy Panthaki:** But there isn't any one particular player who stands out as such?
- Saugata Gupta:** Yeah there would be one or two players who would have lost.
- Percy Panthaki:** And would you be able to mention that?
- Saugata Gupta:** So let's not get in to that as there are confidentially agreements with AC Neilson.
- Percy Panthaki:** Also basically can you share in terms of on the ground, in terms of business strategy what have you been doing right on the other hair oil segment, and what are the specific initiatives which have enabled you to grow at such a fast rate?
- Saugata Gupta:** It's a combination of tailwinds and also our specific strategy. With increased urbanization and disposable income, there is obviously a tailwind of moving from base brands to a value added. We have tried to have a broader participation in various need states and segments, and through this we've been able to gain share. We've also given rural a thrust and that has also driven some of a the volume growth and our rural contribution is increasing.
- Percy Panthaki:** So out of this growth just as a ballpark how much would you attribute to distribution expansion?
- Saugata Gupta:** I think it's very difficult to do the theoretical exercise. It's a combination of right marketing, distribution and participation strategy and price point. It's very difficult to attribute a number to each individual aspect.



- Percy Panthaki:** Right, so if I look at last three quarters, you have shown healthy business growth of 25% plus on an average. Do you think that just one or two quarters hence the base effect might catch up, and your growth rate might actually slow down, or do you still think there is enough momentum to still be able to crop the growth rates in the region of 20 to 25%?
- Saugata Gupta:** Yeah I think a 15 to 20% growth is eminently achievable.
- Percy Panthaki:** And if I might Saugata just one question on the copra cost, I mean can you explain, I know there is a linkage to palm, and crude, and therefore copra has gone up, but is there any other reason in terms of local demand supply issues within India which has led to copra going up. That's one, and second is that when you say that copra cycle is likely to reverse, you're implying that it will go down. Apart from normal seasonal factors, what gives you the confidence that prices are going to correct that obviously will link into the question as to what is the reason that the prices have gone up in the first place? So your comments on that?
- Saugata Gupta:** We do not believe that there is any structural shift in any local factors which has led to the copra price upsurge
- Percy Panthaki:** There is no problem with the crop or anything of that sort.
- Saugata Gupta:** No. There is no problem with the crop. Our expectation of the prices coming down is based on long-term patterns observed in the past. Assuming of course that there is no violent increase in the crude. What also happens is as you know the Kerala season is followed by the Tamil Nadu season that opens up between February and March. So while I cannot guess that exact time but definitely within the next couple of months we can see some softening.
- Percy Panthaki:** No softening on account of seasonal factors will definitely happen; do you see a softening in addition to the normal seasonal factor?
- Saugata Gupta:** See, obviously we also expect the palm kernel oil and palm prices because even there also there is the palm production in Malaysia and Indonesia that comes up so. All other factors also point to softening in palm and palm kernel oil as well.
- Milind Sarwate:** Percy this is Milind, and I would just want to add a note of caution because I think the discussion suggests some unwarranted certainty. Nobody knows the commodity market so as to be able to predict price movements.



Percy Panthaki: Right.

Milind Sarwate: So what we're saying is based on our estimate. It is based on whatever knowledge we've gathered by being in this market for long, and we expect that certain things will pan out in some manner. Whatever Saugata says is not a promissory note being issued.

Percy Panthaki: Sure.

Milind Sarwate: We'll have to just add that note of caution that what we're saying is based on our experience, and what we expect. There could be some element of wishful thinking in that, and I think you're probably trying to point out to that. We agree that there could be some wishful thinking, but by and large we feel that the Indian demand for copra is largely inelastic. If at all it changes structurally it will change to be more elastic, and it would bring the prices down when the supply goes up substantially. So, I feel over the last five years, a structural thing that has already happened in the copra space is that the price tables for crude oil and derivatives, and purely edible oils derivatives that has got merged through the biodiesel, ethanol and that kind of route. So, the impact of crude oil going up on edible oil has been felt maybe three or four years in the past itself. So, I don't think beyond that anything structural has happened. Whatever we're saying is based on our best estimates, and it could very well turn wrong, or it could very well turn more than right.

Percy Panthaki: Sure I understand that. That's all from my side. Thanks very much.

Moderator: The next question is from the line of Varun Lochab from Religare Capital Markets. Please go ahead.

Varun Lochab: Thanks for taking my question. First of all on the relative pricing that we have in the coconut oil portfolio and on the Saffola, if you could just throw some light on where are we vis-à-vis the competition and also the loose oil in case of the coconut like you alluded to the fact that probably our pricing would be kind of more competitive in this sort of an environment, but have you seen them also taking this extent of price hike, and secondly on Saffola like, as the price gap increase between us and the competition?

Saugata Gupta: We have taken pricing action to ensure that the pricing relative pricing remains in the same zone. So that has not got impacted. In fact, as I said that versus loose in terms of percentage perhaps the gap would have narrowed a bit. As far as Saffola is concerned, we have maintained the pricing difference. Whenever we take pricing action, we have seen that we need to stay within a band of premium which we're maintaining.



- Varun Lochab:** But are we at the top end of that band in terms of premium or more like the average?
- Saugata Gupta:** Top of the band yes. But as I said we are within the band that has been maintained over the last two or three years.
- Varun Lochab:** And in terms of the cooling hair oil, if you could just give some input on how that is kind of scaling up, in terms of roll out where are we on that sort of kind is it meeting the action standards and?
- Saugata Gupta:** We did 7 to 8% market share in AP. Based on that we believe that this proposition is perhaps suitable to the south, so we're just about doing a soft launch in TN, and Karnataka. As of now it will be a south play.
- Varun Lochab:** Okay in terms of the new product funnel anything at a prototype stage over and above what is mentioned in the note which are the other kind of?
- Saugata Gupta:** No,
- Varun Lochab:** And just lastly on the Kaya clinics in FY12 in case of India what's the plan in terms of opening up of new clinics?
- Ajay Pahwa:** We're looking at opening potentially four to six clinics, but our primary focus is going to be to restore profitability of the India business.
- Varun Lochab:** Okay, sounds good, yeah thanks a lot.
- Milind Sarwate:** You're welcome.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Good evening everybody. Just a couple of questions. Firstly on Kaya, I just wanted to understand, I understand from the write-up that there has been a lot of promotions on the radio and press as well. I wanted to get a sense of apart these promotions have we tinkered with any price points for our offerings in the sense have we kind of brought it down to make it more receptive to the customer, and secondly, I mean in a quarter where we have seen considerable amount of inflation we have actually grown the same clinic sales by 8%, so I just wanted to know your thoughts on what drove those?



Ajay Pahwa:

I think first and foremost, in terms of pricing, well, obviously it should stay flexible with what's going on the marketplace. We haven't taken any pricing decisions over the course of the quarter. That said if you look at the big move on part of Kaya, at the beginning of this financial year was to really put a big push behind the skin beauty business, where the Kaya brand is accessible not only for those who would have a skin concern, but just they have great skin, and they want to keep it in good maintenance. So we launched services like, Everyday Radiance, and Aqua Radiance. The objective really of these consumer promotions has been to accelerate the trial of such services. Undoubtedly what that has done is given a very good reason, a very compelling reason to both our existing customers as well as lot of new customers to come and experience Kaya, and hence you see that uplift in sales.

Karthik Chellappa:

Okay great, and secondly, I just wanted to pick a cue from what Milind said at the opening remarks about making judicious use of advertising and related expenditure. I wanted to know, as things progress, and as assuming the inflation continues to be elevated and the fact that we're also increasing our promotion on Kaya, as well as we've lot of new launches which may necessitate brand promotion. I was trying to get a sense of how you look at the advertising and sales promotion because currently it's at 11%, is that like an optimum level you feel or do you think that can marginally inch up a bit as you step up the gas on your new product initiatives as well as getting Kaya back in order?

Saugata Gupta:

I think one should look at ASP on annualized basis rather on quarterly basis. Therefore overall it on the long-term, we would keep ASP at around 12%. With specific reference to Kaya it is adopting a different marketing model given the new customer acquisition and the new strategy where it will be less mass, but far more focused which will maximize customer acquisition and retention profitably. We have also taken between the two other businesses, some judicious cuts in ASP in this quarter, but over the long-term we believe that advertising to sales promotions will be pegged at around 12%. In addition we're not sacrificing NPD and power brands where the media spends continue to be at the similar level. However, we have reduced the consumer promotion component a bit.

Milind Sarwate:

There is also a mathematical play at work because as your turnover goes up significantly like it has done in our case over 20% even with the same rupee value of ASP, you get a lower percentage to sales that could have a play to the extent of maybe 30-40 basis points.



- Karthik Chellappa:** Okay, got it. Also, how do you see the price action by your competitors in the hair oil both in the coconut oil and the value-added hair oil because you've taken from speed price action, and let's say in the value added hair oil, I mean you're also gaining market share, so at some point of time if your competitors start reacting and sacrificing margins to regain that market share I was just wondering what is your thought process as far as your strategy is concerned in case of something of that sort pans out?
- Saugata Gupta:** As far as the hair oils part of the business is concerned, our price increases has been reasonably moderate in line with input cost increases or slightly lower than that. We've taken 8 to 10%. The overall market price increases has been similar; in fact, our price increases lagged the market price increases. In coconut oil I had mentioned earlier the loose and the local players don't have the capacity to absorb input cost increases. They pass it back in the form of retail trade prices and reduce margins to retail. In both the cases, our pricing action has been more or less in line with the market so far.
- Karthik Chellappa:** Okay, great thank you very much.
- Saugata Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hemant Patel: from Enam. Please go ahead.
- Hemant Patel:** Yeah hi everyone. Saugata, sorry to frustrate you with another CNO question just wanted to understand this what would be the actual growth rate in value terms for the coconut oil segment for the year-to-date?
- Saugata Gupta:** I would be around 14% to 15%.
- Hemant Patel:** And has the volume growth rate for the industry also been similar to our rigid pack at around 5%?
- Saugata Gupta:** Quarter three?
- Hemant Patel:** Quarter three or YTD I mean if you can actually give us some idea of it.
- Saugata Gupta:** YTD volume growth and for market growth is more or less in line.



- Hemant Patel:** Okay so then question is just that I mean this is probably one segment where you have had the maximum price increase, **visa-vis** any of the category that we have seen over here, and clearly the industry is actually slowing out in terms of volumes in a dramatic sense. Isn't this pointing towards the direction that if you do take a further price hike they are going to get into a negative volume growth territory and probably some of these consumers who are actually buying coconut oil would shift to your hair oil segments, and that's one of the reasons why the hair oil segment is been growing faster.
- Saugata Gupta:** The YTD category growth rates are not in, they are around 7 to 8%, so that is in line with the long-term historic growth rates which we've been talking about. Our historic growth rate has been 9 to 10%. So, I don't think there has been any significant change in the YTD growth rates this year. As and when prices settle down, we have to look at growth rates from there, so we're pretty confident that the overall growth which we've talked about long-term of 7% is very much there as of now.
- Hemant Patel:** Okay, fair enough. Could you give us some comments on the profitability of the international business, and can you just throw some light in terms of what operating margins are they at, at their current levels? Are they better off in the standalone business?
- Vijay Subramaniam:** In the international business, we're in the investment phase in lot of markets, and markets we've entered in the last two, three years, obviously our margins continue to lag the company average. Having said that we're on a steady path of margin improvement, so if you look at our margins versus the past we're consistently improving. In about two to three year's time, I think we should be able to catch up with the company average.
- Hemant Patel:** Okay what are they currently at the moment?
- Vijay Subramaniam:** They are about 11% to 11.5% currently.
- Hemant Patel:** Alright, fine, thanks a lot, and best of luck.
- Vijay Subramaniam:** Thanks Hemant.
- Moderator:** Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah:** Hi sir. I just wanted to know the outlook and the growth rates expected specifically in the light hair oil segment, and how do you see margins panning out here?



- Saugata Gupta:** I think in the value added hair oil segment we believe that it's around 15% to 20% for us, and the category growth is more around 13% to 15%. We expect some kind of a moderate share gain.
- Grishma Shah:** Okay and do you see the raw material pressure in this category also?
- Saugata Gupta:** Yes, hair oil has vegetable oil, liquid paraffin, and packaging materials, all three of which are linked to crude. There is some input cost pressure certainly lower than what we're experiencing in copra, but there is input cost pressure.
- Grishma Shah:** And just one question you were launching the cooling oil in South, isn't it a difficult market to crack or my understanding completely wrong regarding the segment?
- Saugata Gupta:** I think there are two different markets. The North has a different play. The South has coconut as the oil all of the land. We've just prototyped it and therefore it's too early to decide how the performance is. As I've mentioned we achieved about 7 to 8% share in Andhra Pradesh. It's very early days yet, so yes we'll be at it. This is a category which we need to participate and secure a significant presence in.
- Grishma Shah:** Okay, fine, thank you and good luck.
- Saugata Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abneesh Agarwal from Motilal Oswal. Please go ahead.
- Abneesh Agarwal:** Hi congrats sir on good set of numbers. I have a question which is regarding the numbers but I am somehow not able to reconcile them. If you look at your standalone numbers for Marico standalone, the gross margins have actually declined by around say 650 bps and similar is the decline in the EBITDA margin. Your EBITDA margin is also down by more than 5% in the standalone operations whereas in consol the declining margin is far low, so if you look at, if you reduce the two, and if you look at say the subsidiaries performance then in subsidiaries, actually there is a very sharp margin expansion from something like your 9.8% at the EBITDA level to nearly 15% while a largest component in subsidiaries also is Marico Bangladesh which uses copra as the main, your input cost. So, can you just guide that from where I'm missing out **on the entire process?**



- Milind Sarwate:** You are not missing out anything, but I would point out that barring Marico Bangladesh which is owned by a 10% public in Bangladesh. All our other subsidiaries are wholly owned, so our consolidation is actually quite meaningful, now when it comes to transactions within the Marico group, we have overtime evolved into a transfer pricing scheme which will get sharper and sharper as time goes by and hence you might find that in the parent company which is the standalone you may find that there is a margin contraction which is made good by a substantial margin expansion in subsidiary. Now, this particular period you will find that in the Kaya subsidiaries overseas which is Derma RX and other acquired entities in Southeast Asia, they are inherently very profitable companies, and hence those margins would add to the group margins. Similarly in Bangladesh while it does use copra in a basis similar to the Indian one, I think its market positioning is far stronger. There is also a time lag for the copra that we send from India, so to that extent the pricing freedom we get in Bangladesh is a larger freedom than that we get in India. So, to that extent the margins that each of the subsidiaries earn could be different. All I'm trying to drive at is that the consol picture would be actually the stronger picture.
- Abneesh Agarwal:** No, no that I agree the consol picture is a stronger picture, but what I'm trying to understand is that the kind of pricing input cost increase which has happened in copra has it been fully reflected in the numbers of Marico Bangladesh because there could be some time lags when the copra is purchased here and then shifted to Bangladesh, or it will get effective in the coming quarters?
- Vijay Subramaniam:** No as Milind mentioned earlier there is a marginal time lag because of lead time involved in shipping of goods etc., but I think over let's say the three, four month period it pretty much catches up.
- Abneesh Agarwal:** Okay.
- Milind Sarwate:** For the dependence on copra that Bangladesh has on Indian copra, we could develop alternative sources also. So, if you're trying to check if Marico Bangladesh results would suffer in future. It may not exactly be so.
- Abneesh Agarwal:** Okay and have we taken say price increases there more than what we've taken in the Indian market?
- Vijay Subramaniam:** No our price increases there have been in line with the numbers Saugata mentioned earlier.



- Milind Sarwate:** But since it has got an 80% market share, nearly 80% exit market share the impact on volumes would to that extent will be less.
- Abneesh Agarwal:** Okay and are we already experiencing some pressure in volumes, what's your outlook on that in the domestic market for Parachute?
- Saugata Gupta:** So far not yet but we'll have to wait and watch.
- Abneesh Agarwal:** Okay and the price increase which is currently being implemented of say 8 to 9% which makes it to a total of say around 34%, so do you think that this price increase is sufficient to cover the price of copra which you say currently using around Rs. 6000 a quintal?
- Saugata Gupta:** I had earlier mentioned that we're looking at this price increase covers a significant portion of the input cost, but we're taking a slightly long-term view rather than the immediate month view more or less three to four month view on this.
- Abneesh Agarwal:** Okay sir, thanks sir.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** Hi. Thanks for taking my question. My first question is on the parachute price hikes again. You have mentioned the 24% is the price increase that you have taken, right?
- Milind Sarwate:** Yes.
- Vivek Maheshwari:** The thing is in your press release you have mentioned that till December you have taken 24% price increase, in January you are contemplating another 8 to 9% price increase. Is that correct that means effectively it will be something like 32%?
- Saugata Gupta:** Yes.
- Vivek Maheshwari:** Okay second thing is about the copra prices you mentioned the linkage to palm etc., is there anything else with the safflower because safflower prices in general have not moved up as much.
- Saugata Gupta:** Yeah safflower as you know is a seasonal crop and the season of safflower is between February to Mayor June. In the coming year there would be slightly higher prices.



- Vivek Maheshwari:** Okay and what would be the kind of price increase you would have taken in Saffola in total in this quarter?
- Saugata Gupta:** Around 12% weighted average across the Saffola portfolio. It takes care of a signification portion of the input cost increase.
- Vivek Maheshwari:** Okay, and lastly on the Kaya business I mean obviously, we have seen a same store positive growth after a couple of quarters, but considering the initiative that you have taken in terms of less than say Rs. 1000 service pack etc. Are you satisfied with the 8% kind of same store growth, or you would have expected something better than this.
- Ajay Pahwa:** Actually we're very happy with the 8% growth, remember the promotion was only for a month that was in the month of December, so I think one is we're very happy with that 8%, and most important thing is that it brings in new users to the brand.
- Vivek Maheshwari:** So in the medium terms what is the kind of growth one can expect in this business the same store growth in Kaya?
- Milind Sarwate:** Well, I think reasonable growth is about 10% and that's what we'll been targeting in the coming quarter as well.
- Vivek Maheshwari:** Alright, thank you very much.
- Moderator:** Thank you very much. The next question is from the line of Navin Trivedi from Pinc Research. Please go ahead.
- Navin Trivedi:** One more question on Kaya. I just want to understand that this quarter we've substantially reduced the losses excluding the Derma RX, is it because of the higher volume, or we have taken some cost reduction strategy during the quarter?
- Ajay Pahwa:** Well, actually it's a combination of both. First and foremost it's the top line leverage, but at the same time we've also put a sharp focus on our operating cost, and that's helped us limit the losses between India as well as Middle East to just 0.8 crores.
- Navin Trivedi:** But I think assume the excluding Derma RX, the growth was around 11%, so is this a substantial growth to mitigate this losses or there are some specific reasons for that?



- Ajay Pahwa:** See, a big part of that comes from the top line because when you have a fairly fixed cost structure, 10% same store growth, it makes a substantial flow through to the bottom line, but in addition to that undoubtedly shift in the way we've handled our marketing spend in particular and some overhead cost at the clinics has helped us drive the flow through to and then tighten the profitability.
- Navin Trivedi:** So do you expect this except excluding Derma RX, in FY12 we can make some profits on Kaya?
- Ajay Pahwa:** Well definitely in Q4, we hope to make directionally further progress on this, but in the coming financial year '11-'12, we're very confident that the Kaya business will see profitability.
- Navin Trivedi:** I assume this excluding Derma RX, the revenues was around Rs 50 crores from Kaya during the quarter. Can we have the breakup of India as well as some other countries? How much from the Indian market and from the other countries?
- Ajay Pahwa:** We can give you an approximate range. India constitutes a little bit over 60% and the balance that is the Middle East and Bangladesh business contributes to 40%.
- Navin Trivedi:** I assume Derma RX consist of 40% of the margins, if I'm not wrong, is it the right numbers if I'm calculating it, around 13 crore top line and around 5 crore of profitability of Derma RX?
- Ajay Pahwa:** Correct. Derma RX had their best ever quarter in terms of revenue. So, you've also seen a very strong profitable contribution from them.
- Navin Trivedi:** So going forward from including Derma RX, we assume that this Kaya skin clinic should be very profitable in FY12 and going forward because we have already burn so much cash in Kaya, but I assume going forward we can get some profitability from this business?
- Ajay Pahwa:** You're thinking just like me. You're right.
- Navin Trivedi:** Yeah thank you so much sir.
- Moderator:** Thank you. The next question is from the line of Bharat Kapur from B&K Securities. Please go ahead.



- Bharat Kapur:** Yes sir most of my questions are answered just one question on the international business. I just wanted to know what would be the inorganic growth in this quarter.
- Vijay Subramaniam:** Out of the total business growth of about 33% inorganic growth should be just a shade under 3%.
- Bharat Kapur:** Okay just 3% okay. I just wanted to understand sir the volume growth at 28%, I just wanted to know as to what are the initiatives that we've taken apart from Bangladesh where we consistently seen strong growth to drive this kind of a growth because we've maintained that we can see a sustainable 20% kind of a growth. I just wanted to know that what are the initiatives you have taken on that
- Vijay Subramaniam:** See first of all the volume growth in this quarter is 25%.
- Bharat Kapur:** 25%, right.
- Vijay Subramaniam:** We're participating in countries which are on a path towards economic progress. We're participating in categories where the consumer penetrations are in their mid-30s, 40s band. On top of it you layer our brand renewal efforts, our distribution gains, our price penetration strategies, and so on and so forth, so the combination of multiple reasons, and I think it is very difficult in international business to generalize it to one initiative.
- Bharat Kapur:** Right.
- Vijay Subramaniam:** So let me say it's a series of initiatives spread across multiple markets that are contributing towards this growth.
- Bharat Kapur:** Okay that's about it from me. Thank you, sir. All the best.
- Vijay Subramaniam:** Thank you.
- Moderator:** Thank you. The next question is from the line of Anshul Mishra from ING Mutual Fund. Please go ahead.
- Anshul Mishra:** Yes. This is with respect to the better margin in the subsidiary companies because of which the consol pictures looks better than the standalone one. Basically, I wanted to understand the top three, four regions or the subsidiaries where the margins are significantly higher which would have aided this process?



- Milind Sarwate:** I have mentioned that about in Marico Bangladesh, and Derma RX these two names I had took earlier, what we have to also keep in mind is that the overseas operations are tax free in some regions for example our business in Egypt as well as in the rest of the Middle East carries a very little tax if at all. Even at the PAT level the international business has an inherent advantage which Kaya may not have in say Singapore. Look at the totality of the picture; I think our investments have always looked at maximizing the PAT margin especially when you go overseas.
- Anshul Mishra:** Right and you mentioned Marico Bangladesh again kind of wanting to go back to the same question as to if its more of Parachute there, then how come the margin is not impacted to that extent right now. I mean you mentioned that there is a lag impact, and does that mean that lag impact could lead to a quarter four, and this is repeat I know, but if you can please kind of reiterate the same thing?
- Vijay Subramaniam:** It's a combination of two or three factors one of course there is a lag impact as explained earlier. Second as Milind mentioned earlier the brand is inherently strong and in Marico Bangladesh at the moment Parachute is the lion's share of the business. You must remember we have also made forays into categories like hair dyes with hair code etc., which are doing well, so I think it's a combination of all these factors. Going forward to answer the last part of your question, going forward there will be some impact because there is a natural lag effect. To that extent, we will have to manage the whole situation we will have a balance between consumer franchise expansion and margin expansion. There is one more factor at playing Bangladesh, and that is the players over there depend almost exclusively on imported coconut oil. We are the only player with an integrated supply chain so to say starting from copra. That is also one of the reasons why the quality of Parachute as seen in Bangladesh is significantly better than competition. So, it's a mix of market share the way we have structured the business, the way we are dependent on India, and we're gradually becoming self sufficient in Bangladesh.
- Anshul Mishra:** Okay, thank you.
- Moderator:** Next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.
- Pritesh Chheda:** I just have a follow up question if you could share what is the year-to-date size of the Africa business, the Malaysia business and the Egypt business if it's possible?
- Vijay Subramaniam:** Let me, out of the total business roughly about 35% or so would come from MENA region. South Africa and Southern Africa and others would be roughly 12-15%. , South Africa on annualized basis next year should be in the region of about 100 crores or so.



- Pritesh Chheda:** That's South Africa.
- Vijay Subramaniam:** Southern Africa region.
- Pritesh Chheda:** Okay that should be 100 crores, and Malaysia and Egypt if it is possible?
- Vijay Subramaniam:** Egypt roughly, we don't look at Egypt separately, we look at Middle East North Africa as the region that should be whereabouts of about 250 to 300 crores going forward. Malaysia where we have actually acquired this brand Code 10 the business should be about 20 odd crores.
- Pritesh Chheda:** And this figures you gave should for FY11 or '12?
- Vijay Subramaniam:** They would for FY12 ballpark.
- Pritesh Chheda:** Lastly I missed on one thing the Saffola price increase was also taken alongside the Parachute price increases in those five months, or it was the quarter three that was taken?
- Saugata Gupta:** Its quarter three.
- Pritesh Chheda:** Quarter three, 12% right?
- Saugata Gupta:** Yeah.
- Pritesh Chheda:** Okay, many thanks to you sir.
- Moderator:** Thank you. The next question is from the line of Anirudh Joshi from the Anant Rathi. Please go ahead.
- Anirudh Joshi:** Hello sir congrats for excellent set of results. Just wanted to check what is the margin right now we are making probably in Saffola I know it's difficult to give brand wise, but can you just say what has been the margin drop of probably in Saffola on a YOY basis?
- Saugata Gupta:** We haven't really experienced a margin drop in Saffola.
- Anirudh Joshi:** Okay, so Saffola post the price hike has been able to maintain its margins.
- Saugata Gupta:** Yes more or less.
- Anirudh Joshi:** Okay and in Sweekar?



- Saugata Gupta:** Sweekar, typically the margin is not very high. We maintain a band, and Sweekar actually will pass on price increases or price decreases as the input prices move that's how we've been managing the brand, so typically its absolute margin per litre will always remain more or less in the same band, bank yes in the case of very high inflation, the percentage could come down.
- Anirudh Joshi:** So Sweekar we are okay with even if the volumes reduce or increase also?
- Saugata Gupta:** That's right yes because our focus on the refined edible oil side is on Saffola.
- Anirudh Joshi:** Okay just maybe just a repetition, but we've increased we've rather cut the ad spend at the same time when we're increasing that prices, so I guess 24% price hike in the brand like Parachute is I guess on the highest price hike on Parachute probably in last decade I guess, so do you see that can at this juncture cutting ad spend will support Parachute?
- Saugata Gupta:** As I said earlier as far as our power brands like Parachute and in our new product development are concerned, we haven't cut down on the media spend. , There could be some adjustments on spends and promotions and as also Milind mentioned that whenever there is a top line growth to the extent of 20% plus in an absolute level of ad spend as a percentage of sales then the ad spend was down as a percentage, but in terms of absolute INR value of ad spend it hasn't gone down.
- Anirudh Joshi:** Okay, and lastly a very broad question probably your outlook on overall FMCG market considering the inflation which we're seeing plus the steep price hike across all companies are happening, your outlook on overall FMCG market?
- Saugata Gupta:** There would be some short-term food inflation. Coupled with the inflationary push in the FMCG products this will lead to price increases leading to some short-term impacts on consumption, but that would be a combination of three things as far as items which are non essential is concerned, there could be people who could be dropping out of it. As far as something which is non-essential but a luxury, semi luxury treats it could be some titration, and there could be some kind of a down trading, but these impacts as I said could be short-termed. We have to wait and watch what happens to the inflationary situation whether its food or other input costs, and going forward the long-term story is very much intact. There is a healthy economic growth in this country, per capita consumption of lot of categories lie in the mason stage. There is a huge aspiration and there is a convergence of aspiration in the rural and the urban. The rural growth story is intact, so I think overall long-term growth story is very much there. One needs to contend with some short-term fluctuations, but I think that's the part and parcel of any sector.



- Anirudh Joshi:** Okay and may be short-term you mean to say provided two, three quarters, or you're looking at maybe a higher period?
- Saugata Gupta:** As I said it's very difficult to say, but at an annualized basis on the next two years, definitely there is some story intact, so there is no cause of concern.
- Anirudh Joshi:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Harsh Mehta from Edelweiss. Please go ahead.
- Harsh Mehta:** Good evening sir, thank you for taking my question. I have just one question related to Parachute oil. What will be the volume growth of Parachute coconut oil as a whole including the flexi pack?
- Saugata Gupta:** It's around 7% YTD.
- Harsh Mehta:** Okay and what would be the growth of flexi pack standalone individually?
- Saugata Gupta:** Flexi pack does not grow as we said that it's flat, and we've not been focusing on that. It's a commoditized part of the business, and therefore not part of the long-term focus. We want to reduce our dependence on that.
- Harsh Mehta:** Okay so the price increase is taken when the rigid packs would compare equally with the flexi pack price increases?
- Saugata Gupta:** Flexi packs usually we don't take price increases. We compensate by an adjustment in quantity.
- Harsh Mehta:** Okay thank you that would be from my side.
- Moderator:** Thank you. The next question is from the line of Ajay Thakur from Alchemy Share and Stock Brokers. Please go ahead.
- Ajay Thakur:** Thank you for taking my questions, I have two set of questions. One, can you just give as an sometimes back maybe the question was probably asked like what is the overall growth in the Parachute for Q3, and secondly my question is also on the MAT credit, can you just elaborate is there any MAT credit for the current quarter as well?



- Vivek Karve:** Yeah I think the first question has already been answered, so I'll skip that and go to the second question. The second question is on MAT credit. Yes there has been a further increase in the MAT credit in the third quarter.
- Ajay Thakur:** Okay lastly I just want to check what are this our inorganic growth plans because considering the fact that for the current year we would be generating lot of cash and on debt equity are pretty reasonable at less than one or even less than 0.5, so what are the plans going forward, are we looking into that space, either in India or abroad globally.
- Milind Sarwate:** In the area of inorganic growth I would like to differentiate between aspirations and plans. Every company which wants to grow would be acquisitive, and it would have aspirations of acquiring several brands in India and overseas, but when it comes to specific plans, it is obvious that it needs two parties to make a deal and until there are viable options on the table it would be difficult to talk of acquisition plan. You're right that in terms of funds position in right now or in future, we're very well placed to acquire a decent size business. We've been acquisitive, and we've kept up the antenna open for any opportunities that come even in India or overseas. At any given time we would be in dialogue like I'm sure all the other companies in this space would be to tap inorganic growth opportunities. At this point in time there is nothing that I can report to you as a tangible achievement, had there been one, we would have declared it at the board meeting itself today. Having said that, I feel that we'll restrict our inorganic growth efforts to our core categories of beauty and wellness, and as regards to overseas countries we've a certain shortlist of countries based on their readiness for consumer market expansion.
- Ajay Thakur:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Nikhil Kumar from Motilal Oswal. Please go ahead.
- Nikhil Kumar:** Yeah hi, good evening sir, just two questions on the international business. Couple of con-calls back you'd mentioned that your internal target is to take the margin profile closer to the domestic business. Now, where are you on that particular target?
- Vijay Subramaniam:** Just to clarify we've been maintaining that we want to take the margin to the company average, so that will be the first milestone. So, we're on track and obviously if you see our overall performance that we're churning growth in the region, north of 20% and also been trying to increase the operating margin. Over the next couple of years, we should reach the company average.



- Nikhil Kumar:** Right and just a clarification when you mention international business, you mentioned subsidiaries excluding the Kaya part, right?
- Vijay Subramaniam:** That's right; I'm referring to the international, FMCG consumer product business.
- Nikhil Kumar:** Could you give me a number on the International Business EBDITA?
- Vijay Subramaniam:** Like I said we are in the band currently operating the band between 11 to 12%.
- Nikhil Kumar:** Okay and sir just one last question on the South African business, in one of the con-calls earlier, one of the competitors had mentioned that South African economy in not doing fairly well, so the 30% growth rate looks pretty good, any light on that?
- Vijay Subramaniam:** You are right, out of all the geographies we operate in, South Africa is possibly is one county which is been relatively more impacted because of the global recessionary trends in the last 18 months or so. However, our base there is small. , With brand renewal efforts we have been able to churn out the growth of about 20-25% year-on-year. The growth last quarter was actually 30% or so for South Africa.
- Nikhil Kumar:** Okay, thank a lot sir, and all the best for the future.
- Vijay Subramaniam:** Thank you.
- Moderator:** Thank you. The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.
- Gaurav Bhatia:** Sir how many months of copra inventory do you have currently, is it higher or lower in the one month inventory that you typically have?
- Milind Sarwate:** At the moment it is lower than average. We wouldn't want to talk about exactly how many days or months it is, but yeah it is lower.
- Gaurav Bhatia:** Should we take that as an indication of what price you see going forward?
- Milind Sarwate:** Yes, correct.
- Gaurav Bhatia:** Sir second question is 7% year-to-date, you said Parachute volume growth overall, what was the exact number for Q3; I mean not just the rigid, not just the overall portfolio only for quarter three?



- Saugata Gupta:** Between 3 to 4%.
- Gaurav Bhatia:** Thanks a lot, sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Kapur from B & K Securities. Please go ahead.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Kaustubh Pawaskar.
- Kaustubh Pawaskar:** On behalf of Sharekhan institutional business, I would like to thank the top management of Marico for specifically sparing the time, and all the best for your future quarters.
- Ajay Pahwa:** Thank you.
- Saugata Gupta:** Thank you.
- Moderator:** Thank you sir. Ladies and gentlemen, on behalf of Sharekhan Limited that concludes the conference. Thank you for joining us you may now disconnect your lines.