



Marico Limited
Q1 FY20 Earnings Conference Call

August 01, 2019

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MODERATOR: **MR. GAURAV JOGANI** – AXIS CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Marico Limited Q1FY20 Investor Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gaurav Jogani from Axis Capital Limited. Thank you and over to you sir.

Gaurav Jogani: Thank you. Good evening, everyone. On behalf of Axis Capital, I would like to welcome you all. From the management, we have with us today, Mr. Saugata Gupta – Managing Director and CEO; and Mr. Vivek Karve – CFO.

Before we get started, I would like to remind you that the question-and-answer session is only for institutional investors and analysts. And therefore, if there is anybody else who's not an institutional investor or analyst but would like to ask questions, please directly reach out to Marico's Investor Relations team.

With that, I would like to hand over the call to the management for their opening comments. Thank you and over to you, sir.

Saugata Gupta: A very good evening to all those who have joined the call. We would like to start with a quick brief of the quarter and a broad outlook for the balance year before we start taking your questions.

Our performance in Q1 was decent in terms of volume growth, but a very robust performance on the margin and market share front. The consumption situation and the liquidity in the channel continues to be challenged, and we hope that this will improve towards the second half of the year. Having said that, in the India business, we are happy with the performance of Parachute; Value Added Hair Oils, except the premium component; Foods and Premium Hair Nourishment. We need to still sort out Saffola, which I will discuss in detail a little later and Male Grooming will get back into growth.

We have significantly stepped up investments in innovation, and some of them are doing well, while a few are WIP. We will continue to keep our A&P well-funded at current levels. In the International business, it has been a steady quarter with Bangladesh on a solid momentum and

Vietnam and new country development businesses delivering decent growth. The MENA business declined on a reported basis, but however, adjusting for a onetime distribution and stock correction in the Gulf business in preparation for the localization of production this year, it grew in low single digits. If you adjust this onetime correction, the constant currency growth of the International business would have been 9% this quarter. We expect the International business to continue to deliver steady profitable growth for the balance year.

Let me now give you some flavor of the Indian business. There are significant long-term shifts happening in the GTM structure, and we strongly feel that organized plans with high equity leader brands, cutting-edge agility in supply chain and technology, and deep rural direct distribution will have a distinct source of long-term competitive advantage in terms of market shares consolidation and long-term growth. As a consequence, Parachute continues to do well, and we are very much in line with the medium growth aspiration of 5-7% along with steady share gain. However, like every time when there's a deflation, the non-focused part of the CNO business gets impacted, and it has experienced double-digit decline this quarter. This has dampened the overall volume growth of the Indian business to the extent of at least 1.5%.

In the case of Value-Added Hair Oils, we continue to do well at the mid to bottom of Pyramid segment while we have a job to do at the premium end where growth is slow. Having said that, we are confident of moving the growth to double digits through the balance year. Aloe continues to do well with Dry Fruit Oil also showing a positive traction in some of the markets where it has been launched. We have a good market share gain in both value and volume terms and here also we are seeing a share movement to organized players with robust rural distribution.

Saffola is a clear issue on hand. While the communication has driven equity and penetration, all our gains have been only in Modern Trade and E-commerce. We have been struggling in urban GT because of price premium and channel interplay. Therefore, to drive affordability and reduce any interplays through pack assortment, we have prototyped a differentiated pack strategy across the channels. A 5-litre price-off pack at 699, which is 126 off on MRP, in select GT vis-à-vis a 5 plus one litre free at the current MRP of 825 in Modern Trade and E-com is being prototyped from mid-April. However, the lower price point has not driven either distribution gains or transaction uplift in existing outlets in these 2.5 months in this quarter. Against that, we have lost out on incremental promoted volume which was there in the last year's base. We will wait and watch to see how this plays out over the next few months and then take subsequent calls.

And regards the new vectors of growth, we continue to be positive on Foods and Premium Hair Nourishment, delivering (+20%) growth, and Kaya attaining critical mass towards the exit of the year. The flattish performance of Male Grooming has been because of Deos. Excluding Deos the rest of the portfolio has grown in double digits. We have plans in place to get the franchise back into double-digit growth for the balance year.

In terms of channels, Modern Trade and E-commerce continues to drive growth. We are taking significant steps to improve our quality of rural distribution, which will help us to maintain growth in spite of the weak consumption scenario. We have a short-term plan to revitalize urban GT, but we have concluded that we have to take a fresh approach to manage long-term disruptive changes in the channel. In the short term, new initiatives in chemist, cosmetic, food and stand-alone Modern Trade channel, along with the more focused value unlocking to drive partner ROIs should get it back into growth.

With respect to the International business, we continue to be optimistic about the growth and diversification journey in Bangladesh. While the core continues to grow, some of the new initiatives in the value-added space hold promise. We will continue to invest behind innovation and capability to turbocharge growth in Bangladesh and some of the other South-Asian markets.

The other markets are expected to hold steady. And therefore, we are confident of a double-digit constant currency growth in the balance year while continuing to maintain good margins in the International business.

While in the immediate-term, consumer sentiment appears to be weak along with liquidity crunch, we continue to sense an opportunity to drive competitive advantage in rural markets and invest behind innovation in the urban markets and new channels in India. We do not have a complete answer to Saffola yet. But in overall terms, as per current trends, we are looking at a high single-digit volume growth in India this year. We expect some of the new products to get critical mass by exit-2020, which will help shore up the new portfolio contribution. We also expect some significant shifts in our quality of rural and premium urban distribution by the end of this year, which will set up the business for incremental growth towards the end of the year.

To sum up, we are looking at a scenario of 6-8% volume growth in India with mild inflation. In the absence of any macro or geopolitical level surprises, International business can deliver double-digit constant currency growth in the balance year. There could be some reversal of copra prices in the off season, starting Q3. Having said that, we believe that the margin for the full

year will definitely be in the zone of 19% plus. We will continue to aggressively invest behind innovation and that A&P spends will be at least around 10% of sales. Additionally, we are planning to fast-forward some of the long-term investment towards leadership capability, digital, automation and GTM transformation this year, so that there are no investment challenges next year, should there be any swings in cost structure. Thank you for your patient listening and happy to take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the launch which happened this quarter, so in the Breakfast. So, Saffola Perfect Nashta if I see, there is already entrenched players like MTR etc., in most of the breakfast options and of course ID Foods is there in Dosa with very differentiated positioning. The India's largest company tried the similar kind of thing in South India and they failed. So, what is different here? Is it just a brand which will work for you? If you could discuss why this space in which already there are players.

Saugata Gupta: So, this is just a small prototype we are doing. I think the issue is that when you participate in Breakfast, you need to have a range. In this case, if you look at each of the variant, we are differentiated in terms of the both Idli and the Dosa; they are not plain. Yes, some people will fail and some people will succeed, but in foods, you need scale and range. And therefore, we are looking at people looking for healthier options.

Number two, as trends change where people they don't want to cook their own stuff. There is ready-to-cook kind of trend increasing. So, you want to tap that. As I said, it is a prototype. In fact, it is a very low investment prototype and we are driving in our new engine, which is engine-2 or engine-3 in foods and a culture of experimentation. And given the fact that they are not ATL invested, we have the right appetite for experimentation while we know some will fail and some will succeed. Currently, it is not a big bet. We want to start things small. And if they win, we want to scale up quick and then make it big.

Abneesh Roy: My second question is on Saffola. As in the food portfolio, very strong growth even on a strong base of 23%-38% growth. So, what's going right? Because FY '18 was a tough year for you, and now 4-5 quarters, very good growth. So, one is that. And second is in terms of the vending machine, now 300 vending machines in 200 offices. So, any learnings from there? Is it now

commercially viable? Is it now finding takers? When do you see a pan-India launch in terms of the vending machine?

Saugata Gupta:

I don't see a vending machine as a stand-alone business. We are using it for driving more sampling and selling. Given our product portfolio, we don't see vending machine business as a commercial business. I think it is an alternate form of sampling. It's an alternate form of creating a habit and, I would say, A&P in terms of creating saliency and visibility for the brand because, as you know, unlike other food products like snacks, here you have to do wet sampling. So, this is a very interesting route to drive wet sampling of the product.

As regard to the foods question, we need to get scale in foods. We are creating differentiated brands. We have got the right distribution, whether it's GT/MT. We have hit profitability, we have broken even in foods and it is very important that we rapidly scale up foods so that we can grow at 20- 25% every year so that we have at least a 400 crore business over the next 3-4 years.

Abneesh Roy:

One follow-up here. So, the 38% growth, is the vending machine also a reasonable portion of the growth coming from one of your vending machines?

Saugata Gupta:

No. The vending machine is nothing. It's almost zero.. It is just that we supply the pre-mix and it's hardly anything. It doesn't even contribute 1% to the growth there.

Abneesh Roy:

My second and last question is in terms of urban GT slowdown is there 5%, even if I see a 3-year growth in urban GT it is just 11%. So, is it only because of Saffola? And in Saffola, you're tried below one litre also, right? What has been the response to that?

Saugata Gupta:

So, there is a combination of the fact that there is significant business moving to Modern Trade and E-com and number two is the stress on wholesale channel. So, that has been a post GST scenario and this constitutes a significant portion of urban GT. And lastly, what has also happened is that in this context, the distribution ROI got impacted. If you add GT plus MT plus E-com, the urban growth is actually 5%.

Abneesh Roy:

And on the smaller pack of Saffola, any success you have seen?

Saugata Gupta:

It is again a very small prototype. Any innovation is like nurturing a small child. I can't declare whether the child is good or bad within 3 months, so we have to wait and watch.

- Moderator:** Thank you. The next question is from the line of Percy Panthaki from India Infoline. Please go ahead.
- Percy Panthaki:** My question is also about new launches but more general in nature. You have done a lot of new launches in the last few months. You have done True Roots. You've done Coco Soul. You've done Breakfast Range, etc., some new variants of oats etc. So, just wanted your initial feel. Some of them might be too early to comment on. But to whatever extent, if you can comment on these 4 or 5 new initiatives and new sort of subcategories that you have launched where you see sort of initial signs of success, where you feel that no, this is not ramping up as expected. Any feel you can give on this, sir.
- Saugata Gupta:** So, as I said that, it is very difficult. We have the policy of not giving a quarterly feel of these things. As I said, it takes time to build. And we have to be patient. But to give you a flavor, from the past obviously, Aloe has been extremely successful. The food business has seen traction. Similarly, in the bottom of pyramid, both Value Added mustard oil and Nihar Shanti Jasmine, if you see market share, they have got some scale. In terms of the very new things, the Saffola FITTIFY and Coco Soul, which is a new foods business, Dry Fruit oil and Kaya could get scale by the end of the year.
- Percy Panthaki:** Okay. Secondly, on Kaya, if I just dwell a little deeper on this. What is the plan here? Do you plan to make it like a sort of mass premium skincare brand available in Modern Trade as well as General Trade? I mean, do you plan to go sort of, not mass market but, I mean, in to mass market distribution and can just become like a normal premium mass market brand or do you expect it to remain more niche restricted to Modern Trade etc.?
- Saugata Gupta:** We are still prototyping. It's available in Modern Trade, E-com, and we are prototyping in 2 markets in General Trade, top-end General Trade. And, we have launched it in March. Please give us some time. And I believe that as the skincare category penetration increases, skincare is a potential source of growth. As you know, at least in the last top 7-8 cities where Kaya has clinics and there is Kaya product sale from the clinics and E-com, Kaya brand is known. So, it makes sense to have a pret version of Kaya, which is targeted at a slightly younger population at a slightly lower pricing to tap this opportunity. So, we are still in a prototyping stage but we believe given the opportunity, yes, it can get into premium general trade, which is chemist, cosmetic and standalone Modern Trade and General Trade. As you know, some of the other masstige brands in anti-ageing or masstige skincare are reasonably available because they have price points which are reasonably attractive.

- Percy Panthaki:** Right. Sir, my next question is on VAHO. So, if I take a longer-term perspective, now basically that initial rapid growth of the low-cost Amla variant, that is now like normalized, and it's no longer going to grow at 30%-40%. So, in this kind of context, what is the growth driver? Of course, there will be normal organic growth in all your brands. But apart from that, do you think that there is something on the horizon to fill in the gap that, let's say, Shanti Amla had sort of delivered over the last 4-5 years, if something because if that is coming in line with normal growth, is there something that will sort of, again, be a product of that sort going ahead?
- Saugata Gupta:** So, it might not be through one brand. So, I think there are 2 opportunities. One is a bottom up pyramid opportunity because, as I said, I believe in a post-GST scenario, with wholesalers becoming a little challenged, some smaller brands will yield to larger brands. So, there is a bottom up pyramid opportunity which organized players including us and some other brands are capitalizing on. The second is the premium end, which I said is the combination of Aloe, Dry Fruit oil and maybe more sustained participation in Hairfall. So, it can't be made up with one brand, but a combination of these two which has to drive the VAHO growth in the future.
- Moderator:** Thank you very much. The next question is from the line of Prakash Kapadia from Anived Portfolio Management Service. Please go ahead.
- Prakash Kapadia:** So, if I look at the capital employed for the domestic business that has seen a reduction of 120 crores. Is it the lower copra prices or is it something else which is leading to this?
- Vivek Karve:** So, if you look at the capital employed, what we have done is there are supply chain financing initiatives that we have taken, which has elongated the payables in our system. So, that is the key reason.
- Prakash Kapadia:** Can you share the value growth of Value-Added Hair Oil for the quarter?
- Saugata Gupta:** 11%.
- Prakash Kapadia:** And lastly if I look at Saffola edible oil, historically I think Saffola Gold has been 50%-55% of our sales mix. So, is that facing lower demand because of the slightly higher price point? Or are some of the other variants and sub-brands also facing some challenges? If you could share some perspective.

- Saugata Gupta:** It's not an issue of the sub-brands. The issues are the justification of the price premium and inter-channel play, as it has been the urban general trade where we have been facing significant headwinds.
- Prakash Kapadia:** And is it because some of the other brands have become aggressive or better price points? Or the value proposition of Saffola Gold has been not accepted or not been communicated? Is that the reason?
- Saugata Gupta:** I think we need to tackle the entire price-promotion strategy. And I agree with you that the value proposition compared to some of the others has got challenged, and therefore, that price promotion strategy with respect to each of the channels, we have to get it right. And that is the experiment I was talking about. So, we still wait and watch and see what happens.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** First question on copra prices, Saugata. Did you mention that from third quarter onwards, you expect a bit of inflation in copra?
- Saugata Gupta:** Could happen because as you know when you get into off-season. So, in fact, if you look at currently, we are buying at 25% below last year, so that could move to 15-20%.
- Vivek Maheshwari:** Directionally, you're not calling for a big inflation right from where we are?
- Saugata Gupta:** It's unlikely but as you know these kinds of things very difficult to predict. But, on buying terms, it could see little inflation because we are now in the season and normally, there is a little bit of inflation as you move from October to November, which is off season.
- Vivek Maheshwari:** On Saffola, I just couldn't understand your opening comments about what exactly have you done in urban GT. Could you just recap for me?
- Saugata Gupta:** It is the price promotion strategy. Last year, most of the promotions was at INR 799, 5 plus 1 litre free across all channels. So, what we thought is that if there is a price affordability issue and also there are channel interplays that normally happen, which will be E-commerce & modern trade impacting GT, can we go for a differentiated pack strategy? So, this year, we have a 5 plus 1 litre running in Modern Trade and E-com at INR 825, which is the price of the 5 litres. So, we

are giving 1 litre free in Modern Trade and E-com and we are giving Rs. 126 price off in GT. Now in the last 75 days that we have launched this, that has not led in either distribution increase or transaction increase. So, as a result with no significant transaction increase, against the 5 plus 1 which was there in the last year base, we are losing volumes. That is what I meant.

Vivek Maheshwari: Okay, got it. And this logic of having this differentiated pricing, was it because that is how the competition was behaving in the market? What drove that differential strategy?

Saugata Gupta: So, for a brand like Saffola, given the kind of consumer offers or the consumer proposition that happened in Modern Trade and E-com, the objective is to prevent inter-channel play and give a value proposition in GT. And globally, this is how revenue management and assortment is normally done wherever there is strong interplay between 2 channels.

Vivek Maheshwari: Okay. And if I look at the last 10-12 quarters, there has been a constant struggle on your part on Saffola, and you have experimented at different points in time. When do you think you will have all the answers? Or is it that Saffola is now too difficult. Beyond foods, just on the pure oil side, is it too difficult to get the growth back here? The fact that it is not translating into numbers. We have seen that in Parachute, there have been certain blips along the way, but you have been able to rectify those.

Saugata Gupta: Yes, you are right, but we have to keep trying. As I said, the brand has had significant equity. Last year, the Saffola growth was 8%. And there are a lot of brands, which are INR 1000 crore brands, which have grown 5-7%. In fact, if you take out the demonetisation and the GST quarter, the average growth rate has been around 6-7%. We haven't done a great job. We still don't have all the answers, but as I said, we have to stay on track.

Vivek Karve: And one more thing for the records, if you take a slightly long-term trend, I'm starting a little in the past. Except for FY '18, our average growth rate has always been in the range of 8-9%. So, what we are trying to say here is our aspiration for the brand is much bigger. And that's where probably the efforts that we are putting in may not be yielding the desired results.

Saugata Gupta: So, growth in FY '16 was 8.8%; FY '17 was 7.8%. FY '18 was flattish because of the GST quarter. FY '19 was 8.1% again. But I completely agree that we haven't done a good job.

Vivek Karve: We are falling short of our own aspiration. I think that is how we would read it internally.

Vivek Maheshwari: Okay. Sure. And lastly, on the urban GT, 5% decline whereas, overall urban growing 5%. That's again something that we have again, I have not picked up in case of other companies. So, is there a specific thing with your category where the salience of Modern Trade and E-commerce is disproportionately higher, which is what is impacting being on an urban GT because this minus 5% number looks too much?

Saugata Gupta: Yes. I do not know whether for others, you have a breakup of urban GT plus Modern Trade plus E-com. But I believe we also must realize that Saffola is a big component of urban GT. And that is also impacting. Number two, some of our new launches are also skewed towards Modern Trade and E-com. But as I said, the overall urban numbers of 5% growth is reasonable. I think they can be better, but I just think the urban GT is stressed because of the fact that Saffola is a significant component of it.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Just 2 questions. Firstly, on the fact that copra has actually come off quite sharply over the last 2 quarters, just wanted to get your sense whether you think, apart from the low-margin, non-focused packs, some pricing or consumer offers would be required even in the rigid packs for Parachute on coconut oil going forward to pass this on?

Saugata Gupta: So, as I mentioned, a drop of around 15-20% overall is comfortable. Any deflation more than that is not comfortable. We have taken some tactical calls in price offs and promotions. Having said that, I think what is different from this time versus the previous time is a situation where there is a liquidity crunch in the overall system and the wholesale system is stressed. Also, we have a much stronger direct distribution and market leadership, which is a source of competitive advantage. So, therefore our ability to stretch the yield point on the pricing model perhaps is slightly better than what it was in the previous years.

Number two, I think we have learned from some of the earlier deflationary times, so we have taken proactive steps in some of the packs in terms of pricing and promo. So, to answer your question, if we believe that there will be some uptick in the prices as it goes in Q3, with our ability of strategic buying and position building, I think we are comfortable.

Harit Kapoor: Got it sir. Second question was on the advertising side. So, obviously, brand investments have been strong in India. But even if you look at last 2 quarters, international markets, there has been

a sharp increase in the brand investments. I just wanted to understand whether this is largely Bangladesh or is it investments across the board?

Saugata Gupta:

It is specifically Bangladesh where we are on an aggressive diversification plan. Our Parachute contribution was 90% three years ago. We are now at 70%. We have now launched Male Grooming, Skincare, Baby products and we will continue to be bolder in terms of our diversification, given our strength in Bangladesh over the years. Having said that, as long as we are making significant margins, we are pretty happy. We are also investing in Vietnam a bit. But primarily it is our turbocharging of our growth in Bangladesh.

Moderator:

Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

On Parachute, actually just carrying forward the previous question. So, normally when copra falls, you do have a slowdown in the volume growth. You said that this time it's probably the competitive environment is a bit different. But at the same time, the macro environment on consumption is also weakening. So, have you actually when you say that the liquidity constraints and things like that, on the ground, do you actually see supply issues of some of your bottled coconut oil competitors in terms of either pricing or supply of stock or distribution width which is helping you sustain this growth? And is there a risk that if we push this a bit too much there, there could be a quarter where suddenly we see a volume growth drop here?

Saugata Gupta:

So, two things. See, what I meant is that sometimes in current circumstances, small players have limited ability to load the channel and also the wholesale might have reduced the repertoire of brands. So, these are the changes that have happened. And therefore, I think somebody with a direct distribution has a competitive advantage. We are not getting complacent at all. We check this from month-to-month. We also now have a model which is not only pricing and volume but also linked to Nielsen offtakes. And as I said, we are tweaking in terms of consumer promotions and price offs. Just to give an example, in Parachute, if you look at our volume and value there has been a 1% deflation. So, it is not that we haven't taken some correction, but we have just taken it in certain packs and certain markets. So, we are just following that pattern but are being extremely careful. It's not that we will be complacent and be greedy about margins at all.

Arnab Mitra:

Sure. And the market share gain, I think, which you mentioned in the release of 250 bps, is that on rigids only?

- Saugata Gupta:** That's right.
- Arnab Mitra:** Okay. The second question was on the gross margin. So, while copra has come off, there has also been a very sharp depletion in HDPE prices, which is one of your key inputs. So, is the raw material environment more benign going ahead compared to what it was even this quarter, given the fall in the crude derivative prices? And therefore, do you have more possibility on gross margins or this kind of yield will get reinvested in pricing or advertising?
- Saugata Gupta:** I think you can look at 300 bps for the balance year fairly. On HDPE, it will be marginal. The biggest one is copra ultimately and you can say that it might not be 25%, but copra deflation could be 20%. That's the kind of a number you can take.
- Arnab Mitra:** Sure. And last question on the rural growth. While rural has grown well for you, I mean, at least better than urban. Is it a stable situation? Or are you seeing the growth kind of gradually slipping off through the quarter as you went through the June quarter?
- Saugata Gupta:** No. So, let me just give you a flavor of the rural growth. Yes, overall consumption and channel liquidity, those things are an issue. Having said that, two things we are focusing on this year is improving the effectiveness and the quality of our rural distribution and reach. We believe that is a source of competitive advantage and now we also have a repertoire of bottom up pyramid packs like Nihar Shanti Jasmine, Value Added Mustard along with Shanti at Rs. 10 and 20 price points. So, we are just focusing on incremental rural distribution because we believe that going forward over the next 5 years, given the dramatic transformation that urban GT will experience, if we keep on investing in rural and direct distribution, this will be a long-term source of competitive advantage. And for large organized players, also the supply chain and network optimization in a post GST scenario have also given some cost savings which can be ploughed back into rural distribution.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi:** So, my question is on your international EBIT margin. So, this margin is historically the highest EBIT margin, and it is even higher than to your domestic margin also. So, on a Y-o-Y basis, so you achieved around 500 bps expansion. So, can you just give us some color about how you are getting such kind of a profile and is this sustainable?

- Saugata Gupta:** We have given you an overall margin guidance of 19% plus. There could be quarterly fluctuations given the mix of the countries and sometimes the A&P over the quarter. But as you know, in 2013, the international margin was 9%. We have moved it to 18-20% and that is here to stay. We will never come down from that level.
- Naveen Trivedi:** Can we assume that the large part of the margin expansion of this 500 bps is driven by your control on the A&P part?
- Saugata Gupta:** No, it's the mix. The A&P has increased. It is a question of gross margin expansion. As you know, a significant portion of the Bangladesh business is the coconut oil business. So, I think it is a mixture of both. But as I said, I don't think we should look at this margin as a kind of a bellwether margin for the balance year. But having said that, 18-20% international margin is also here to stay over the medium term definitely. A&P actually has gone up. So, if you look at it, we have been able to do this with increase in A&P.
- Naveen Trivedi:** And the second question is on Bangladesh. PCNO has lost some market share in the Bangladesh, any specific reason and like any comments you want to mention here?
- Saugata Gupta:** Any market, in which you have 86%, 87% market share, there could be local competitive threat. Having said that, we have been able to grow the Parachute franchise. So, there has been some market share losses in some places, but we are taking action to protect this market share erosion.
- Naveen Trivedi:** And lastly like what we observed in the last 6 months, despite what we have seen quite a slowdown scenario, most leading companies have gained market share in their portfolio. Is it that GST benefits are gradually coming to leading players, and the unorganized side of the market now started losing share and most leading companies are enjoying despite a slowdown has impacted more, it is like slowdown has impacted more towards the smaller players that the leading players.
- Saugata Gupta:** I would think it is selective. For leader brands which have significant market share and companies with deep and high-quality distribution. But it's a very slow trend. I don't think we should think it is an accelerated trend. But yes, there is a trend.
- Moderator:** Thank you. The next question is from the line of Siddharth Bhattacharya from Anvil Wealth. Please go ahead.

Siddharth Bhattacharya: I have 2 questions. I wanted to understand firstly, how big is the health food market FITTIFY target market today for us?

Saugata Gupta: It is a very low-penetrated market. I would say that if the new food business can deliver INR 150 to 200 crores in the next 3 years, we will be happy.

Siddharth Bhattacharya: Okay. And what percentage of the overall market would that be?

Saugata Gupta: So we are participating in multiple segments and very difficult to give market share in each category. But as I said that it's a repertoire /range of products. And the way to look at it is that people are increasingly seeking better-for-you in-between meals or breakfast options. We don't plan to be into center of the plate, but rather on the side of the plate. And, with Modern Trade, specialty food outlets and E-commerce driving that trend. I would think we are going to capitalize on trend. We don't have a specific market share. We are running this food business entrepreneurially. For a lot of things, we are just producing 5,000 pieces to see if something is working or not. So some will scale up. It's very difficult to actually, in a true MBA style, get into market construct as to what is the market share aspiration. We want to run this business entrepreneurially and see how it moves along the way. But, as I said, if we can hit, INR 35- 40 crores this year and then move to 150-200 crores in 3 years, we would have done a good job.

Siddharth Bhattacharya: Okay. So, my next question is related to the earlier one. Basically, I wanted to understand in terms of these new launches, new product launches. What is our threshold levels in total, figure out whether it's a success or not? Because there will be many products that will be added to the portfolio. Some will go out over a period of time; new ones will be added. So, what is it that makes the management decide we want to pursue with these particular products for the next 2 years, 3 years, 5 years, what will be the time period?

Saugata Gupta: I think for any new products, we have to give it time, say 2 to 3 years. By trying to give you guidance and exact numbers, I don't want to create internal pressure and say that we have not met them quarterly. Therefore, if I start giving quarterly guidance, it will be very difficult. Having said that, some of the good successful launches within personal care in value added hair oils, like Aloe for example, has crossed the INR 50 crore mark. Foods crossed the INR 100 crore mark in 3-4 years. So, we have certain internal action standards. It has to be meaningful. Also, if I am lagging behind the action standards, we see if there is an improvement of growth year-on-year. We look at those things and then take a call in 3-5 years. So, it is about as long as the conviction is there. If something bombs or it causes a complete washout, we will take a call

much quicker. But as long as there is progress, we are fine. I think it will be difficult to set ourselves a quarterly target on this, but yes, we do look at sequential growth. To give you an example, sometimes our consumption environment is positive and sometimes will be negative. But I would say that 3-4 of them should hit at least INR 50 or 100 crores in 3 years. Then it makes business sense in terms of adding critical mass to the overall business.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: I have 2 questions. The first question in continuation with the food business. What is the aspirational contribution you are expecting in next 3 years' time for the food business?

Saugata Gupta: The new Foods business should do INR 150 -200 crores by 3 years. You have an existing food business, which is INR 150 crores plus which should grow 15-20%. And we must look at some

new things. In the next 3-4 years, we will have done a good job if we have INR 400-500 crores business by 2022 or 2023.

Shirish Pardeshi: Would you be able to share what is the full year target for new product contribution?

Saugata Gupta: No.

Shirish Pardeshi: The other thing I wanted to check, in the information update, you said that one-third of the market is still loose. I just wanted to understand that thing deeper. Which segments or which locations? Or is it predominantly the loose is higher in North India?

Saugata Gupta: Yes. I think it was referring to coconut oil, one-third is unbranded.

Shirish Pardeshi: Yes. Is it rural which is still a bigger opportunity in terms of conversion?

Saugata Gupta: Yes, rural is a bigger opportunity.

Shirish Pardeshi: And what could be this loose market in terms of size?

Saugata Gupta: In terms of?

Shirish Pardeshi: Size, maybe volume or value, whatever you have.

- Saugata Gupta:** Broadly, you can say about INR 2,000 crores.
- Shirish Pardeshi:** Okay. And this is a long-term opportunity for us for conversion?
- Saugata Gupta:** That's right.
- Shirish Pardeshi:** One more question on the wholesale part, which you've touched upon briefly. I just wanted to understand this liquidity issue, which has been hammering last 2 quarters. Has that been completely sorted out? And I am basically looking at what's the wholesale contribution which you guys are enjoying right now?
- Saugata Gupta:** We do not want to get into exact wholesale contribution. But, for wholesale as a channel it is just not the liquidity issue. There are also inter-channel dynamics between cash and carry, wholesale, E-Com and B2B. And obviously, in the post GST scenario, there will be increasingly a level playing field in terms of compliance. So, perhaps in the long term, 2 things will happen. Leadership brands will get squeezed because of the repertoire or range. Because of this constant rate fluctuations and channel interplay, the holding power of the wholesale channel or running trade offers to dump stocks, these will become less of an occurrence. And lastly, in terms of cost to serve, as you get critical mass, direct rural could be actually cost neutral in the long-term compared to driving through wholesale.
- Shirish Pardeshi:** Okay. So, basically, I just wanted to understand you're building distribution plus 5,000 population. So, is that you have given up hope on wholesale coming back, and that's why you're building the distribution? Or do you think wholesale will come back and that will complement your distribution?
- Saugata Gupta:** You can't give up hope on. But, I think the issue is that we have to see if direct distribution is a source of competitive advantage or not. What happened is that, in the past, maybe given the incremental cost of distribution versus incremental revenue, channelizing a significant portion through wholesale would have been a much more beneficial thing. In a post GST scenario and with channel interplays and options of cash and carry and others as a kind of a distribution builder or a distribution alternative available, we believe for large-scale players, direct distribution is a long-term sustainable thing. So, therefore, yes, companies who don't have direct distribution will be at a disadvantage in the long term.

- Shirish Pardeshi:** Just last one question. Will you be able to share the full year CSD contribution for FY '19 and this quarter?
- Saugata Gupta:** 6-7% broadly.
- Shirish Pardeshi:** And it remained at 7% in this quarter?
- Saugata Gupta:** I don't want to get into quarterly contribution of a channel. On annualized basis, that's the number.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Percy Panthaki:** Your foods growth is quite high at 30% plus. And of course, there are a lot of new launches in the food space and even launches which happened in the last 3, 4 quarters, they might be ramping up. So, just wanted to understand, what is the underlying growth of our core business that is Saffola Masala Oats, how is that growing?
- Saugata Gupta:** 20%.
- Moderator:** Thank you very much. The next question is from the line of Sunita Sachdev from UBS. Please go ahead.
- Sunita Sachdev:** Very heartening to see that you're giving importance and wanting to build distribution as a sustainable advantage completely in the right direction. I just wanted to get some color on what exactly and how exactly you're building this distribution? What exactly are we doing to build it?
- Saugata Gupta:** There are 2 parts. In rural, we are first focusing on the quality of reach. More than numbers, I believe quality is more important and in certain markets where you're under-indexed this year, we'll focus on that. We have also looked at the entire channel pay for performance because at end of the day, it is important that each channel is incentivized for growth rather than maintenance, because sometimes your performance management system for the distribution partner might not be incentivizing growth. So, we have done these 2 things. Also we are using automation to ensure effectiveness of coverage and that there is no wastage. As far as urban is concerned, we are under-indexed in chemist, cosmetic and specialty food outlets to drive our new portfolio. And there, we have segmented distribution, where we have created a special

channel programs and a higher quality of last mile third-party salesforce. I think in-shop execution is very important. Therefore, whether it is beauty advisors or promoters, demand generation is one area we are now investing in.

Sunita Sachdev: So, your full year volume, value growth, ballpark numbers that you give kind of include all the improvements or added impetus that you're putting on this urban distribution and rural distribution channels, right?

Saugata Gupta: That's right. As I said, it will take time. I mean we have just started the process and we believe it's for the long term. And whatever number we have talked about, which is a 6-8% for India, with a slight deflation, includes everything. This is our outlook as of now.

Sunita Sachdev: And lastly, I think international growth is definitely heartening. How sustainable are these levels of growth rate?

Saugata Gupta: We are very positive. Let me just give a disclaimer, I think this is subject to no macro surprises, whether in the geopolitical or economic front because international businesses are volatile. Having said that, we are extremely lucky because if you look at around 75% of our business from international which is 22% overall, and 75% of 22% is around 15-16% of our business, comes from high GDP growth countries. So, if you look at Bangladesh, GDP growth is 6%. It is reasonably stable. The quality of human development index is good. Vietnam is growing. So, we are lucky that 90-95% of our business has come from countries, where there is at least 5% GDP growth. There is currency stability. So, that's the first thing. So, that gives us the assurance. Secondly, we have invested a lot to improve leadership capability and execution so that there is predictability and no surprises in the business. So, at least, Bangladesh and Vietnam, we are pretty sure. South Africa, there is a clear consumption and macro situation in terms of demand and GDP growth rate. While MENA is not very exciting, at the same time, it is holding steady. I don't think there'll be any surprises. We have started making profits in Gulf after a long time. So, overall, it's steady. And I think the more reassuring part of this is that the profitability levels or the margin levels of the international business, which have actually doubled over the last 6 years, is here to stay. I don't see any erosion of that base.

Moderator: Thank you very much. The next question is from the line of Sameer from Motilal Oswal Securities. Please go ahead.

- Sameer:** My question is regarding the product lines related to skin care and body care, do you plan to enter into products which have a certain mass market to premium kind of pricing?
- Saugata Gupta:** We have Kaya Youth as of now and we will see how it goes. I don't think we are going to get into new brands as such.
- Moderator:** Thank you. As there are no further questions, I will now hand the conference to the management for closing comments.
- Vivek Karve:** Good evening. First of all, thanks for joining the call today. As Saugata rightly pointed out, we had a reasonably resilient performance in the first quarter. And as we look forward, we're confident of delivering 6-8% volume growth in the India business and a double-digit constant currency growth in the International business. So, that's it from our side. Good evening.
- Moderator:** Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

(This document has been edited to improve readability)