



Marico Limited
Q2 FY25 Earnings Conference Call
October 29, 2024

MANAGEMENT: MR. SAUGATA GUPTA – MD & CEO, MARICO LIMITED
MR. PAWAN AGRAWAL – CFO, MARICO LIMITED



*Marico Limited
October 29, 2024*

Moderator: Ladies and gentlemen, good day, and welcome to Marico Limited Q2 FY25 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 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 anybody else who is not an institutional investor or analyst but would like to ask questions, please directly reach out to Marico's Investor Relations team.

I would now hand the conference over to Mr. Saugata Gupta for his “Opening Comments”. Thank you, and over to you, sir.

Saugata Gupta: Hi, good evening to all those who have joined the call and hope everyone is doing well. I would like to begin by dissecting the broader market landscape during the quarter gone by, after which I will touch upon our performance and strategic objectives going forward.

The sector exhibited stable demand trends with rural outpacing urban on a year-on-year basis for the third quarter on the drought while pricing growth trended up. For a better read on ongoing consumption patterns, let us break down the performance of each market segment. In urban, we continue to see buoyancy in consumption in the top-end and upper-middle class segments, which aligns with the growth seen in most of our newer portfolios of foods and premium personal care, including the Digital-First brands. However, among the middle and the lower middle class in urban, food inflation and muted sentiment overall has affected the consumption. In the bottom-of-pyramid segment in urban, there is a similar situation, although this segment is partially insulated from the impact of food inflation by government schemes. And lastly, in rural, there is a gradual improvement in demand sentiment which has been aided by above-normal monsoons, sustained government spending through MSPs and free food grain schemes. Looking ahead, this pattern and trajectory of demand should help in sequential improvement in our volume growth

Page 2 of 22

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.
CIN: L15140MH1988PLC049208. Email: investor@marico.com

going forward. However, food and retail inflation trends would be key factors to be monitored as we move in the coming quarters.

Moving on to our performance, the sequential uptick in domestic volume growth was led by steady trends across a majority of our portfolios, which also reflected in the healthier trends in off-take growth, as more than 80% of the business either gained or sustained market share and penetration on a MAT basis. Domestic revenue growth moved up along expected lines as volume growth was supplemented by price hikes in coconut oil portfolio and favorable reversal in pricing cycle in Saffola oil. Pricing growth is likely to pick up in H2. In view of the sequential rise in commodity prices, which will further aid domestic revenue growth through the course of the year. From the channel perspective, alternate channels continue to gain salience vis-à-vis general trade. While the share of alternate channels has been on the rise in tier 1 market, we are also taking concerted effort towards reviving growth in our GT business, which we believe will remain the dominant channel, especially in tier 2 markets and beyond. After the successful initiation in the preceding quarter, Project SETU extended to more states taking the tally to 10 states. The execution at state level has progressed as a plan supported by robust governance mechanisms to ensure sustainable outlet expansion. Implementing mindset and operating model changes at this scale can be time consuming, especially when significant consumption tailwinds are absent. However, we believe given the early trends, this three-year commitment will structure reset and transform the long-term potential of our GT sales infrastructure, leading to higher growth. In addition to improved direct reach and weighted distribution, projects SETU will drive market share gains across categories in urban and rural markets, as well as enhance assortment levels in urban stores, thereby enabling the diversification and premiumization in the domestic business in an accelerated manner.

Delving into domestic business, we shall touch upon the key trends in each of our categories. Parachute which has witnessed a healthy pickup in volume growth even after observing the impact of ml-age reduction in one of the low in the key price point packs implemented in lieu of a price increase. The volume impact of ml-age reduction was circa 1% at the brand level. The brand gained 120 bps gain in volume share on a MAT basis. Revenue growth moved to double digits aided by pricing intervention made at the start of the year. Given the sequential rise in copra prices, the brand has taken another round of price increase of circa 4%, which will flow through in H2. Flanker brands, including Nihal Coconut Oil and Oil of Malabar, continued to grow in mid-teens, thereby shielding the franchise from deep discounting competition.



Marico Limited
October 29, 2024

Saffola edible oils delivered flattish volumes while the pricing cycle for the brand turned slightly favorable after eight quarters. Building up on last year's Rosca Healthy Step message, the brand launched the Step Up for Your Heart campaign to mark the World Heart Day, which reinforced the brand purpose, which is to encourage consumers to inculcate exercise for a healthy heart. The recent hike in import duties has led to a steep increase in vegetable oil prices and we have taken a price increase of at least 15% in response to the same. However, I hope the duty hike does not spark any volatility in the market, which will lead to trade-led headwinds we have encountered in the past.

Value-added hair oils remain sluggish amidst persistent irrational competition at the bottom of pyramid segments. During the quarter, we have gained 110 bps in value market share as mid and premium segments of our franchise fared relatively better. While we are the category leader, we also believe that it is not ideal for category growth when other key players resort to consistently pulling back ATL spends and employing only trade led pricing strategies or consumer promotes. This diminishes the share of voice of the category. We believe that this irrational competence should ease out given the current situation unless logic doesn't prevail. We will continue to focus on brand and category investments in the mid and premium tier of value and not deviate from basic fundamentals of category building by matching unsustainable tactics in terms of pricing at the bottom end. We believe that a trajectory of a franchise has bottomed out in this quarter, and we expect gradually improving trends ahead of the back of visible ATL investments, brand activation leading into the festive season and gradually improve rural consumption sentiment in mass BPC categories.

Foods surpassed ₹1,000 crore in annual run rate in Q2. It is extremely heartening to see that the aspirations we set four years ago during the beginning of the COVID period are close to fructifying, and it has been amazing, I would say, in terms of the addressable market expansion and diversification journey and growth in foods. Saffola Oats recorded mid-teen growth, and our newer franchises also fared healthily. We introduced Saffola Masala Millets this quarter to broaden our millet-based range and meet the rising consumer demand for healthier options. This product aims to blend the nutritional advances of millet with enticing savory flavors. Furthermore, both True elements in the plant-based nutrition portfolio complex continue to demonstrate impressive growth.

Premier Personal Care maintained its strong momentum this quarter driven by the Digital-First portfolio, which crossed 525 crore in annual recurring revenue. In Q2, we expect to clock an exit ARR of circa 600 crores this year. We are to outperform the expectation and in fact to achieve a

Page 4 of 22

double-digit EBITDA margin this year. Just Herbs and Plix personal care range also continued to gain traction. We believe Beardo and Plix have the potential to scale to 500 crore ARR each in the next 3 years. Additionally, the company began selling Kaya products on select online channels starting mid-September 2024.

The composite share of Foods and Premium Personal Care including Digital-First brands in the domestic business moved up to 21% in H1 furthering the portfolio diversification agenda of the India business. The rapid pace and scale of diversification has enabled us to navigate recent periods of consumption volatility and post decent volume growth. We will continue to drive 20% to 25% plus CAGR in these portfolios accompanied by visible improvement in their profitability. We were able to affect the structural shift in food gross margin last year and expect profitability to inch up as we scale over the medium term. We maintain our aspirations to attain double-digit EBITDA margin in Digital-First brands by FY27.

In our international business, we continue to witness strong double-digit growth momentum. Bangladesh demonstrated visible resilience and robust profitability despite operational challenges that gradually diminished in the latter half of the quarter. We continue to believe in times of volatility and adversity, the strong get stronger and the weak gets weaker. The medium-term growth outlook remains strong in Bangladesh. Vietnam also reported growth on the back of recovery in HPC demand. MENA posted a stellar performance well by growth, strong growth in the Gulf region and Egypt. South Africa grew impressively as well, and both the healthcare franchises were growing in double digits. NCD or New Country Development and Exports continue to be another consistent growth driver. Diversifying international business has not only bolstered our growth prospects but also improved its medium-term margin potential.

To sum up, consolidated revenue growth is likely to move into double digits in the second half of the year. We are extremely confident of that. We will try to deliver double-digit revenue growth for the full year as well. We expect this to materialize if we are able to continue delivering a sequential uptick in volume growth in domestic business in the second half. Given the higher than anticipated degree of inflation in copra prices coupled with a sharp import duty hike in vegetable oil, we will focus on our stated volume-led revenue growth aspirations while there could be a slightly moderate lag in operating profit growth vis-a-vis revenue growth during the second half of the year.

Last but not the least, we have always prioritized sustainability in our business operations. Our Sustainability 2.0 framework is demonstrating positive progress across each of the eight key

focus areas. We are confident that our commitment to creating shared value for all will drive sustainable and differential growth in the long run.

With that, I will now close my comments. Thank you for patiently listening. We will now take your questions and Wishing All of You a very Happy Diwali.

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

Abneesh Roy: My first question is on the urban demand, which you mentioned is stable. You did mention that at the lower end, there is a challenge of food inflation and muted sentiment. Now, if I see QSR sector, pizza and burger sector, they have faced seven quarters of slowdown. Now, when I see your numbers, a good set of numbers, foods, 28% growth, premium personal care trending ahead of expectation. So, in your these two segments, which are more index to urban, because they are more catering to mid and premium, would you say that the risk in coming quarters is not something you would be worried on? And second, of course, is in terms of the Plix's performance, et cetera, if you could give more details? Because you did mention that 28% is the food growth. But the Saffola Oats growth is mid teens, which means the other segments have also done well. And last point on urban you said the food inflation and muted sentiment. Now if food inflation cools off, say, in one quarter, would you also discuss the muted sentiments? What is the issue there? Those will be the first question.

Saugata Gupta: So, let me just address one thing, which is, if you see our diversified business, which is the premium foods, I mean the foods part of it, the entire digital brands and then serum and male grooming, a lot of them cater to the top, as in the upper middle class masstige kind of segments. Now, we believe that consumption has not got impacted in that segment. We also throughput a lot through OT, including e-commerce and modern trade where our shares are disproportionately higher, and because we have invested ahead of the curve. The other thing which is there is that you must realize that our digital brands, we don't, unlike some of the standalone digital brands, don't have to scout for capital. We are fairly in terms of we don't have bleed. We don't have substantial bleed. In fact, some of them or most of them are positive or a very, very low bleed. Therefore, our ability to invest and grow and also tap into the Marico system has significant cost advantages. So, in one way, our call in terms of and also in food, we are challengers. In most of the things we are doing category building, we are gaining shares. So, our call in 2020 to aggressively diversify perhaps is helping us in this kind of a current situation. Now, coming to the, if you see the middle class, there are two things, one is, there has been an inflation, the food

inflation and general retail inflation is a sentiment is a function of, you know, sometimes what happens if you see, for example, let's look at certain sectors or where there is, for example, opportunities. How do people in the middle class, the sentiment increases if there are good salary increments, significant job opportunities. Those are the drivers of sentiment. And sometimes the sentiments are slightly muted, if you look at some of the news that is emanating out there. Now, obviously, as soon as the food inflation cools down, I think urban will recover, but some part of the urban. So, if you look at say mass food categories, but cater to the middle class and the lower middle class, yes, they may be impacted in the short term.

Now coming to, you wanted some color on Plix. As I have said that we believe that Plix has the potential to become a 500-crore brand. It operates both in personal care and food. Obviously, our food growth, some part of the food growth is led by digital brands. Having said that, I think the good thing is that if you look at our organic part of the food, which is essentially the Oats and the Masala Oats business, has grown in mid-teens, and they are a significant portion of our 1,000 crore ARR, the core business. And we believe that one of the things we have said that today perhaps in the Saffola franchise, for example, food contributes to 30% of the Saffola franchise. We believe over the next three years this number could be 50, and I would really hope in the next five to seven years food, the Saffola franchise will become more than 60% plus which will become a dramatic transformation in both the margin and the profile of the consumer and the kind of total addressable market expansion this brand can go to.

Abneesh Roy:

My second and last question is on the Saffola edible oil. So, when I see Q2, we have seen the number one edible oil company Adani Wilmar see double-digit volume growth. So here if I see, Saffola edible oil is clearly a premium part of urban consumption and it is health focused also, which is a very clear theme. So, in the second half, what will be your expectation on Saffola edible oil? Because this time it is flat versus say double-digit for the economy and now the pricing is going up for both. And there is the challenge of overall urban demand. So, if I put all this, where is the issue? Is there some level of now cannibalization, say, from the economy edible oil also having very similar ads to what the Saffola has or is it just a transient issue of, say, the pricing et cetera changing past few quarters. So, where is the issue when you see the volume difference between your growth and say Adani Wilmar's growth?

Saugata Gupta:

Firstly, the margin expectations from the brands are completely different, and therefore we don't want to deliver volumes at any cost. And for us, as I said, ultimately, as long as the food franchise makes much more margins than edible oil franchise and therefore that has been our focus. So, therefore, we are not going to sacrifice the threshold level of margins for getting volume.

Secondly, you must realize that our set of consumers also and as you know the brand also encourages people to lead a healthy life and therefore the average consumption of oil is slightly lower than at the mass end. So, it's a combination of those. As an organization, we are okay in ensuring that we do a certain level of profitable control growth. Now with the 15% price increase, obviously my revenue growth will be decent, but as long as we maintain margins, we are happy. Our entire focus is to ensure that we keep a special level of margins and get measured growth in Saffola edible oil while continuing to aggressively grow foods.

Moderator: The next question is from Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Sir, I just wanted to kind of double click on the margin a bit. Now given that you have taken another round of price increase in Parachute, and our comment that there is no competitive concerns from price discounters, could you please elaborate why, whether your comment of being watchful on margins in the second half, does it suggest a material revisit of the earlier expectations of flattish margins in FY '25?

Pawan Agrawal: So, if you look at H1, we have been able to hold the margins at 21.6%. The earlier guidance was that at a full year level, we will try and hold the margins. Now if you look at the cost pressures, it is definitely higher than what we had anticipated. If you look at copra prices, which have spiked in quarter 2, we have seen spikes in quarter 3 as well. And also, the increase in edible oil duty was a surprise. So, to that extent, yes, cost pressures are slightly higher than what we anticipated. Our focus will be, of course, to sort of drive volume and revenue growth. As far as margins are concerned, we will still try and see as to how much we can maintain the margins for the full year. At best, there could be a compression of 40 to 50 basis points. In H1, we have delivered double-digit profit growth. We will try to deliver healthy profit growth in H2 also. But purely from an operating margin standpoint, at the most, there could be a comparison of 50 basis points.

Avi Mehta: The second question is on, I know it's early stages for Project SETU, but would love to get any early insights on how are you seeing the benefits flow through in the initial stage where this was rolled out and where you have some history?

Saugata Gupta: So, I will give you a very macro flavor to it. The approach is to do direct rural distribution. We believe direct distribution is a source of long-term competitive advantage because you have far more control. We are also deploying significant technological tools in order to ensure far better quality of execution. Once, and now that the fact that the rural demand is improving, we believe

that will lead to both higher growth and growth of market share and assortment. Usually the assortment is something that happens when there is direct distribution because the wholesaler usually carries high-velocity brands, which are leader brands, which are pool-based.

In urban, it will lead to significant diversification. As you know, we are not present in a number of chemist, cosmetic outlets or specialty food outlets. For example, in South India, there are a lot of bakeries. In West India there are stores which sell dry fruits and food. Now we were never catering to the stores. Now, if we have to succeed in our new portfolio, SETU will help.

Thirdly, because right now our new food business is disproportionately skewed towards OT, GT expansion in food will also help in terms of margin also, long-term margin protection. And thirdly, this will set up, this SETU should set up the distribution for tomorrow for our digital brands to experiment with GT.

Let me tell you something. Just distributing digital brands, G2C brands in GT can give one-time sale and a lot of people, especially during earn-out and other such events do it. But then they have to take back stocks also subsequently. So, we are not in a position, we believe that only to sell few SKUs there. But our ability to do that, once this is done, for example, selling some True Elements, selling some of the Plix, for example, you are selling a Rs. 20 coconut, Rs. 30 or 20?

Pawan Agrawal: 20.

Saugata Gupta: Rs. 20 coconut water. We are selling some of the SKUs already started to experiment with that.

Avi Mehta: So, fairly clear on this. And by when do you think you would be able to quantify or give us some better color on the likely benefit in terms of financial?

Saugata Gupta: Yes, I would say after Q4, because then you would have had two, three quarters of different sector because today we are still experimenting, prototyping, we are changing and chopping some of the ideas. And as you know that these kinds of things work far better when there is tailwinds right now, consumption tailwinds are not there. It's just that at least rural it's improving. Urban it's somewhat a little volatile.

So, it takes a little time. We are happy to be patient on it and get it right. We are wedded to it for three years. We believe that will be transformational in terms of reconstructing our GT

profitability and having, creating Oats for long-term growth. So, we are committed to it and we will get it right. We are extremely confident of getting it right.

Moderator: Thank you. Next question is from Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: A few questions, Saugata, first again on the industry bit. I mean, I know these are very difficult to forecast, but do you see a scenario for last few quarters, let's say, leaving aside last couple, rural was somewhat under pressure and then urban was doing well? Do you think that there can be a scenario where rural actually picks up reasonably well and continues to show the trend that we have seen, but Urban actually continues to disappoint in the foreseeable future which again pulls down the pulls down the overall performance of the sector?

Saugata Gupta: So, let me just give you a flavor of it. I think if the food inflation is not sticky and it cools down, it will definitely improve the urban growth. Having said that, you must realize also some of the last year or if you look at this year also, the urban base was higher. In the case of rural, the base was lower. Rural, a combination of MSP, some of the government schemes, the rainfall and all, the factors for an immediate gradual improvement are slightly more positive.

Having said that, at the top end, we are that way a little lucky that in the top end we don't see any impact at all and if you see our digital brands and most of our premium personal care and even food where we have challenges, it operates at that end. Yes, there are also some channel play, like, for example, if you are over skewed, we are seeing much more growth in maybe quick commerce versus a modern trade. So, it all depends on the kind of portfolio you have and that perhaps will determine the growth trajectory of different players.

Vivek Maheshwari: The other thing, Saugata, is again on VAHO, which has been asked to you at different points of time over the past few quarters, but VAHO numbers again, you have gained market share and I think your number is minus 8 and again, I am sorry, I am asking you this directly, but do you genuinely trust the market share number because are you seeing a scenario where the market itself is kind of declining or you think that there is some anomaly, there are some regional players who may be cropping up and taking away share? Because it's baffling to see VAHO actually not performing. I mean, there were periods where it did perform, but through the course of, let's say, 5-7 years if you took it, the growth is very anemic compared to, let's say, how well you have done. And there have been cycles that we have seen in both Parachute and Saffola, but unfortunately that cycle has also not showed up in VAHO. It has been fairly muted growth.

Saugata Gupta: See, sometimes there is a, see off-takes are okay. There is always a lag between secondary and off-takes. Sometimes that happens as seen last year also in Parachute. let me just tell you, we believe it's bottomed out.

Now, having said that, there are two things. We took this call of not participating in going down the rat hole in terms of just trying to do price matching at the bottom end of the pyramid. Now that is where, so if you look at it this value decline also is happening because of the fact that there is a higher below BTL, realizations are going down, people are not spending their ASP. So, if I look at NC number, it will be different because what is happening is players are converting ASP into BTL which is bringing down NR.

Now we have chosen now to not, we will selectively participate in that. We have started investing behind the middle segment. We don't participate in the super premium segment, which is Almond and Hairfall and the share gains are happening there. The reason we are gaining value share is because we are perhaps growing slightly in that end and there is a significant spread at the bottom of pyramid.

Now it's unfortunate that when we face a little bit of irrational competition, there is nothing much we can do. Having said that, our actions at the middle of the pyramid and at a mid to high RPI indicate that this thing has bottomed out, this decline has bottomed out. So, I am unlikely to shock you with a minus 10 or a minus 11 next quarter, if that's the case.

Vivek Maheshwari: So, just a couple of follow ups. So, one you are saying, when you say bottom out as in, in terms of there will be growth from this quarter onwards?

Pawan Agrawal: So, what we meant is that this is the worst as far as VAHO is concerned. We will definitely have better performance going ahead. We would expect to deliver positive growth, but let's see. I think this is clearly the bottom from a VAHO performance standpoint.

Saugata Gupta: And the reason is as I said that we are now clear on this strategy, because in the last few quarters, we were into this chasing the wholesale game which we were playing.

Vivek Maheshwari: And in terms of one more thing, Saugata, do you see a period of, let's say, sustained, let's say, 3-4 years where VAHO could grow in reasonable double digits? Is that something that you think can be the base case here?

Saugata Gupta: Double-digit growth, I mean, I would love to do it, but let's take one quarter or a couple of quarters at a time, but the immediate task is to get the thing back on track. We believe that, as Pawan also alluded to, that the worst is over in terms of the decline, but we need to wait for a couple of quarters on this. And as I said that if the rural sentiment improves, SETU starts kicking in, maybe next year we should see better performance.

Vivek Maheshwari: Last question on Plix portfolio again. So, I saw your presentation slide and I know this was always there, but the personal care, which is under Plix as against, let's say, plant-based nutrition. I mean, I know there are examples of, let's say, someone like a Himalaya, but do you think personal care and a nutrition can be under the same brand umbrella and can be scaled up without having any conflict, confusion or whatever it may be? Are there many examples of that other than Himalaya?

Saugata Gupta: No, so in Europe, if you see, the trend is in a plant-based skin food and hair food, and that is how the brand is moving towards. And if you see anything like, for example, there would be things which will help in your sleep, relaxation, rejuvenation, and functionality. So, whatever we do, there will be functionality. What we are trying to do in Plix is, as I said, that hair food and skin food, and that's how a lot of brands are moving. Now, fortunately for us, the brand name itself and the positioning allows it to stretch. Having said that, you are absolutely right, we always keep a strong eye on in terms of that we should not overstretch the brand.

Vivek Maheshwari: And just a small follow up. So, when you think about Plix for you, is it, let's say, the nutrition brand or does it become more like a, let's say, protein brand for you or it is personal care, or do you think it is equally spread between the two, when you think about it?

Saugata Gupta: It's a good for you brand, and the source is plant-based, and it is in the area of nutraceutical, hair food and skin food. So, it nourishes you either way, whether it's hair, skin or body.

Moderator: Thank you. Next question is from Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was actually on your performance this quarter as well as your outlook seem significantly better than many of the other FMCG companies. You, of course, outlined certain reasons, but I just wanted to check is it also a factor that you have done a lot of channel inventory corrections over the last like four, five quarters due to this channel shift that is happening and therefore you are in a better position in terms of planning inventory, which is helping you deliver better numbers, while maybe many of your peers said have to correct that. So, just wanted to

understand if your channel destocking that you were planning behind us, by and large, and are you now well set in terms of the urban beauty?

Saugata Gupta:

No, so I think, see, one of the things that is helping us, if you realize that in the last few quarters we were facing deflation. Now, when we were facing deflation, as you know, in urban, GT was anyway stressed. What happens is, if you face deflation and plus the fact that you are declining, your costs go up by an X percentage that leads to significant ROI stress. Now, in places like, especially in the South and West which have a significant Parachute skew and maybe a big metro like a Bombay, Delhi which also has a Saffola skew, this inflation is going to help us in terms of managing distribute the ROI in the immediate term. Having said that, we are continuing to be concerned because, if you ask me, the growth of some of the alternate channels is coming at the expense of maybe Kirana or coming at the expense of Modern Trade. So, we continue to be partnering them in terms of ensuring and it is in our interest that you have a viable GT system. So, as and when the need arises, we will do it. See, keeping stocks is a kind of an inefficient way of usage of capital. So, at the same time, I would say that in the next 2-3 quarters because we have these revenue tailwinds, that will help us in terms of managing ROI.

Pawan Agrawal:

And just to add a couple of points, Arnab, one is, of course, Saugata touched upon distributor ROI. Now, given that we have pricing led growth, largely driven by Parachute, which is more in the South and West of our country. So, over there, I believe that distributor ROI will be fixed, but there could still be certain regions, geographies where ROI could be a challenge and therefore we may take certain calibrated calls to sort of support distributors in ROI. That's one. And number two, as far as SETU is concerned, yes, there could be some stock adjustments on the B2B and wholesale side for us to expand our distribution. So, that adjustment might still happen. So, it's not that it's completely clear, but depending on how the ROI works out, depending on how SETU expands in certain markets, some of those calls might still be taken in quarters to come.

Arnab Mitra:

My second question would be, Saffola, see, in Parachute, we have seen the pattern that when commodity goes up, you take price hikes. We tend to actually accelerate volumes given the setup of the category. In edible oil, what is your expectation? We are getting into an inflationary cycle. We have taken a 15% hike. Could it have a significant negative impact on volumes because this is an expensive product, the absolute price gap is quite large? Any sense of what you expect to happen on the Saffola volumes in the near term as this pricing goes into the market?

Saugata Gupta: So, our pricing model suggests, as you know, that post Ukraine, we had a pricing up to 230. So, I think the yield point at a threshold level where volumes really get impacted is closer towards 200. Today, I think we are at 185.

Pawan Agrawal: Yes.

Saugata Gupta: We are at 185. We should be comfortable at this level. Having said that, the problem that happens is, we don't know because given the fact that this has led to inflation, if there is some adjustment in duty or some other discount, those volatility leads to the trade destocking. To me that is what we are worried about, but at 185 price point for Saffola Gold, we are comfortable. Our last pricing model sensitivity stress test which we ran suggested anything hitting 200 becomes a problem.

Arnab Mitra: And my last question was on Plix and Beardo where you are looking to potentially these brands could become very large over the next few years. Fundamentally, what's the gross margin profile of these brands and at scale, do they make the Marico average EBITDA margins once these brand scale up?

Saugata Gupta: Absolutely, I think Beardo, I think is anyway hitting double-digit EBITDA margin this year. And we should be able to do with scale, and we are broadly confident because they have high gross margins. And as I said, that one of the things we will not make a mistake is that once we experiment with GT, we will have a very limited portfolio because this while the temptation to go into GT can give you short-term top line. But long term, without an offtake model and without a marked A&P model, there can be an issue in terms of profitability.

Pawan Agrawal: And also just to add, Arnab, as Saugata said, Beardo will end up with a double-digit operating margin. Plix also either will be positive or have a marginal bleed. And we had also given a guidance that over the next three years, we definitely expect the overall digital business to move into double-digit operating margin. And we discussed in earlier calls as well that there will be two different models of growth in digital business. One could be a significant growth of 70%, 80% with a significant bleed. And second could be the model that we have adopted, where we are okay to grow at 25-30%, but growing profitably. I think second model works well for us and we will stick to that. And we hope to move to double-digit operating margin for the entire digital business as a whole by FY'27.

Moderator: Thank you. Next question is from Manoj Menon from ICICI securities. Please go ahead.

Manoj Menon:

I got a few questions, but I will just start with what my friend asked a little earlier on the digital brands. I recall, around 12 months back, you actually had, there was an exchange release which spoke about, you got a new EVP digital, which was maybe my understanding, the first in the industry. And 12 months later, when I look at the performance, it definitely seems to be one of the important interventions you would have taken, which is working. Just only one question here, or rather two, I would say. Look, could just quantify the online, offline, let's say, salience, let's say, in the D2C brands, which you have, maybe not D2C anymore? Secondly, just also want to understand, let's say, the offline journey, which you had in the last, let's say, 12, 24 months and the learning, particularly in the aspect of demand planning. Because when I look at some of the peers who would have, plus the peers in that segment would have gone from online to offline, one of the challenges which I find they facing is to, let's say, to increase the demand planning accuracy. So, two questions. Let's say, your offline journey and point number two, the demand planning part.

Saugata Gupta:

So, I think our offline numbers are not very high. It's marginal. We continue to focus on online. I think two things, I would say, our experience on offline. For offline to happen, you need the right price point. For example, I think we are experimenting with a ACV on Plix for \$75, 75 bucks while the other one is, I think, sellout is 200 nearly. Am I right? More, more, 250 plus. Similarly, we are doing a coconut water. So, the first thing is get the price point right. There is no point trying to sell high AOV stuff out there. Number two, I think a learning from not only FMCG for other industry is that if I am discounting heavily in e-Com and there is no point trying to do a GT with the same tax because the GT guy will then realize or the consumer will realize anyway I can get it cheaper in e-Com. To create a portfolio with the right pricing and have a limited set of SKUs. So, for example, in Beardo, we believe that not more than 5, 6 SKUs. The demand generation problem that happens is if you get into this display and a beauty advisor model, you need at least a turnover, I mean, an off-take of 75,000 to 1 lakh per store to break even. And theoretically, then what happens in the BA model if you are stuck with 100 stores selling 60,000, you can never make profits. In Excel, you might make it. In reality, you will never make it.

Manoj Menon:

That's very clear. I will honestly have a follow-up on this little later, team. Just only one thing which I understood on the initial part of the comment is that so most of the growth is still driven by online which means that, let's say, the offline piece is yet to happen in a material way.

Saugata Gupta:

You know, it's not material, but at the same time, I believe it's growing. And similarly, I must say that, especially amongst all these brands, as I talked about these two price points SKUs in

Plix similarly True Elements, especially in food, I think food has a far more better runway for offline than while personal care I still strongly believe that you need to saturate and drive penetration in online. We also have had successful experiments on quick commerce. I think in terms of some of our personal care brands. So, I think we haven't yet saturated it. But our entire GT run will be measured. Just to give you a number of GT amongst the digital brand, It will be right now around 15% to 20%.

Manoj Menon:

Which is a very, I would say, it's a good performance actually. And lastly on this aspect, if I move on to the other one, any experiments, anything which you have done, let's say, let me, if I can, I don't know, please feel free to disagree with me. If I consider, let's say, Marico as an offline first thinking sort of a DNA trying to, let's say, take a D2C offline, let's say, any experience you have done where, let's say, you could do far better than, let's say, D2C trying to do offline in terms of, let's say, all your forecast getting right?

Saugata Gupta:

No, so as long as it's limited, it's fine, but I think I can't do a model of taking 100 or 150 SKUs assortment. I don't have that capability. That's a different capability. See, I think, let me just rephrase what the Marico vision is. I think we need to be seen in the next 3 to 5 years as a legacy FMCG company is also who has transformed itself to a successful consumer digital company. And I don't think globally many companies have done that kind of a transition. And co-existing both models, okay. It's not that one at the expense of others.

Pawan Agrawal:

And just one clarification, Manoj. This GT 15%-20% is basically offline. So, which could be both GT and MT.

Manoj Menon:

In the interest of time, I will have to just quickly pushed through two more. Honestly, when I was looking at the slide number 7, which essentially talks about 4% volume growth in Parachute, overall growth of 5%, it's a bit surprising that the perception that Parachute is probably, let's say the growth of Parachute needs to be uplifted with other businesses. One question on VAHO, that's more of an observation, is that, honestly, I am a little confused actually. So, where is the consumer going? Is he or she just simply down trading? Or is he, let's say, prioritizing consumption? Or let's say per-dime consumption has reduced currently?

Saugata Gupta:

Significant down trading has happened. I think also shrink inflation has happened. As you know, in order to keep the price points in brands like Shanti Amla and in the, 10, 20 price point packs we have taken significant ml-age cuts. And this has happened in other categories like soap that people don't increase transaction proportionately. It's been a combination of that, but there has

been significant down trading. And as I said, I alluded to that something which I want to break the mold is that if other players don't invest and get into A&P equal to zero and put all their monies into trade inputs and running BOGOs, as a market leader, if I try to do that and say that I want to go that, you know, that is long term, not good for me. We have taken this call and this shift will happen over the next 2-3 quarters. We will start investing behind driving category growth. Because if the SOV, if the total spend in the category goes down by 50%-60%, somewhere it impacts category growth.

Manoj Menon:

Just lastly relaying one thought which I have heard largely from longly investors about Bangladesh, while the current water performance may not fully reflect the changed, let's say, equation on the ground etc., etc., if there is a, let's say, parallel when we think about what happened, let's say, to a Burger King in Indonesia, are there anything, I know that it's not a statement, it's a sensitive one for you to comment upon, that one of the worries which investors have is that this can actually happen in Bangladesh.

Saugata Gupta:

See, we continue to be convinced about the medium-term opportunity in Bangladesh and at the same time, as a long-term international strategy, we have been consistently reducing our dependence on Bangladesh and within Bangladesh, of course, accelerating the innovation. But I keep on repeating this, that the strong get stronger, weak get weaker. We are a listed company in Bangladesh, and we have reasons to believe that the medium-term potential is very much intact. And having said that, as I said that we will continue to accelerate the diversification in both top line and bottom line from Bangladesh. If you look at the growth in, especially in MENA where I believe there is a huge headroom for growth in market share, we are not present in Egypt is a large market in hair oil. We are not present at all. We just launched and we are doing well. We are aggressively getting market share in the Middle East. We are doing well in Vietnam or in our new country development. So, that part of the business just as we have done a diversification agenda in India, we want that non-Bangladesh business needs to grow by 20%-25% over the next three years, if we can do it, we will have achieved that accelerated diversification.

Manoj Menon:

And one last thing, Saugata, again a sensitive one for a public forum. So, there is a two-year extension for the MD & CEO done about 18 months back. There is still six months to go. Any qualitative comments? I do recall...

Saugata Gupta:

It is still 18 months to go, don't worry. There is a lot of time left.



*Marico Limited
October 29, 2024*

- Pawan Agrawal:** We will come back to the Street at the right time.
- Saugata Gupta:** We will do it at the right point of time. Don't worry about it.
- Moderator:** Next question is from Harit Kapoor from Investec. Please go ahead.
- Harit Kapoor:** So, just on the ad side, you have seen the standalone entity seen two quarters of decline in spend. I understand that some of the Digital-First brands don't get reflected in the standalone numbers given that they are part of the subsidiary piece. But just wanted to get your sense on, has there been any ATL versus BTL shift on the core? Or you have not needed to, you will spend competitively but it's still showing a decline. So, any thoughts on that and also going forward?
- Pawan Agrawal:** In fact, Harit, we had discussed this in the last quarter as well and the reasons are very similar. For example, first of all, we have invested adequately in focused categories of CNO, Premium, VAHO, Foods and PPC to ensure that our share of voice is intact, number one. Number two, which is from the last three quarters, you would have noticed that we have started this master brand campaign on the Saffola franchise and that has helped us to optimize the A&P spends on Saffola. Otherwise, we were spending on multiple smaller initiatives under Saffola. Thirdly, I think in BOP and VAHO, of course, there has been a cut due to intense competitive activity, which we have discussed at length, where of course some of the monies have been diverted towards pricing and trade mobilization. And lastly, I think we have also rationalized some of the spends in the alternate channels of MT and e-Com. So, these are the reasons why you will see a little bit of cut in the A&P spends. But going ahead, I believe that you will see an upward trend in A&P spends and should definitely improve. However, at a consol level, if you look at it, we have increased the A&P spend at about 8% and overall A2S is about 10.9% to 11%, which is a pretty healthy number as compared to where the industry is at.
- Harit Kapoor:** Second thing is on the food side. So, first half, growth has been very strong. Even if you kind of leave out Plix, if you could just give a sense of apart from oats, where have you seen the high pockets of growth in the subcategories that you are there now in, any kind of qualitative view also on that would be very helpful.
- Saugata Gupta:** So, I think we are just prototyping a revised version of snacking. We are prototyping millet, Masala Millet. We believe that this one has potential. And also, Muesli. And also, if I look at honey and soya, they are steady. They are not giving exponential growth, but they continue to be steady. So, I think the total aspiration is food to grow 25%. We continue to be confident in

this part of the business, which is the core foods, or the Saffola part of foods to grow in double digits every quarter.

Harit Kapoor: And one last bookkeeping was on the standalone side, while you have explained the higher other income at a consolidated level, please give a sense about why the standalone number looks even higher at 300 odd crores, if you can help with that?

Pawan Agrawal: It is because of dividend that we have got from Bangladesh subsidiary to an extent of about 231 odd crores. So, that is what is spiking the number. Outside of that, of course, the reasons are the sale of fixed assets and one favorable settlement of one of the dispute. So, all this if you keep aside, then the growth is in the normal range. The big part is Bangladesh dividend.

Moderator: Thank you. Next question is from Tejas Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejas Shah: Saugata, with all the major FMCG companies flagging off an urban slowdown and at the other end, quick commerce guys are again, which are heavily indexed to urban demand are showing strong growth. So, just wanted to check if our saliency in the quick commerce channel is as high as GT and the slowdown observation is not the outcome of key channel which is GT losing market share and overall urban demand shift that we are witnessing.

Saugata Gupta: So, I think obviously there is some transition happening and shift in demand happening. But I think one of the things we always ensure, and it is good for us is actually our OT saliency continues to be higher and our market share in each of the categories which we participate are higher in OT than in GT.

Tejas Shah: Second, just one small observation. If I look at our employee cost as a percentage of sales, it has increased from 6.5 roughly that run rate pre-pandemic to now 8% this quarter. Does this suggest that the incremental growth or the nature of growth that we are chasing demands higher, very different kind of talent, so employee cost will remain at elevated level versus what we saw pre-pandemic level?

Pawan Agrawal: So, there are two things. One is if you look at, we have added a lot of new businesses in the last three to four years. Over there, employee cost as a percentage of sales is slightly higher and again these differences are becoming large. So, therefore, that is also impacting overall as a percentage to sales. Secondly, in this particular quarter, of course, there is an impact of the

phantom stock, which is share-based payment, which is linked to the stock price. And since the stock price has done well, there is an impact in the current quarter. If you have to exclude that, then the growth will be in the range of about 8%-9%, which is in line. So, largely, the addition of new businesses which is slightly higher employee cost is skewing the sales percentage number. But again, it is also a function of how your revenue grows. For example, if there is higher pricing led growth, the operating leverage will kick in and this number will compress going ahead.

Saugata Gupta:

I think just to add, so the moment we start delivering double-digit revenue growth in the second half, this percentage will go down. And just to add that one of the reasons, of course, is because of scale, this fixed overheads or employee cost as a percentage of sales in digital business is high. It will come down. And also, another reason you must realize that traditional FMCG company outsourced a lot of things. Here a lot of things is in-sourced. Like for example, we do a lot of content advertising development in-sourced as opposed to using agency. So, that which is shown as some other expense comes into employee cost here.

Moderator:

We will be able to take one last question. We take the last question from Mihir Shah from Nomura. Please go ahead.

Mihir Shah:

Pawan, one small clarification, first, on the operating margin contraction of 40 to 50 basis points that you called out. That was for the full year, right? Not for the second half.

Pawan Agrawal:

Yes, that's for the full year. So, the last one we have been able to follow-up. Now there are a lot of moving paths, and that's the estimate that we are giving at this point in time. We will try to better this number. But as of now, it looks like maybe at 40 to 50 basis points, there could be contraction at a full-year level.

Mihir Shah:

No, that's clear. Firstly on Saffola, the import duty hike, that was on palm, soy and sunflower and not on rice bran. Does this help in improving your competitive pricing in any way? And when was the 15% price hike implemented and how should one think about volumes on the back of this 15% price hike?

Saugata Gupta:

So, firstly, the entire market shoots up, unfortunately, that the domestic oil is also independent of import. It goes up. And I think, I guess one of the reasons this import duty was done for that better realization for farmers. Now, as I had alluded to earlier, that we believe that at the current level, we seem to be reasonably comfortable. Last time when we took a price increase in 2022,

we had moved to 230. We had seen the volume getting impacted and whatever modeling suggests anything close to 200 and 200 plus, our volume gets impacted. As of now, I think at 185, we seem to be okay.

Mihir Shah:

Secondly on foods again, can you talk a bit on what is the contribution, ballpark contribution maybe of your core brands of oats, honey, and chunks? Because I wanted to get a sense of your journey of foods from 2x to 4x that you are talking about so which other brands do you see that can give you, you know, what will be the glide part to that journey basically? How much do you think that can add and maybe some categories that you are thinking about? I understand Plix is there, but other than that?

Saugata Gupta:

No, I think the contribution of the core is significant, okay. I will just give you a construct of the growth rather than, so if you look at foods, I think the biggest one is oats and within oats, millet, masala which we have launched is an adjacency to it. We are obviously participating in now breakfast with muesli. We have a presence in snacking and immunity and soya. Now soya and honey are obviously not growing exponentially, but the construct is that we want to have the organic core growing in double digit and ensuring maybe the Plix plus True Elements growing at 30% plus so that we have a weighted average of anything between 25%.

Moderator:

Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Pawan Agrawal:

Thanks for listening on the call. To conclude, the first half has largely met our expectations. So far, we have delivered on the key performance parameters as laid out at the start of this year, in terms of an improving volume and revenue growth trajectory in the core and overall domestic business, maintaining the robust double-digit constant currency growth momentum in the overseas businesses as well as holding on to the operating margin of the base period, and we have delivered double-digit earnings growth in the first half. In the context of the current consumption environment and sharper than anticipated rise in commodity prices, we will take calibrated pricing actions to alleviate the pressure on margins and stay the course on our stated aspirations.

That is it from our side. If you have any further queries, please feel free to reach out to our IR team and they will be happy to address. Thank you, and wish you all a great festive season ahead.



Marico Limited
October 29, 2024

Moderator: Thank you very much. On behalf of Marico Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

(This document has been edited to improve readability)

Page 22 of 22

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.
CIN: L15140MH1988PLC049208. Email: investor@marico.com