



Marico Limited
Q1FY24 Earnings Conference Call
July 28, 2023

**MANAGEMENT: MR. SAUGATA GUPTA – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER, MARICO LIMITED
MR. PAWAN AGRAWAL – CHIEF FINANCIAL OFFICER,
MARICO LIMITED**



*Marico Limited
July 28, 2023*

Moderator: Ladies and gentlemen, good day and welcome to Marico Limited Q1 FY24 Earnings Conference Call.

We have with us the Senior Management of Marico represented by Mr. Saugata Gupta - MD and CEO and Mr. Pawan Agrawal - CFO. 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.

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

I now hand the conference over to Mr. Saugata Gupta for his opening comments. Thank you and over to you, sir.

Saugata Gupta: Good evening to all those of you who have joined the call.

Let me start by giving a flavour of the operating environment during the quarter that has gone by, after which I shall touch upon our performance, followed by our strategy and outlook for the year ahead.

Volume growth for the FMCG sector was in the positive territory for the second consecutive quarter, led by steady growth in urban, however, evident green shoots in rural were not yet visible. Factors such as retail inflation dropping to sub-5% levels, late pickup in monsoons, hike in kharif crop MSPs and higher government spending continue to give hopes of a gradual recovery in rural sentiment, although, the extent of impact of spatial distribution of rainfall and erratic weather patterns on rural farm incomes may also have a bearing on sentiment in the near-term. However, so far at least South and West part of country, monsoons look good.

While companies are taking price cuts in reaction to moderating commodity inflation, pricing growth has been tapering off sequentially, and therefore, growth in the coming quarters is likely to be led by volumes. Foods continue to lead the sector, while mass personal care categories continued to exhibit a strong linkage to rural growth.

Moving on to our performance in the quarter, domestic volumes grew 3%, which is lower than our expectations. However, it should be read in the context of a couple of one-off pertaining to

Page 2 of 19

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com



Marico Limited
July 28, 2023

channel inventory adjustments Firstly, a sharp month on month fall in vegetable oil prices has led to trade significantly lowering inventory levels in Saffola Edible Oils, while we've taken multiple pricing cuts (amounting to ~30% YoY) to pass on the benefits to consumers. As a result, Saffola Edible Oils recovered partially on the low base of last year. Since offtakes have remained healthy and the worst of volatility is mostly likely over now, we expect growth in Saffola Edible Oils to be steady going ahead. Secondly, the final phase of trade scheme rationalization, initiated in Q1FY22, to smoothen the skew that was historically prevailing in the first quarter revenues of the core domestic business. Now that we have evened out the trade schemes throughout the year, we believe this will hold us in good stead over the long term in terms of managing the supply chain and BTL spends more efficiently. While volume growth in core categories of Coconut Oil and Value Added Hair Oils was subdued in Q1 by this one-off impact and muted rural sentiment, we expect an uptick in both portfolios from Q2.

Now that one-offs are out of the way, we expect volume growth to resume an improving trajectory from Q2, as indicated by healthy offtakes and ~85% of our portfolio either gaining/sustaining market share and penetration, on MAT basis. Therefore, we do not expect any impact on the growth aspirations for the full-year as envisaged at the start of this fiscal and conveyed in the previous earnings call.

Coming to our newer categories, we have made a positive start in the course of achieving our diversification target for this year through Foods and Premium Personal Care portfolios cumulatively contributing ~20% to domestic revenues. In Foods, our scale-up continued with growth in the mid-twenties. Growth in the core Oats franchise has been supplemented by healthy traction in newer categories of Honey, Plant-based protein, Spreads and Munchiez. Consistent with the strategic approach of expanding our addressable market in value added foods and nutrition segments, we are excited by the addition of the clean, plant-based nutrition brand, 'Plix', in our portfolio. Plix is committed to the mission of 'Making Nutrition Fun' and fuelling the habit of incorporating clean, plant-based superfoods as a part of a healthy and active lifestyle. Plix's portfolio consists of products which are non-GMO, vegan, gluten-free, cruelty-free, and uses reusable and recyclable packaging. The brand has built an impressive franchise by upholding evolving consumer needs and sound business fundamentals and is now clocking ARR of ~Rs. 150 cr+ with very low cash burn. It is evident that we are a strategic investor of choice for founders who believe in growing sustainably with a watchful eye on profitability.

Alongside the Foods portfolio, the composite Premium Personal Care portfolio, comprising Livon Serums, Set Wet Male Grooming and Digital-First brands, has delivered a steady

performance as well. We expect this portfolio to contribute to ~10% of domestic revenues in FY24.

As specific Foods and Digital-first franchises attain scale, we are also charting a path towards making significant improvements in profitability and significantly reducing cash burn rates in our Digital business.

Moving on to the International business, which has been remarkably resilient despite varying degrees of uncertainty in the operating environment. Bangladesh extended its steady run with core portfolios performing healthily and newer portfolios scaling up well. Vietnam faced some consumption headwinds; however, the underlying business remains strong. MENA, South Africa and NCD business have been quite consistent over the last couple of years and we will continue to invest for growth in these businesses. The overall business is poised to deliver double digit constant currency growth in FY24.

For the consolidated business, revenue growth in Q1 was significantly weakened by pricing interventions in core domestic portfolios and currency headwinds in few overseas geographies. We believe pricing deflation in the domestic portfolio has bottomed out and will now start tapering off. Therefore, we expect revenue growth to move into positive territory in the second half of the year.

On the profitability front, gross margin and operating margins in Q1 expanded ahead of internal expectations, owing to incrementally softer input costs, while we maintained investments towards strategic brand building of core and new businesses. While we will continue to invest in A&P and maintain our share of voice ahead of share of market, we expect operating margins to expand to 20%+ levels in FY24, higher than envisaged earlier.

To sum up, despite a slower than expected start, we are confident of delivering an improving trajectory in topline and earnings growth through the course of this year.

Last but not least, we have always viewed our entire business operations through the lens of sustainability and our Sustainability 2.0 framework has been seeing encouraging progress across each of the eight broad themes. We have detailed the same in our FY23 Integrated Annual Report, which was released on our website two weeks ago, and hope it will make for a good reading. We firmly believe 'Creating shared value for all' will aid us in driving sustainable, all-round and superior growth in the longer term.

With that, I will close my comments. Thank you for your patient listening and I'll be most happy to take all your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Thanks. My first question is on yesterday's acquisition. So, in terms of the business 'Plix', what is the right to win? I see a very sharp scale up from Rs. 40 crores in FY22 to broadly Rs. 106 crores in FY23 and now ARR of Rs. 1.5 billion and in this kind of format there are lot of other players. If you could also talk about the distribution in terms of physical and online? And is there any kind of synergy benefits you see from your other digital business or say other acquisitions you have done in the last 6-7 years?

Saugata Gupta: First of all, Plix is largely online and therefore obviously one of the things that they need to do is expand. We firmly believe that any digital brand needs to get to a critical mass in the E-Com and their own D2C space of hitting at least Rs. 80 crores to Rs. 100 crores and a certain level of set of consumers and level of saliency awareness before it goes into omnichannel. I think while the current run rate of 150 crore is very encouraging and I think it is right scale for going to Omnichannel, I think there's still a tremendous potential to max out in online. I believe, Plix has the right to win and if you really consider one of the things we look at when we are doing acquisitions in the digital businesses is brands which are sharply differentiated. For example, if you know Beardo, Beardo is a Harley-Davidson of male grooming and even after three years post our taking over, I think the brand continues to perform well. We look for founders who have a significant urge to build-to-last as opposed to just building-to-sell, and therefore we also look at commercial savviness of the founders. We look at good unit economics because if the unit economics is not good for any digital brand, it will never make profit, whatsoever category you scale up in. And so, the fundamental things are very important like whether you have a core set of SKUs, what is the repeat rate. So, we have now a set up what you call a digital quotient of what we do to evaluate brands. And I think our success rate, our hit rate in meeting acquisition assumption is pretty high.

Now coming to synergies, I think the one with the synergy potential could be distribution. The second is as we now have a boutique of 4-5 digital brands, there are a lot of opportunities for cost synergies at the back end, which the process we have just about started. So, in a nutshell, I think quality of promoters, quality of the brand equity, how consumers love them are our core principles. For example, we look at the ratings in Amazon and Flipkart for a brand, whether there is significant repeat rates, has the brand started making money. To give you an example, in both say male grooming or you know Plix compared to some other brands, the burn rate is

much lower. And therefore, I think these are the kind of things we look at and we are pretty confident, I think Beardo is a perfect example. I see Plix as a huge mirror to what Beardo has done. And if we look at it, even in a so-called slightly tougher circumstances for e-commerce or digital brands, this brand continues to grow. In fact, it ended at Rs. 104 crore and is a hit. I mean, a current run rate of 150 crore and the quality of the business is good. And it's not about short-term tactical sale.

Abneesh Roy:

One follow up there. So, the scale up has been good and I don't think the number of years of this business has also been very long. So, wanted to understand in terms of R&D or patent or those kinds of right to win, could you talk about that because this is this is a very exciting field, but I'm sure a lot of other people are also trying similar kind of stuff. So, what is the reason for the scale up and is there an R&D angle to that?

Saugata Gupta:

Obviously the product delivers. While I'm not going to elaborate, I think any acquisition we do, we do a complete due diligence, look at strengths. And as I said, that ultimately in any business, whether it's digital, brick and mortar, the first thing you need is a product that delivers, you need a pricing, and in terms of classical marketing that is value seeking. You need a certain ability to innovate consumer understanding. I think they know how to operate the marketing funnel. So, I think and as I said, it's not only about the efficacy of products, it is also about looking at the future pipeline, the ability to develop these products and I think also we look at the background of the founders, in terms of their perspective on technology, product development and the fact that we are pretty excited by the team which is there and I think in any category, I think there would be competition. I think Nutraceutical Wellness is an exciting category. The question is can you create a scale and a profitable path to market which creates a moat and there is always one number one and one fast follower in any category which survive over longer time period.

Abneesh Roy:

One last follow up on this question. Last few years you have done multiple D2C acquisition and you have given lot of freedom at the local level which is I think obviously required given the extremely different kind of business and very different kind of scale also. So, wanted to understand on the earlier acquisition, how much of the Marico template has been put in place in terms of systems and processes or still those things haven't been done because still you want to keep that culture to remain intact.

Saugata Gupta:

So, if you see one of the biggest things about Marico, which has been perhaps, Marico has been successful by punching above its weight, and we believe that we want to be scaled insurgents and operate with owner's mindset and that is the empowerment which we give, which is an inherent part of Marico culture which attracts a lot of founders to us because that has become a

template for us becoming a strategic investor of choice where we partnered them into achieving their dreams and aspirations and a scalable profitable growth model.

Now there are four things which are non-negotiable. First, obviously portfolio and then comes capital allocation, your entire compliance quality, and the manufacturing practices. We are trying to build a process where we also do a lot of cross learning. I think what we have not yet done is, use 1-P data or first party data across all the four businesses and starting cross-selling. That is something which would lead to huge synergies, but I think we have started the process of cost management and we have created a nano facility in one of our plants to actually start insourcing, which will also give possible potential margin benefit. So, I think the process has started. It's a fine balance. But we don't want to completely run it like the core, because the right to win in a core and the right to win in digital businesses are completely different. Having said that, once they cross Rs. 150 crore and Beardo has already started the process, they are experimenting with Omnichannel and brick-and-mortar where having Marico's help is a definitive source of competitive advantage.

Abneesh Roy:

Sir, that's useful. My second and last question is on your 20% Foods and Premium Personal Care, which has doubled in essentially 3 years. So, here my question is in terms of gross and EBITDA margin of this part of the 20%, how does it compare with gross and EBITDA margin of the legacy India business? And between the two, if you could give us some color, I'm not asking for an exact number but a sense on which one is better and which one is still work in progress?

Saugata Gupta:

So, I mean, Premium Personal Care obviously is a high margin business but it also needs high A&P as well. In the case of Foods there is slightly lower margin but also low A&P. We are cognizant of the fact that the blended margin of Premium Personal Care and Foods should be equal to the gross margin of the remaining core portfolio, which is a legacy portfolio and that process is being significantly focused on so that this happens within the next 12 to 18 months.

Pawan Agrawal:

And if I may just add, Abneesh, currently at a weighted average level gross margins are definitely better than the overall portfolio. Now to talk about operating margins, currently many of these businesses will be in investment phase. Therefore, this may not be the right time. So, once some of the some of the businesses get a scale of Rs. 150 crores to Rs. 200 crores, it starts making money. So, as and when these businesses cross those scale, that will be the right time to look at the operating margin. But having said that, we are extremely focused in terms of driving the right gross margin for the portfolio. And weighted average gross margin portfolio of these businesses put together is definitely better than the existing portfolio.



Marico Limited
July 28, 2023

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

Percy Panthaki: My first question is on margin. So, you mentioned that this year you will do about a 20% kind of margin. If I look at your margins historically, this is probably the highest or close to the highest margin that you would be clocking as a company. So, what I wanted to ask is on a medium-term basis, on a two-to-four-year kind of a basis, do you see your margin stabilizing at this 20% or do you still see over that time horizon expansion in the overall company level margin at a consolidated level?

Saugata Gupta: So, I think there are two things. One is, as I said, you are absolutely right, so we are pretty confident that we should be able to cross the 20% mark in margins this year. Now, unless there is significantly black swan inflation that hits in simultaneously on copra, crude and everything in one particular year, I think it will start improving because there are multiple parts to it. One, I think in foods, for example, as we scale up, we'll be significantly starting the margin improvement program on Foods because we are very mindful that while we grow foods, we shouldn't get our eyes off the margins story. The second thing we are looking at is also I think we haven't done well in the premiumization till now to be very honest and we are finally getting our acts right and therefore we are going to improve on this. Number three, I think if you look at some part of the international business, obviously Bangladesh is doing well. I think secondly, in Vietnam also we have now replicated some of the Bangladesh journey and we are now replicating it in Middle East, North Africa. In MENA, since we didn't have scale till now, we didn't have margins, but there are players who make 20%+ margins. In fact, some of the market leaders in that market make 30% margins, so that's another potential driver. So, I would say margins is likely to creep up. However, in a year where there is a black swan where you have a 30%-40% increase in copra and crude hits \$100/bbl, there would be some pressures. But on a medium-term basis, we will see the margin creeping up. The other thing, which is there, this particularly happened in the last few quarters is that we haven't got the operating margin leverage because of deflation leading to lower revenues.

Also, I hope that by second-half the anniversarization of deflation of Bangladesh currency which is leading to translation hits in both our both top line and bottom line, that will also start neutralizing because as you know the Bangladesh contributes to a significant portion of top line and bottom line in our mix and had a significant depreciation starting from Q1, but now it's settling down. So, by Q3, that effect will start neutralizing. So, overall, I think subject to no black swan, to answer your question, yes, it will not. There will be a steady increase, but don't expect any hockey stick from here.

Percy Panthaki: Yes, sure. Just a sub question on that. While you are going to make attempts to improve the food margins, I'm sure for the foreseeable future they will, at the EBITDA level, be below the company average. So, therefore, and this is a faster growing segment. So, even if the margin improves hypothetically, let's say from a 3% to a 10%, but a 10% on a significantly higher base because it's a faster growing business, does that put a drag on your overall company margins?

Saugata Gupta: No. So, that's why I talked about the PPC or the Premium Personal Care, which is serums plus male grooming plus skin care and digital. Now they have the potential for higher EBITDA. Number two in Foods, at least in Oats we have proven that we can deliver a kind of a core margin in EBITDA terms in Oats. See in foods, I think the ask is to how do I start hitting Rs. 150 crores to Rs. 200 crores in each category. So, the focus from now on in foods is instead of launching 10 things, and maybe we'll launch one or two things, is that how do I start doing two things. One is focusing on scale. For example, soya, honey, munchies, can we get scale. Because foods the margin really grows with scale. The second thing which we have started which we have not done is, right now you have individual set of advertising - Saffola oil advertises, Saffola oats advertises, Saffola Munchies advertises, Saffola honey advertises, very soon, in fact, in over the next couple of weeks, you will notice the first signs of what I call a Saffola master brand advertising which will also give you efficiencies in A&P rather than the fragmented A&P which you are currently seeing in Foods.

Percy Panthaki: My second question is on VAHO. So, when fourth quarter results came out, you were very confident that this business is now on track for, if not a double digit, at least a high single digit kind of a growth. However, this quarter VAHO is roughly flat. That so just wanted to understand the apart from the pipeline issues that you mentioned, I mean does that explain that entire differential between a zero and a high single digit or is there some other reason for this?

Saugata Gupta: There are two things and just not pipeline. Pipeline has contributed some part of it. And in the second part what has happened is that we continue to see high intensity at the bottom of pyramid and this is one interesting phenomenon we're observing. Obviously, while the food inflation is slightly softening and overall inflation is softening, there is a tendency towards focus on consumers buying LUPs and price point packs and therefore competitive intensity at bottom of pyramid, which has again subtly increased. Having said that, again, I believe that Q2 onward you will see reasonable improvement as far as the VAHO numbers is concerned and the second half will go back to what we had talked about.

Percy Panthaki: Right. Just wondering here, just thinking aloud, historically, we haven't seen consumer trends being so fickle that they change in one quarter and then suddenly revert back in the second

quarter. So, what gives you confidence that whatever weakness you're seeing now will sort of reverse very soon?

Saugata Gupta: I think it's not the weakness in the sentiments. If you look at the category growth levels, in fact it has improved. So, if you ask me, Q4 plus Q1 which is Jan-June and then compared with say July-December of last year, there is a sequential growth. There is an offtake growth, there is a market share gain and therefore if you look at Jan-Jun together on VAHO, I think the story is better and I don't think any consumer sentiment dip has happened drastically, so on offtake terms in terms of Jan-March versus April-June, there has been no significant difference.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: A couple of questions. We know the primary growth, because of this channel issue and the measures that you have taken on the trade scheme rationalization, what would be the secondary roughly speaking?

Saugata Gupta: A couple of percent. I don't want to get into specifics and as I said that is not an excuse for why we have done three, okay, so I think it will be a couple of percentage points there.

Vivek Maheshwari: And that will be primarily in case of parachute and VAHO?

Saugata Gupta: And it's only in parachute and VAHO, that's right.

Vivek Maheshwari: Okay, got it.

Saugata Gupta: See, I will tell you one thing, so that you have a perspective that if you look at historically long ago Q1 was 31%, we have got it down to 27%. We want to take it down to 25%. So, that should explain the thing.

Vivek Maheshwari: So, that also means because there is a destocking in this quarter. So, this should unwind and as trade promotions get streamlined, automatically the revenues should also pick up in the next, let's say quarter?

Saugata Gupta: No, but I think it is also a good opportunity. Ultimately, it's about offtake. Number two, as I said that we want to mirror offtake and then also offtakes to be smooth along with smoothing of all the secondary and primary. So, I don't want to get into primary, secondary and offtake, but all I can assure you is that I think given whatever trends we see that this quarter onwards, it will start

improving again. But you know, it's very difficult to get into that. Just because secondary was higher than primary last quarter, I will want to do that much because see we have to look at something which ensures offtake and penetration and market share protection. So, I think primary is just a derived thing. So, I don't want to get into looking at primary and secondary. But all I can assure you is that the numbers that will come from both parachute and VAHO will be certainly better than what it is there in Q1 as the overall volume growth will keep on increasing as we go from Q2 to Q4.

Vivek Maheshwari:

Got it. And just a follow up, Saugata. And again, these are dipstick surveys, so may not be exactly accurate. But my understanding is that Marico at least in the last few years that I have seen, your trade inventories are quite at an optimum level, which always can get better for sure. But unlike some of the other companies who actually play with inventory a bit here and there, in that context, you know, I would have imagined that, you know, there is no big opportunity to kind of streamline the trade inventory, correct me if that understanding is incorrect.

Saugata Gupta:

So, I think we obviously go into what I call a pull-based system, which we do for our management. Having said that, you must be cognizant of one thing which is you know, especially urban distributors, when you have a lot of Saffola inventory especially in this quarter where there was a 30% reduction in prices, obviously their revenue would have got impacted, okay. So, that leads to that and so therefore we have to be mindful of our partner's profitability and other things.

Vivek Maheshwari:

Got it. The next question is on both, you know specifically on Parachute and Saffola with whatever deflation that we have seen and are seeing, how do you see competition particularly from let's say regional loose in case of Parachute and somewhat similar to you know a bit organized in case of Saffola edible oils?

Saugata Gupta:

In the case of Parachute, what happened in Q1 is obviously there was a little bit of deflation. Fortunately, we believe that deflation is now settled in and there could be a sideways movement of copra into little more positive territory as we move into August, September, October. So, therefore, I think that the issue that was there in terms of slight volume that should be taken care of. The other thing which we are doing is, as I said that we want to invest money to ensure demand generation, so we are aggressively investing money behind demand generation. Going forward, you will see that even Q2 onwards, there will be A&P increases while we deliver our margins of 20% plus. We will not deliver margins by having to cut down Y-o-Y on A&P spends. So, I think that is what we are doing that we are putting things in place for demand generation and micro marketing so that Parachute is back on growth and whatever value we can give to the consumers will do it, may not be pricing but through other tactical means as well.

Coming to Saffola, the offtakes are good. It was just that there has been a significant down stocking. We have to get into a position where there is a steadiness or less volatility in the pricing because people observe the trend and they don't stock ultimately. Now coming to offtakes and market share, I think the current pricing of Saffola with the price premium is more or less right at present. So, I don't think there is that problem in Saffola in terms of competitive scenario. The problem is more of an STR thing and that we need a slightly more steady and less volatile raw material. And it normally doesn't happen that suppose I'll lose STR I will again suddenly get back the STR until the volatility completely seizes and people see steady things, and it's unlikely to happen currently because you know there are too many macro factors in the world - global political scene that impacts oil sometimes, but we believe at least the deflation thing which kept on happening from the peak, 30% levels, that will now keep on slowing down as we enter consecutive quarters.

Vivek Maheshwari: And last question if I may, Saugata, on the gross margin. So, there is a smart recovery in this quarter, you are still, at an overall level, below historic peaks. Where do you think the rest of the year gross margins will be, do we see stability in gross margins or there is still leg up over here on this line?

Pawan Agrawal: So, this quarter we have expanded the gross margins about 450 basis points, 450 to 500 basis points. So, going ahead, you know margins will not be as high as this one, but we still believe that at a full year level, it will be in the range of 300 to 400 basis points. And of course, a lot of it will also get ploughed back into investment behind brand building. And therefore, at an operating margin level, what we are saying is that minimum we will deliver 20% plus.

Vivek Maheshwari: Right. But, Pawan, just a follow-up, this quarter is 23% plus on EBITDA margin. So, even if I were to take the same flattish number and the revenue line is now more streamlined, does that mean what essentially, you're saying is the A&P spends can actually go quite a bit because you know there's a step up in staff cost in this quarter. So, even if I assume the same run rate at least in my model at least I get a number which is closer to 21% on EBITDA margins and not 20%?

Pawan Agrawal: Vivek, we also have to appreciate that margin of 23.2% is also because of the denominator effect, right. Because the revenues have not grown, it is in fact degrown by 3%. And as we move ahead in quarter two, we expect that it should move to largely flattish trajectory and from H2 onwards it should move into positive trajectory. So, that denominator effect will go away #1. #2, also, as I said, on overall gross margin expansion, we still expect that 300 to 400 basis points will be there. And yes, you are right, a large part of that expansion as I said, the A&P expenditure could be high in double digits and therefore operating margin I think 20% plus. Now 20% is the bare minimum that we are saying. There is also a possibility we might deliver slightly more than that.

- Moderator:** Thank you. The next question is from the line of Hasmukh from SUD Life. Please go ahead.
- Hasmukh:** So, my question on margin has been answered. I have second question on your Foods and Premium Personal Care portfolio. So, that has come to now almost 20% of your domestic revenue. So, if I take, let's say three years sort of a view, what's our internal target for this as a percentage of overall domestic revenue here?
- Saugata Gupta:** No, I think we don't have any further target. I think we should ensure that obviously this part of the portfolio will be a growth portfolio. Having said that, we are looking at how do you grow this portfolio profitably. So, foods gross margin needs to increase and we'll also focus on the digital brands. In fact, compared to, as I already said, that if you look at Plix with some other similar brand in that space, you look at Beardo versus some similar brand in this space, our burn rates are far lower, but at the end of the day, how do you get them into profitability space very quickly. So, it's a combination of A & B and therefore I would not just grow, I need to first get the profitability right and then grow.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** Hi Saugata and Pawan. My first question is on pricing. Clearly on Saffola edible oil, there is a fair bit of volatility and we recently saw firming up of palm oil prices. Do you see that pricing for Saffola needs to be taken up if this firmness sustains and how soon that can happen? What is the implication of revenue growth in the second half? I heard Pawan saying that Q2 could be flattish, but as you move into second half, does price inflation completely goes away in your own assessment?
- Saugata Gupta:** So, Latika, it is very difficult, there has been a very mild increase in our set of edible oils which we use, in the last week actually. Now it's very difficult to say. All I can say is that this quarter, we are a 30% deflation. The deflation numbers will keep on decreasing and in the second half there will be no deflation. As we exit, we might move into slight inflation and therefore revenue growth will be volume growth or volume growth plus. We are also indicating that the volume growth, while we started with the three, it will be more as we move into the Q2 and second half, but it is very difficult to fathom whether Saffola inflation will happen or no and right now everything is modeled on the current pricing of Saffola.
- Latika Chopra:** So, with current pricing of the Saffola, you feel the overall revenue growth should run positive in second half, will probably have flattish to marginal positive pricing, is that correct?

- Saugata Gupta:** Yes, that's right.
- Latika Chopra:** The second thing which was your comments on gross margins like you know, I heard Pawan mentioning 300 to 400 basis point expansion for full year, I think last time you were talking about 250 to 300. And I think the question was same, you had a 500-basis point expansion in Q1 and for full year you are talking about 250 to 300 basis points which should be now more like 300 to 400. And is it on account of the denominator catching up and probably some bit of mix effect as inflation comes back?
- Pawan Agrawal:** At a full year, you can consider that number about 300 to 350 basis points and not really for the rest of the year. Full year, you can consider 300 to 350 basis points. And more importantly I mean there will be multiple levels which will keep on playing out during there, right. There are forecasts. It's very difficult to have a right forecast, even the best of the international agencies has not been able to get the right forecast for edible oil. So, there are a lot of multiple things that will play out, but what we believe is that somewhere between 300 to 400 basis points could be gross margin expansion. And if we get that expansion, we will continue to invest because we have a lot of new agenda that we have created and would definitely want to fund them. However, what is more important is that an operating margin level is 20% plus.
- Latika Chopra:** And the last question was on the modern trade contribution for VAHO and Parachute, if you could share that, any rough sense there. And are you seeing the salience of private labels in modern trade channel increasing in the coconut oil space? Any comments here?
- Saugata Gupta:** I think we will not be able to share channel wise contribution for brands, but all I can say is that if you ask me whether the market share of Parachute is lower in modern trade, the answer is no.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.
- Arnab Mitra:** My first question was actually on the acquisition again. So, the difference I see with your past acquisitions in the recent past is that this seems to already be at a reasonably larger scale of Rs. 150 crore ARR. And on account of product segment, they are in the business of plant-based protein, at what growth rate can this grow from a base which is already Rs. 150 crores because it seems a pretty large number for these kinds of brands to achieve. And does it mean that being plant-based it's going to be a bit of a niche within the protein and nutraceutical market or it's not necessary that these products will be a niche and the pricing could be competitive even though it's plant-based positioning?

Saugata Gupta:

So, the way we see it is that if you look at India, even plant protein is going to be a big driver of growth and as opposed to the entry point in the Western markets where a lot of plant protein has started off with mock meat and other things, here it is a plant protein nutraceutical or plant protein in the form of soya which we are already doing in Foods. Now coming to any nutraceutical, there are four or five drivers of growth. So, there is heart health, there is weight management, there is diabetes or sugar management, there is gut health and lastly bone health. So, these are the five platforms where a Wellness or a Nutraceutical brand works. Along with nutraceuticals, interestingly Plix also has a little bit of personal care and skin food. So, what we looked at is that in all these platforms and that is how global nutraceutical brands operate, that can my proposition ultimately extend across all five. And we believe that will happen and at the end of the day there are some famous big startup brands that start with something and then you can always move to adjacencies, isn't it?

Like Beardo, beard oil is still 40%, but it's okay. I mean the end of the day we can move to adjacency. You start with something and then it stands for. For example, it stands for 'nutrition with fun' and 'cool nutrition' and maybe it can be extended.

Arnab Mitra:

Understood. And a related question was, not asking exact number but approximately if you could share the range of gross margins that this category or this brand has and is the Rs. 150 crore turnover fragmented across a large number of SKUs or you see certain SKU becoming sizable within this Rs. 150 crore turnover that they currently have?

Saugata Gupta:

I alluded to one of the things we look at for any good acquisition is scalability. Does the brand have a couple of hero SKUs with high repeat rate, a loyal set of consumers with a very high Amazon rating because it establishes the foundation of growth. A lot of startup brands launched 50 things and start to show growth. I think Plix is different in that respect. There are a couple of SKUs which contribute to a significant portion of Plix. The gross margins are high. I can also tell you that not many food categories can have a digital model because digital model unit economics requires a certain set of ACOS. This brand can afford to have a digital model, which is profitable because the gross margin is high. In fact, if you look at food, very few food categories can have a standalone digital model, because food categories usually have lower gross margin.

Arnab Mitra:

Understood. Thanks for that. And my second question was you've given this Rs. 400 crore turnover which is the combination of some of your older brands like Livon and Set Wet and new-age physical brands. Now my understanding is that the older brands which came from the Paras portfolio were probably not growing very well leading into COVID in the previous 4-5 years while the digital brand of course grew very fast in the post COVID period. So, how do you

look at the growth of this overall Rs. 400 core portfolios, especially in the environment that this year we hear that Internet ecommerce growth is slowing down in Personal Care? And how do you think of the legacy and the older brands like Livon and Set Wet also contributing from here on?

Saugata Gupta: So, the way we look at it, I don't want to get into detail on this one, but the fact is that the newer part of the portfolio, which is Premium Personal Care, Foods, Digital brands, we would like it to grow by 15% to 20% every year from a medium-term basis.

Pawan Agrawal: And just one clarification, Arnab. This Rs. 400 crores portfolio does not include the Paras portfolio. It is basically the digital brand of Beardo plus Just Herbs plus our own in-house digital brand.

Arnab Mitra: So, you're saying it does not include Livon and Set Wet?

Pawan Agrawal: Yes. However, when we are saying that our contribution from the Premium Personal Care and Foods will become 20% by end of FY24, that definitely includes the Paras portfolio as well.

Moderator: Thank you. The next question is on the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: I just had one question and more on the medium term, I would say. Saugata, the question is, from your lens, what is the current positioning of the Saffola brand in the minds of the consumer. And I'll tell you why I asked this question is basically company has embarked on this diversification strategy in the last few years. So, is there a thought here that over a period of time we could be thinking about reducing our exposure to edible oil because it kind of adds to the volatility in the business. So, I just wanted to hear your thoughts on that.

Saugata Gupta: You're absolutely correct. I think my dream is that in another 3-4 years from now, our Foods becomes higher than edible oil in the portfolio, because that way we will derisk this commodity and one of the things we internally track is how much over the next five years, we'll continue to do a commodity derisking on our portfolio. So, at the end of the day, ultimately, sadly enough oil and water doesn't mix, and Personal Care is far less volatile to your commodity. RM percentage as a percentage of net realization needs to continue to decrease and that is something we track over the next five years.

Now coming to Saffola specifically, suppose if you look at the history of Saffola, it was completely anchored on heart health. If you look at the 1994 advertising, it was on fear. So, it

was for the sufferer and so it was curative. It went into preventive and now I think Saffola stands for a 'way of healthy life' and ultimately food gives us taste values as well. I think one of the things we are trying to do is besides expanding the total addressable market, ensure that how does Saffola brand goes from a sufferer to somebody wishes to adopt healthy way of life. You know, it's like taking anything which is better for you. So, Saffola will enter categories with an option which is better for you and that's how the brand will keep on growing. Having said that, obviously the core brand which is the Saffola oil where heart equity is too strong and we will not completely, obviously vacate the heart equity. What we're saying is it is for a healthier heart and as opposed to somebody with already a heart problem.

Sheela Rathi: And so we will continue to have this brand, but the endeavor would be to continuously increase the exposure towards other food businesses.

Saugata Gupta: Yes. And therefore, the brand becomes from denial to happiness from having far more food values moving from individual sufferer to family, I don't think it still will encompass kids, but I think that's the next step. But I think it is more of saying that you eat what you want to eat but eat healthily and therefore Saffola gives you options whether it's breakfast, snacking, in between meals or meal substitute.

Sheela Rathi: And just one more bit on this, how is it positioned in the minds of the consumer? So, today, when a consumer buys Saffola Oats, is this because they know that Saffola edible oil is a healthy oil and that's why they are buying the Oats product since it comes from the same brand. Is there that salience which is still there in the minds of the consumer?

Saugata Gupta: See, very interestingly the amount of number of households who buy Oats are higher than number of households who buy oil because Oats is at a price point of Rs. 17. Now I think obviously the primary driver for the consumer to buy a Saffola continues to be health. It is no longer just heart health; it's health and the taste is the discovery. And therefore, if you look at the ragi chips for example, and as we are investing in millet in a big way and going forward, you will see some of the things which we are doing on millets. One of the learnings in 2010 or 2011 when we prototyped a snack and it bombed. And one of the learning is that Indian consumers will never at all compromise taste for health and therefore all the products which we design for Saffola, first we ensure that it beats its parity on the taste benchmark. Health anyway is presold as far as Saffola is concerned, so taste is actually a discovery and a surprise benefit which we want to drive.

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

Suresh Pardeshi: I'm on Slide #7 and I'm just reading the numbers where you have given PCNO number, which is (2%) volume and (5%) value growth. And VAHO is flat in terms of value. Just more curious if I track the journey of last eight quarters, about eight quarters before there was down trading and VAHO was doing significantly well, you alluded that now the entry point VAHO has seen a lot of competition. In terms of consumer behavior, I just wanted to understand, I'm not looking at the primary number, but on ground. Is the consumer shift primarily affected in the mass end of the product because of food inflation or there is something more to it and that's why even VAHO is not showing. And the latter question on that, how the category has evolved or declined over value volume over last say 4-5 quarters?

Saugata Gupta: So, let me just address it in two parts. So, if you look at the last and I'm alluding to the last 5-6 quarters. What has happened is in the case of value-added hair oil, it somewhere mirrors some of the mass personal categories where there is significant amount of rural consumption and agnostic consumption in terms of quantity across different LSM classes. So, whenever there is inflation, so compared to your premium skin care and other parts of the Personal Care portfolio VAHO or soaps and others, these kinds of categories will get impacted far more. Or what we have seen actually if you look at the start, there has been downgradation. In addition to that what happened is that there has been significant intensity in the bottom of pyramid. Now, even if the organized players which are not participating intensively, I mean in the sense that one change that happened, which we noticed from Q4 as some of the organized players in VAHO started raising prices. The trade intensity earlier was below the line and the pricing got transferred into below the line spends. Secondly, some of the smaller players are also therefore aggressive. So, what has essentially happened is the consumption, while it has grown in volume term, there has been a kind of a slight value degradation that has happened. Having said that, I think that's why I said that our task is to, and we are already seeing that in terms of the fact that in the last eight quarters, every quarter we have got value growth and we are now focusing on value market share. We have started getting value growth and as I said, still there's a journey in terms of doing a better job in the premium part of the portfolio. Now the premium part of the portfolio is now started just about growing. We believe in the last one or two months we've seen that growth.

Suresh Pardeshi: Second question on the related PCNO? Have we dropped or taken any pricing action in this quarter or and now you're forced to take some action?

Saugata Gupta: No, I don't think so. Having said that, as I said that we saw a slight deflation that happened in Q1. But we didn't take pricing action. That is perhaps one of the reasons, but the reason we don't want to take pricing action, we expected the thing to reverse which has reversed because taking frequent pricing action upsets the rhythm of the sale, so we actually weathered it out this quarter

and we expect now things to be okay and now pricing to be okay. Because what we didn't want is take a pricing action, as I told you last time in the call that given that PCNO has high STRs and a very widely distribution, it takes around 6 to 8 weeks for the pricing to realize. And then we shouldn't be underpriced in the market losing out on the margin and volumes in the first quarter. So, I think we have taken that kind of a stance where we wanted to wait because this frequent price up and price down actually is not good for the brand and for our rhythm of sales.

Moderator: Thank you. Ladies and gentlemen, we'll take the last question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My question was on overseas margins, the margins are 29%+ this quarter. What drove this? And do you think these will be sustainable?

Pawan Agrawal: This is largely driven by again copra gains in Bangladesh and going ahead should be at the levels of 25-26%.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing remarks. Thank you and over to you.

Pawan Agrawal: To conclude, we had a slow start to FY24 on the top line front due to one-offs in the domestic business, but we draw confidence from underlying indicators of a pickup in domestic volume growth followed by tapering off in pricing deflation from here on. The international business has been resilient and we expect to sustain its healthy growth momentum. Given the commodity input cost environment, we will continue to aggressively invest to drive an improving trajectory of growth in the core and newer portfolio. That being said, we should be able to deliver healthy margin on a year-on-year basis through the year. To sum up, the full year earnings growth prospects as envisaged at the start of the year remain firmly intact. If you have any further queries, please feel free to reach out to our IR team and they'll be happy to address. Thank you and have a great evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Marico Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)