



Marico Limited  
Q3 FY21 Earnings Conference Call

January 28, 2021

**ANALYST: MR. ANAND SHAH – AXIS CAPITAL LIMITED**

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



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY21 Earnings Conference Call of Marico Limited hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Axis Capital. Thank you and over to you Sir!

**Anand Shah:** Thanks, Rutuja. Hi and good morning everyone. On behalf of Axis Capital, I welcome you all to the Q3 FY21 Marico Earnings Concall. We have with us the senior management of the team represented by Mr. Saugata Gupta, MD and CEO and Mr. Pawan Agrawal, CFO. Before we get started, I would just 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 questions, please feel free to reach out directly to Marico’s Investor Relations team. With that I would like to hand over the call over to the management for opening comments. Thanks, and over to you!

**Saugata Gupta:** Good morning to all those who have joined the call. I hope all of you, your friends and family continue to stay safe and healthy. Let me quickly take you through the quarter gone by and our outlook going forward before I leave the house open to questions.

Q3 was a visibly robust quarter for us on all fronts as we have witnessed encouraging demand trends across our key portfolios. Consumption has been steadily moving in the right direction with COVID restrictions easing across the board. Consolidated revenue grew by 16% plus riding on a strong 15% domestic volume growth and an 8% constant currency growth in the international business. Despite inflationary trends in input costs, we delivered a resilient margin performance on the back of tight execution, rigorous cost control and rationalization of A&P spends in discretionary portfolios. In the India business, more than 95% of the portfolio grew well ahead of medium-term aspirations. General trade has displayed a sturdy growth trajectory over the past few quarters with this quarter being no exception. Rural markets continued to outperform growing at 24% vis-à-vis urban markets which grew by 10%. Growth in rural has been a heartening trend given that these regions have been less affected by the pandemic and have also been a focus of government led stimulus. We expect this trend to continue with the Union Budget just around the corner and hope for a good monsoon season this year as well.

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E-Commerce delivered accelerated growth and contributed to about 8% of share of revenues in Q3. Modern Trade recovered sequentially to deliver an almost flat quarter YoY driven by rising footfalls during the quarter. CSD too fared better sequentially, however had a modest decline YoY. Delving further Parachute had another stellar quarter with 8% volume growth. Given the recent hardening in copra prices, we rolled back certain consumer offers in December to recover some portion of the cost hit. The increased effective pricing by 5% in the current quarter has been implemented. We are seeing early signs of copra prices cooling off by 10% from its peak in end December and we believe that it should correct another 10% to 15% as the season sets in. We expect no copra price inflation next year on an annualized basis owing to a healthy crop outlook. We believe, Parachute will extend its relatively higher growth trajectory over the next few quarters before reverting to medium-term growth levels.

Value Added Hair Oils posted a strong broad-based 21% volume growth with most brands delivering a double-digit growth. Nihar Shanti Amla gained significantly across markets as we continued to invest behind market share growth as well as driving penetration of larger packs. The rest of the brands in the portfolio are showing sustainable robust volume growth after many quarters. We estimate healthy and accelerated share gains in the VAHO portfolio. We are now confident that the portfolio will sustain the double-digit growth trajectory over the medium-term through multiple growth engines across the pricing parameter.

Saffola Edible Oils has delivered a double-digit volume growth for the fifth consecutive quarter recording a 17% volume growth YoY. We estimate that 65% of the growth is attributable to increase in overall penetration or higher retention laying a healthy foundation for sustained growth even as consumption patterns post COVID normalize. We believe the brand can continue to grow by high single digit over the medium-term as a base case. During the quarter rising oil tables have necessitated multiple rounds of price increases in the portfolio and we have taken price increases to the tune of 15% plus that has allowed us to counter some part of the cost push. However, we believe the inflation is transient and expect pricing to come down over the next few months.

Coming to the Foods business, we have scaled up growth of 74% in value terms with the base Oats and Masala Oats franchise registering a strong 50% value growth and new launches trending very well. The Oats franchise has been growing from strength-to-strength on the back of increased penetration and heightened focus on healthy snacking in-between



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meals. Saffola Honey is ramping up very well, much ahead of our launch estimates. In fact looking at offtake trends, our growth was limited by supply led capacity constraints, which we plan to overcome in the next few quarters. In Honey, we have reached close to double-digit market share in Modern Trade chains and crossed 20% market share in E-Commerce. These two channels are over indexed in the honey category. Our aspiration is to touch the INR 100 crores mark in revenues by next year, which will make it one of the fastest INR 100 crores journey in the midsize food's category, considering that we extended this brand nationally only in November-December 2020.

Saffola Chyawan Amrut has been tracking well in the select launch markets. We have continued to broaden our play in healthy foods with the launch of Saffola Mealmaker Soya Chunks, marking our entry in the plant-based protein category. These launches further reinforce our strategy of entering into large food categories with high tailwinds, which offer the potential to quickly give a scale through differentiated offerings.

In the Premium Personal Care portfolio, we observed a gradual revival in demand on a sequential basis. There was a modest 4% volume decline YoY with Livon Serums registering growth and the skin care portfolio also trending positively. As the discretionary spending perks up, we intend to build this growth engine for the future. Post our recent foray into the hygiene category, we have taken a conscious decision to defocus from the segment as COVID-led consumer demand has been receding. We believe in the post COVID world the category will see consolidation by the top two, three legacy brands in the segment.

Beardo, now integrated within Marico fold, is tracking well. It should touch INR 100 crores run rate next year, in realization terms not GMV.

Coming to the international business, Bangladesh saw another steady quarter with a 15% constant currency growth with the non-coconut oil portfolio growing by 27% YoY. The newer launches in baby care and shampoo range have been seeing an encouraging trend. South Africa saw a resilient growth on the back of buoyancy in the health care and hair care categories. South East Asia was down 3% as the HPC category and Vietnam witnessed downtrading and soft discretionary spends. With all the transformation initiatives undertaken in Vietnam, we expect the business to rebound healthily in the coming quarter and trend positively going ahead. The MENA business saw a marginal decline in constant currency terms as growth in Egypt was offset by softness in the Middle East. At 9% of



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sales, advertising spend was up 4% despite significant efficiency led savings and rationalized spends in the discretionary portfolio. We continue to invest behind brand building in core categories and scaling up a host of new launches.

On the overall business, we hold our medium-term aspiration of delivering an 8% to 10% underlying domestic volume growth and a double-digit constant currency growth in the international business. The near-term however looks even more promising provided there is no second surge in COVID-19 cases and the economic recovery continues. In Q4, we have the potential to deliver 20% plus revenue growth with domestic volume growth in mid to high teens in spite of the fact that we had a marginal volume decline of 3% in Q4 last year as compared to other players in the industry. International business is also expected to be in line with medium-term aspiration. The cost pressure will be transient and is expected to ease as we enter the next financial year and therefore it will be prudent to tide over this quarter without resorting to any multiple short-term tactical actions in pricing and distracting ourselves from the high growth momentum. With respect to our end-to-end cost savings program, I am happy to note that we are on track towards accruing structural savings to the tune of about INR 150 crores in the India business and INR 50 crores in the international geographies this year. This savings will thus flow through in the base for the next year. While the underlying fundamentals of our business remain strong, we believe there are five factors that have enabled us to reignite growth despite the challenging environment. We had initiated most of these measures in the latter half of FY20 when we had a little bit of a soft result in Q2 and Q3 last year. Firstly, we have single mindedly focused on doing a few things right and driving simplification and execution excellence across processes and systems. A systemic process of stop doing list has been executed across the organization, which has involved SKU rationalization, automation, and process agility. We have focused on quality versus quantity since we believe too much proliferation can give short-term tactical gain but leads to long-term complexity, wastages, higher inventory working capital and clogging of management bandwidth. We aspire to operate key organization processes like a formula one pit stop in terms of execution standards over the next few years. Second, getting GT right through efforts directed at optimizing profitability and throughput per outlet while reducing inter-channel conflict and ensuring healthy ROIs for our distribution partners. We have also significantly reduced distributor stocks. In fact, they are now at 2015-16 levels and monthly and quarterly sales skew, which existed in the system. We are now negligible variability in a daily run rate of sales across the quarter. Simultaneously there has been a significant investment behind increasing quality of rural distribution and chemist and food outlets in urban. Our rural stockists will

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increase by 33% and chemist and cosmetic outlets coverage 6x in urban metros over mid 21-22. Third, turning the tide in VAHO by focusing on broad-based growth rather than just Shanti Amla, we have now corrected the mix wherever required to ensure most of the brands are on track for double-digit growth. Incidentally these brands have both higher margin and higher realization and therefore will drive value share at an accelerated pace along with premiumization in the segment. Fourthly, driving innovation in categories with a large addressable market with growth tailwind that offers the potential to build franchises with a quick scale and market share gain, hence our larger focus is on foods where we have the option to get at least 2-3 more INR 100 crores franchises within the next two years. Lastly, the continuous focus on driving cost efficiencies provides adequate cushion to our P&L and allows us to hold threshold operating margin at 19% to 20% for the medium-term while aggressively driving volume and market share. I would like to summarize the five key focus areas for the company going ahead which we believe will anchor our growth momentum over the medium-term. First, continue to drive double-digit growth in VAHO while maintaining growth in core Parachute and Saffola as per medium-term guidance, aggressively scale up our Foods business into INR 400-500 crores business in the next year and then aspire to cross 100 million plus by FY23-24, bring discretionary portfolios back into healthy and sustain growth, dial up the contribution of Vietnam in the international business while maintaining momentum in Bangladesh and accelerate digital transformation and try to create at least two three digital brands like Beardo. Last but not the least, I would also like to thank all the Marico members and associates for exhibiting tremendous resilience and grit, enabling the company to deliver strong performance amidst fairly challenging circumstances throughout the last calendar year. I am certain that we will continue to keep up the spirit and progress from strength to strength on the back of agile execution, trusted brands and a strong culture and high ESG standards. Thank you for your patient listening, we are happy to take questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

**Manoj Menon:** Good morning and congratulations for an excellent result and good luck for the continuation. Just two questions - one on Saffola. Just some insights on the consumer behavior in the last six months, nine months or even in 12 months - is there a mix improvement there, is there a premiumization opportunity within Saffola thanks to COVID and more healthy adoptions? If yes, how sustainable is it and what are your thoughts on that? Point number two - just some examples for the structural cost resets? And one thing



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which I observed was also the significant reduction in the working capital. What has driven it and the how sustainable is it? Thank you.

**Saugata Gupta:**

If you look at the Saffola growth journey, I will talk about the general consumer trends which we noticed. We are now entering the anniversary. 15<sup>th</sup> March last year, we witnessed that first there was pantry loading. Secondly, in April, May, June two things drove a lot of consumption - one was availability and other was a choice for trusted brands. Obviously as things settled down, the two trends we observed were one is that people continue to have perhaps much more in-home cooking. But there was a significant proactive choice that consumers were making on trusted brands across the category. It is just not in edible oils. Also, consumers are adopting to healthier trends, whether it comes to snacking or meals. Saffola foundation is completely in place and as you know that we are now lapping a very high base of the previous Q3. We started double digit growth in Q3 last year. So this was the first quarter of lapping a very high base and therefore if you look at the combination of growth, 65% - and last quarter was a similar number - we are approximately getting two thirds of the growth through higher penetration and retention and one third through additional usage. What happens is in a lot of Saffola households, there are two or three brands used. We are perhaps getting higher usage or higher SOR or share of requirement. I believe this trend will continue because one of the things we have noticed that is a permanent trend, which will help healthy foods as a segment, is that consumers will continue to focus on staying healthy in terms of adoption of things, which drive immunity and adoption which drives healthy living. One of the things that has happened in this pandemic is there is a significant realization that if you have lifestyle diseases or comorbidities, your propensity for things getting complicated is far higher. Therefore, the consciousness level will continue, and I see a potential in immunity or nutraceuticals category or healthy foods and trusted brands and this is something which is going to be permanent to a large extent. Just to also give you a trend, if you look at by November-December, the opening up has been pretty rapid. So people are now going back to restaurants, people are going to the offices. Thus the in-home cooking upside was anyway calibrated in Q3 itself. On your second question on structural cost, there are 3-4 big areas. The first is what I spoke of - simplification and reducing wastages. We had rationalized 26% SKUs so we are running about 26% SKUs less, which we did pre-COVID and which may have contributed a 2% of our sale and we continue to be very, very rigorous in our entire inventory planning and wastages. The second one which has been huge is spend effectiveness. We have looked at a lot of our contracts, including it is outsource contracts and the fourth is that we are moving to a 75% or a 65% to 75% hybrid working model post

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COVID which also requires giving up of office space and other admin and fixed cost. So those are perhaps the four big areas but the significant portion has happened on spend effectiveness in both marketing, sales and the second one is entire inventory working capital supply chain - investing in an automatic supply chain tower, which means that everything end to end will move into auto replenishment especially for the tail end SKUs where there is always an inventory issue or a wastage issue.

**Manoj Menon:** The part of the second question was also on the drivers for the NWC reduction because it has been quite significant. It has been happening over the last couple of quarters. So I reckon it is probably just not a one-off. Just trying to understand what has driven the debtor reduction. Inventory you spoke about. How do you see the sustainability of the same or is it all linked probably that you just explained on cost as well?

**Pawan Agrawal:** You are right if you look at debtors turnover days, it has reduced from 36 to 23 and a large part of it is because of the stricter credit control in the general trade because we have reduced inventory levels of the GT distributors significantly and therefore, we have tightened the credit control. So this is quite structural and we believe this will continue. At the same time debtor turnover has also gone down because of a lower contribution from Modern Trade and CSD. That has also led to a reduction but this will slightly inch up. So from the levels of 23, we believe at best it should go up to 25-26. Inventory - I think Saugata explained in detail as to why inventory turnover has gone down. At the same time another driver for improvement of working capital was the fact that we had paused the supply chain finance program for a while, which we have reactivated and therefore trade payables have gone up. Thus, this also is a structural intervention and will continue. Therefore we believe that this net working capital which is currently at 21 days should remain in the range of 24-25 at max. I hope it answers your question Manoj.

**Manoj Menon:** Absolutely. Thank you so much, perfect and all the best.

**Moderator:** Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

**Tejash Shah:** Congrats on a good set of numbers. First on VAHO, you have posted a double-digit volume growth after almost 10 quarters and then I believe there is a base also which has helped but nevertheless the momentum seems very solid. So what has changed here and is it largely



that we can extrapolate this trend for the whole category or is it that we have gained a disproportionate market share in the quarter?

**Saugata Gupta:**

If you look at the pricing pyramid or the laddering of VAHO, there are three sets. One is the base or the bottom of pyramid where you have the BOP pack for Rs.10, Rs.20 where a lot of action happened in the last two years and there Shanti Amla operates. There is the mid segment where brands like Jasmine, Nihar perfumed hair oil operate. There could be some other brands which are operating. Even Dabur Amla operates in that segment. And then there is a premium segment where there is Bajaj Almond, Hair & Care and hairfall, which is at 1.5x to 1.6x and the mid segment which operates at 1.1x to 1.3x. The reason VAHO was not growing was nothing to do with Shanti Amla. Two things, one was a lot of action and focus happened in the bottom of pyramid and our brands at 1.1x to 1.3x and 1.5x were not growing and number two, we are not actively participating in the 1.5x to 1.6x segment, which have got brands like Aloe, Almond. If you look at the history from 2011 to 2018, the double-digit consistent growth in VAHO was just not led by Shanti Amla, which was the accelerator but also because all the brands grew double-digits. We have gone to that level where not only new brands like Aloe and Ayurvedic Hair Oil are growing double-digit, but of the existing brands, which is Nihar perfumed hair oil, Hair & Care, Jasmine, which are big brands, they are actually now back into double-digit growth. There was a correction in mix in terms of pricing and there was a correction in some of the communication and positioning. All have happened together. It has taken time. As I said we started the journey sometime in last October-November. We have also launched Nihar Almond which is doing reasonably well. So all these put together, we are extremely confident of getting back into double-digit growth for definitely in the medium-term. Yes, we believe Nielsen numbers will stabilize and our estimates indicate that we are back on accelerated share gain and our focus in the next couple of quarters will be just not volume share but also value share.

**Tejash Shah:**

Very encouraging. Second Saugata we have made a very commendable and noticeable entry into the Honey segment and Chyawanprash but what we have seen in most natural Ayurveda products in last four-five years is that the journey starts with product efficacy and integrity and once the scale comes, then the integrity of the supply chain gets compromised. So, since we have very aggressive plan here, what are we doing on supply chain part to support our ambitions on growth front?

**Saugata Gupta:**

Marico has extensive experience in managing commodities and supply chain of these natural products. We were one of the pioneers on contract farming in safflower. So Marico



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has a very, very good track record of producing and manufacturing and offering to the consumer the purest products, whether it is in coconut oil or Saffola, without ever compromising anything on supply chain. We have already started the process of supply chain management and that is the reason I said that while there is a huge offtake promise, we are going steadily on honey because we want to continue to provide the best and the purest form of honey which is NMR tested, which is an internationally acclaimed one to the consumer. Therefore, we are okay to actually forego and we have foregone in the last six weeks some volumes because while there is a demand, we want to get it right. As you know Marico standards are always best in class whether it has been in Saffola, whether it has been on Parachute.

**Tejash Shah:** Sure, very helpful and one bookkeeping question if I may. Were there any one offs in employee cost this quarter? I understand the base was weak but despite that it is a sharp 28% increase?

**Pawan Agrawal:** In employee expense you will see that on a YoY basis, it is about 28% higher and this is basically because of three reasons. First one being that employee cost pertaining to our acquisition of Beardo is not in the base. Second there is a hit on account share based payments because of the uptick in the share price as on December 31, 2020 while in the base quarter there was no charge to the P&L on account of this and third is higher incentives provision due to better performance whereas in the base quarter it was quite negligible. So, these are three reasons because of which employee cost is about 28% higher and also for Q4 it will be slightly on the higher side.

**Tejash Shah:** Thanks, and all the best.

**Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Congrats on very good set of numbers. My first question is within Saffola, the two new launches - why is there a divergence? Why is honey doing much better than Chyawanprash? Any learnings there and any tweak you can do to Chyawanprash? And in honey you said capacity will come on-stream in the coming quarters so till then are you able to manage and completely meet the demand?



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**Saugata Gupta:**

We launched Chyawan Amrut in select markets in October. It takes time for a brand to do well and get traction and therefore I cannot conclude within three months whether the brand is doing well or not. As per action standards, the brand is doing okay. It takes at least 6-7 months for a brand to get traction. As far as honey is concerned, we started launching honey in July. So we at least have a visibility of 6-9 months because in the first three months it is very difficult to give a trend. We should be able to get a fair idea about Chyawan Amrut only by April, May. So both soya nuggets and Chyawan Amrut, which have been prototyped in select markets, are actually reasonably performing well and we should be able to give a clearer picture in April-May. As I said that obviously honey has done well in terms of performance and in terms of differentiation. It is scaling up well and I think a lot of the capacity issues which we had in December-January have been taken care of now. So we are okay. We are gradually increasing capacity and ensuring that with the kind of standards which we offer in terms of the purity, we are able to maintain the supply chain. So we are doing it gradually. If we have an ambition to touch INR 100 crores run rate by next year, I think that capacity is more or less there.

**Abneesh Roy:**

Now one followup Saugata on honey is with an INR 100 crores target for next year, in terms of GT distribution if you could tell us a bit more. How much of that should come from GT? Based on Saffola oats current distribution, what percentage are you targeting to reach in FY22 in terms of distribution? And in terms of the CSE issue, the other honey player said that, that issue has now died, so any comments on that? Is that benefit still coming?

**Saugata Gupta:**

I do not want to comment on the second one. At the end of the day, our endeavor is to provide consumer delight by providing the best quality products to the consumer. Abneesh, I will not be in a position to give a distribution plan but just to give you an idea, our estimates indicate that Modern Trade and E-Com are slightly over-indexed in honey as a category at about 35% - at least broad estimates anything between one third and one third plus - of the category comes from these two channels. We have started our distribution in GT. It is available reasonably well. As you know that even in masala oats a significant portion of similar kind of two thirds of the category comes from GT. As you know, till 2010-11 we used to have Sil in our portfolio, we used to distribute Top Ramen, so therefore our food outlet distribution is very much intact.



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**Abneesh Roy:** My second last question is essentially on the digital brands. So you have mentioned Saffola Fittify, Coco Soul, ImmuniVeda, Kaya Youth, etc. If some update you can give on that and second the hygiene brands, which you have defocused, are you still advertising also?

**Saugata Gupta:** No. We will not invest behind advertising in the hygiene brands. I am clear that they were tactical entries. With COVID decreasing, if you look at data, the category is reducing every month and therefore it does not make sense to create a high base in year one tactically beyond a point which you cannot maintain in year two. It has so far contributed to around 1% of our topline and by December when the COVID cases started drastically reducing we took the call of taking out investment behind it. I do not want to get into individual details but as you know that we are invested ahead of the curve in E-Commerce, which contributes 8% to our revenues. Obviously in E-Commerce our product mix has to be far more towards digital brands or I would say digital premium brands. We have our Beardo experience. We have a separate business unit which we have created to handle digital brands which operates completely independently of Marico in terms of processes systems and we believe that either organically or inorganically, we should be able to replicate and have two-three more Beardos in place in the next two-three years.

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

**Vivek Maheshwari:** Just one question I have. So I did hear your comment about the hygiene category and the fact that you have defocused on this segment. But just if you look at three, four, five, six months back, it was almost looking as if in terms of hygiene some of the changes that have happened in the consumer side are going to sustain in the medium-term and most of the companies had entered into this space. So in the context of what has happened to the hygiene category, does the same not worry you for some parts of portfolios particularly on the Saffola side and the Foods side? Because a lot of these things that we think are sticky may not be as sticky as at least the hygiene category is kind of pointing us to. So what are your thoughts on that? What gives you that confidence from a medium-term perspective?

**Saugata Gupta:** So, let me just segregate this. What has happened in hygiene is that hygiene was a tactical entry for a lot of players. There was a significant demand and therefore demand was far more than supply and therefore a lot of players entered into the category. What we are saying is that hygiene has settled to a definitely far higher level to pre-COVID levels. If the growth was 5x, it would have settled to a 2.5-3x. Now what happens in that is that therefore

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strong legacy brands will obviously have a right to win because they have this equity of hygiene and health for the last 50 years in this country. There is a different thing in foods. Foods, first the habit is permanent, number two these categories were anyway growing before. It was not that honey category was not growing or Saffola Masala was not growing. The trend towards healthy eating and healthy foods is actually independent of COVID. COVID is just an acceleration. The second difference is that Saffola in the health equity is one of the strongest brands versus when we entered hygiene. We never had a hygiene equity. So there is a significant difference between these two. Saffola's right to win on health is extremely high and as I said in the food category what we are doing is we are entering midsize segments. Midsize definition in Foods is anything between Rs. 600 to 1500 crores with some tailwind. Let us discount the tailwind of 40-50% growth. Even with 10-15% growth if we have a differentiated entry with a strong brand where each category has an incumbent, you will make supernormal profit getting 10% market share, 15% with a differentiated proposition and distribution is not a very difficult proposition. Just to give you an example let us take the example of plant protein soya nuggets. There is a huge unorganized market. There is a significant branded segment. Again the branded segment is anything between INR 800-900 crores. It has got two players. Saffola's equity on health is very high and therefore in these INR 800-900 crore segments, getting 10% to 15% market share with a strong execution is imminently possible and that gives you a quick scale. So I think there is a difference because one is strength of the brand, strength of the proposition and the categories. These categories are already midsize. If you look at the sanitizer penetration pre-COVID, it was very low. The honey penetration or Chyawanprash penetration or nugget penetration was far, far higher even pre-COVID.

**Vivek Maheshwari:** Just a quick followup on that too. On the Foods side, points taken. But what about Saffola edible oil Saugata. Because if I look at the journey let us say from 2017 to most part of 2020, the struggle was to have high single digit growth barring a few quarters. In most of the cases, it was not growing in line with your expectations. Now that business is on a strong footing. From a medium-term perspective, is there something that you can do differently so that again you are not stuck in the same zone where you were until, let us say second quarter FY20 for example because that is a part of the portfolio where as consumers start to go out more, automatically the in-home consumption will go down, right?

**Saugata Gupta:** Two things Vivek. I think first, let me just clarify and this is I think a misperception about Saffola growth. If you look at 2017 to 2019 growth and if you take out the GST quarter and the demonetization quarter and one more quarter the weighted average growth of Saffola

has been 9% volume growth. For a brand which is INR 1,000 crores plus a 9%, 8% volume growth is fair. So I think sometimes as a company because we are much more transparent, sometimes we are more self-flagellating. So I know that is the problem. What we did was pre-COVID when we corrected two-three things in terms of what is the issue that was happening, we normalized our discounting and pricing, we normalized our promotions, we also ensured that the significant portion of advertising and investment goes towards Saffola Gold rather than Active because Active was cannibalizing perhaps of Saffola Gold and the fourth thing we did was in our communication from fear and anxiety, we moved towards food value. So all these four things we had initiated pre-COVID. Just another piece of information, which I just want to reinforce is that even before COVID, till February end, Saffola was even in Q4 growing at 15%. That 15% grew to 25% in Q4. So I do not think there is an issue. I just want to also put the numbers on Saffola. FY16 volume growth is 9%, FY17 8%, FY18 had a demonetization and the GST -1%, FY19 8% and FY20 again was 9%, so this brand has actually delivered a consistent growth of 8-9%. Now I would say that in terms of growth rates or volume, how many brands of INR 1,000 crores size have continuously delivered 8-9% growth. I would say that we are certainly above median as far as growth rate is concerned. That is why I said that even though we had a double-digit growth in the base quarter, we have followed it with 17%. We are pretty confident of delivering high single digit as a base case going forward over the medium-term.

**Vivek Maheshwari:** Thank you Saugata and you are transparent, and market does recognize that, so thank you very much.

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

**Percy Panthaki:** Congrats on a great set of numbers. My question is on Foods and there are two parts to it. One is you have done brilliantly in terms of ramping up the foods growth rate and obviously there would have been some amount of tailwind from COVID but that certainly does not explain the whole story. So what is it that you have done? If you can give me the story behind the number to get this kind of growth rate, which earlier on an even smaller base you were not able to get. And secondly, now I think oats has reached what you used to call that critical mass of about INR 200 crores where in addition to topline, you would start focus on profitability. So if you can give some thoughts on that as to what is the sort of sustainable margins of the oats business let us say two-three years down the line. You had earlier said



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that once you reach a particular scale you can do a lot of things in terms of sourcing, etc., and bring up the margin, so yes this is my first question.

**Saugata Gupta:**

Let me talk first about Foods. Foods has a significant strategic shift. Marico's approach to NPD had been creating categories and we used to like being pioneers and innovate and create categories. What we realized especially during 2018-19 is that focusing on creating personal care categories which have a low penetration and driving them is a kind of a long haul. By last year masala oats had broken even and we were hitting almost close to around somewhere between 150 and 200, so we knew our working model in Foods was possible. I must say that some of our entries we were looking at is healthy foods but obviously COVID accelerated that choice making because obviously in the initial stage what we found is that there would be stress on premium personal care. Also you would realize that because of the lower economic growth in 2019 pre-COVID, a lot of premiumization agenda decelerated. So, I think Foods offer a far better business model. One of the metrics we use is called strategic funding to turnover multiple. In Foods there is an opportunity for scale up faster and also the Foods category A&P compared to say a skin care or premium hair care is far lower and Foods also give you significant scale advantages. So, if we cherry pick categories, which are a reasonably good addressable market with potential for growth and having opportunity to get 10-15% market share with a differentiated entry - we started picking up these categories in Foods. We also looked at categories which have significant overlap with our existing distribution whether it is Modern Trade, E-Com or General Trade. So we have looked at both and then shifted to the food outlets. Coming to masala oats, you are absolutely right. We are reaching that inflection point where in another one year or two years there will be significant opportunity to improve margins because of backward integration and scale we have reached. This year also we are making decent monies in masala oats. And you shouldn't look at just masala oats as such but once you hit say INR 400 crores plus in Foods, in our entire manufacturing and supply chain footprint we would be able to extract significant margins. Because right now, it is little bit fragmented. Right now we are not getting economies of scale, though in masala oats we are getting it. In overall foods there are a lot of things which are common in the food backend supply chain. So, in another one or two years, in 2022-2023, we should be able to integrate some of our food supply chain and get cost efficiencies.

**Percy Panthaki:**

Saugata my question was in masala oats the kind of growths that you are clocking right now are much higher than the growths you used to clock a couple of years back when the size

was even smaller. So what exactly is the story behind the numbers in terms of this oats growth accelerating to this extent?

**Saugata Gupta:**

As I said that I would not be able to share everything, but I can give you a broad focus. I think two-three things we have focused on - increasing penetration and moving the category from breakfast to in-between meals. We have focused on distribution and I think these are the two-three things and we have continued to invest behind the brand.

**Percy Panthaki:**

My second question is on VAHO. So while you have definitely done well and you have mentioned that your gut feel is that there might have been some market share gains also, just wanted to understand if the overall growth of the VAHO industry has also materially picked up in Q3 and if so is it just pent-up demand or is it that this category is largely a rural consumption category and rural in general is doing very well so that has got tailwind. So any color you can throw?

**Saugata Gupta:**

It is a combination of two-three things. Firstly you must realize that when there was an economic slowdown in 2019-20 and there was also a little bit of competitive action at the bottom of pyramid, that encouraged a lot of not unorganized but smaller regional brand players who also started to pick up market share. Now here post COVID, few things have happened. First, we had aggressively started the process last year but this quarter we have started aggressively driving rural distribution and we are going to add rural stockists by 33% and we will continue to do this year-on-year. As you know, we do not sell sachets and as a result the gross margin of our rural portfolio, unlike other companies, is far higher than urban. So therefore, sometimes what happens is that our breakeven in rural works on a different business model - it is less than two years in rural distribution, so therefore we are expanding behind that so that is one reason. The second one is obviously, first there was migration from urban to rural. Number two rural economy is less impacted and therefore there is a demand and I would think that we would have taken significant share in rural. The category continues to grow. Now in urban what we saw is two changes - one is in the initial part, the non-sticky hair oil which is the part which is used largely post wash, because people are not going out and non-sticky hair oil is also used for setting and styling especially by males, that sector had a significant impact. It was anyway getting impacted because of downgrading but I think that sector had a significant impact in Q1 and Q2. That part is now recovering well in Q3 and it will start recovering as the economy opens up. The last thing I would like to point out and this is a general trend is that if you look at the top end and I am talking of just not top end but SEC A1, A2, A3 and even B1, while there have





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been I understand income losses and job losses, there has been also at the higher end, significant savings in terms of consumption whether it is eating out, traveling, so there has been therefore a focus towards healthy eating, going for far more hair nourishment and doing good to yourself. That trend in consumption we are noticing significantly. In fact, I am very happy to state that we have actually witnessed significant gains in household consumption of hair oiling as a habit this year. Most of these trends will continue going forward in the next two-three years, which is natural, less chemical, eat healthy, eat plant protein, eat less meat, go vegan - all these trends will continue.

**Percy Panthaki:** Okay Sir, that is all from me. Just a quick question what would be your total Foods turnover approximately for FY21?

**Saugata Gupta:** We should be hitting close to INR 350 crores definitely - around INR 325-350 crores and we will aim to hit INR 450-500 crores by next year.

**Percy Panthaki:** That is all from me. Thanks.

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

**Arnab Mitra:** Congratulations on a very strong quarter. My first question is actually also on oats. In the past what we have seen is in many of these new food categories which can develop, they hit somewhat of a headwind once they cross INR 150-200 crores turnover. But you seem to have actually accelerated at that space when you reached that level. It also happened in the COVID year. Just wanted to get a sense of whether it is more households which are actually consuming which is driving the 50% plus growth or in your sense is it more gain of consumption within existing households because that kind of determines a bit of the sustainability of the growth going ahead and also because oats seems to have been the only category in foods which has not slowed down with the quarters. Most of the categories had this high surge and then have slowed down sequentially in 2Q and 3Q. So just wanted to understand that and do you now feel confident that this is kind of broken out and it can actually become a large category in itself because you are the category effectively here?

**Saugata Gupta:** So firstly Arnab I think it is a combination of both plain oats and masala oats. I think in masala oats we are growing the category through penetration. In plain oats we are perhaps gaining market share because there are other players which were bigger than us. If you look



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at oats, last year I think we grew 20% plus in oats and what we did was two sharp choice makings. One is significantly increasing distribution especially in food outlets. The second thing which we did was moving this category from breakfast to in-between meals. The addressable market in in-between meals healthy eating is at least 50 to 70 times the breakfast market and breakfast is always center of the plate and as you know a lot of cereal makers and others have struggled with that. The second thing we have done also is driving regional tastes, if you look at some of the launches we have done. And lastly, there has been a shift in target segment. Earlier we were driving very much weight management. Now in the repertoire of households, it is not that people are regularly eating oats but if there are 10 occasions of snacking in a week and if I can enter one or two, my job is done and therefore a significant majority of the oats growth in the last two years has been on increased penetration and distribution and in distribution just to give you an idea, we are maybe still at 25% of noodles weighted distribution.

**Arnab Mitra:**

My second question is also related to Foods itself. In the first couple of choices that you have made in new categories which is honey and Chyawanprash, I think you had the template of high-size growth, but these are also very high-margin categories - the incumbents had very high margins. Soya chunks, does it kind of meet that criteria or do you think it is basically a category which can grow very fast and therefore even if it is a bit more fragmented and margins are not that good you could play for a longer run? And therefore does not that open you up to other kinds of this premium kind of basic foods where there could be a health play but the margins may not be as high to begin with?

**Saugata Gupta:**

I think soya chunks make a similar margin like masala oats. I think soya chunks offers another case of playing to our strength - our ability to convert unbranded or unorganized to organized, the market is huge. Secondly, I believe plant protein is a big trend. In fact, if you look at plant protein trends in the West today, plant protein is a big trend and therefore this is a market which we believe in. Then Saffola has a strong equity in health. We should be able to grow the category. The category size is INR 2,000 crores out of which the branded is around INR 850-900 crores and the branded category has been growing double-digit in the last three years.

**Arnab Mitra:**

Is there a concentration of market share or this is a bit fragmented within branded?



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**Saugata Gupta:** It is fragmented, and therefore in this space, Saffola is perhaps the strongest health brand with the strongest health equity and you may know that in 2005 or 2006 we had meal maker soya chunks as a brand so we know the supply chain also.

**Arnab Mitra:** Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

**Aditya Soman:** Sir, a couple of questions from my end. So firstly, on Beardo, you have talked about an aspiration to get this to INR 100 Crores over next couple of years. I wanted to understand one in terms of the new products - is there any sort of plan and you expect to extend the range quite significantly and secondly in terms of distribution, where are we today and how much can that increase for Beardo?

**Saugata Gupta:** Beardo will focus as a digital first brand. In fact, significant, if not 80% plus, comes through DTC our brand.com and E-Commerce and therefore we had also started to sell a little bit on organized retail pre-COVID. But that is something which we have paused. I believe there is enough opportunity to focus on getting a very, very profitable working model with digital first and then move gradually rather than aggressively proliferating. In Beardo our objective, as compared to a lot of other startup brands is building to last as compared to building to sell and therefore our approach will be gradual. We believe that the only thing which we said was that Beardo started off with a trend on beards. As you know, whether it is the Indian cricket team or a lot of personalities in public life, beard is a trend. But one thing we have ensured at least by year three which is now, our portfolio dependence on beard as a category within Beardo is 50% so that tomorrow we are not betting against any trend if the trend reduces. Thirdly, I think we are letting Beardo function completely independently and I should strongly believe one of the reasons startup brands work well is because there is not too much MBA interference. The moment multiple MBAs start adding value to a brand, these startup brands stutter. It is okay to make mistakes but based on the current run rate we are pretty confident that next year it will create a run rate of INR 100 crores and when I mean INR 100 crores Beardo, it is a far tougher norm which is net realization and not GMV. I think we are almost hitting GMV INR 100 Crores run rate now itself.

**Aditya Soman:** So, you think you can get to INR 100 crores by staying at this sort of mix?



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- Saugata Gupta:** Maybe a little bit, but I am not wanting to sell for valuation. I want to do a growth which is sustainable and which is investment led. While it makes it will make money next year but we will continue to invest behind it and not maximize profits and show short-term sales. So the approach will be different. While it is a digital brand our approach is building to last.
- Aditya Soman:** Using this similar analogy, with honey will it be a different strategy? There you will expand your physical movement?
- Saugata Gupta:** Absolutely. Honey is available in GT in most markets especially in the South and West. We are gradually expanding and I think it will be just like any other brand. In terms of distribution, I think masala oats is available in 1.9 lakh outlets and we will have honey very soon in 1.2 lakh outlets.
- Aditya Soman:** So, basically honey started off as being sort of more focus on digital but eventually you will get it out to all your food outlets. Alright, thank you.
- Moderator:** Thank you. The next question is from the line of Harit from Investec. Please go ahead.
- Harit Kapoor:** Just two questions. One was on the pricing side. You have taken some price increases in coconut oil. I just wanted to understand at a competitive level, what has been the reaction of the unorganized as well as the regional brands to the increase in copra prices. How do you look at that?
- Saugata Gupta:** So, most of the smaller brands or the unorganized players operate at cost plus. The reason we did not take a proportionate price increase is I believe that by the time we took the price increase which was in December, which was the time copra pricing was at its peak, we were pretty confident that the prices will come off. So I believe that by March it will come off by another 10%, 15% so again 20%, 25% off its peak, which is back to a certain level in October-November, and therefore this pricing is good enough to stay for sometime. We would like to ensure that we are far more proactive in a price drop, but when it comes to price increase better be sure that we do not have to take multiple price increases and price drops because we want to operate as a brand and not as a commodity. So I am pretty confident that with whatever price increase effective which we have taken, if I look at the overall copra forecast in April, May, June we will get back to the margins we enjoyed in October-November or September-October-November and next year as I said that we do not

expect any annualized inflation. There could be a difference in quarter-to-quarter but annualized we are okay.

**Harit Kapoor:** Second thing is also on pricing but on the VAHO side. Do you think given the inflation in RM, would you need some level of hikes there as well?

**Saugata Gupta:** Not really. I will tell you on VAHO what we have done. We have got a significant spend effectiveness programme where we have cut significant amount of consumer promotions, BTL and actually taken some price drops in one or two SKUs because we believe that would drive growth. This was from a net revenue management and market mix modeling exercise which we have done. So actually in two of our brands in VAHO, we have taken price drops without any deterioration in gross margins. Basically what we have done is ineffective BTL and ineffective consumer promos have been transferred towards pricing, similar exercise which we did in Saffola. So there has been no impact on VAHO gross margin at all even after taking those price drops and input cost inflation.

**Harit Kapoor:** One last question was on VAHO itself. So can we expect that innovations on the VAHO side going forward would largely be in the mid-premium to premium end for you because you seem to have populated the rest of the space quite well? Is that a fair way to look at it?

**Saugata Gupta:** You are absolutely right. Our share in the base VAHO is far higher. That explains the gap of value versus volume. Currently the gap between volume and value share is 10%. We intend to bridge that significantly. Other than ofcourse cooling, cooling is a different segment and we do not consider it as hair nourishment. We do not have a significant presence in almond, and also I think at a premium end what happens is that the VAHO category converges into serum which is nothing but oil plus silicones in some way. We will have significant investment in these brands and as I said even within VAHO there are three to four brands. I think some of the new brands are doing well and three existing brands which is Nihar perfumed hair oil, number two was Hair & Care and Jasmine which were declining last year has gone back into double-digit growth.

**Moderator:** Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

**Kunal Vora:** My question is on pricing. You mentioned that in Parachute you do not want to take multiple price hikes while in Saffola there have been price hikes in October-November as

well as December. So can you explain the difference in thought process and how the consumer has reacted to these price increases and also with these price increases should we expect Saffola volume to moderate?

**Saugata Gupta:**

So I think two things. There is a significant difference because Parachute is a mass distributed brand and therefore the technical pipeline whether you look at retail STR, distributor pipeline and others, they end up sometimes adding up to around 40 days, which is the retail plus distributor pipeline and given its deep rural penetration, the impact of any pricing change that happens on Parachute, at offtake level takes almost 80-90 days, either way whether you are gaging there is an offtake drop or getting the offtake back and we have modelled this on the pricing. Saffola is far more Modern Trade and E-Com. 40% of the sales comes from there and metro distributors stocks are actually one to two days. The entire market behaves like that and we are a small player. We actually follow pricing in Saffola, while in Parachute we lead pricing. So therefore, the two scenarios are different and I think also what has happened is the inflation has been significant. Although in rice bran it was less, but in sunflower and other things the inflation was significant that forced the other players to also take price increases. What we are trying to do however is restrict the number of price increases because we believe that yes there is an erosion in margin that could have happened for three to four months but we will get back into a kind of a stable state pre October-November again by April as I talked about even in Saffola.

**Kunal Vora:**

With the high base going forward and the price hike how do you look at or have you seen the consumer react to the price increase like over the last year?

**Saugata Gupta:**

We have taken already 15% and Saffola trends continue to be decent. Having said that you must realize that we are now lapping a quarter that had a growth of 25% in the previous year. 25% because it had a huge pantry loading base in March. So as I said in my opening commentary, we will be happy to have a base case of a high single digit volume growth regularly and if whenever there are opportunities, to move it into double digit.

**Kunal Vora:**

That is very helpful, thanks and that is it from my side.

**Moderator:**

Thank you. Ladies and gentlemen, we shall take last the two questions now. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

**Karthik Chellappa:** Congrats on the quarter. Two questions from my side. Firstly, on the Value Added Hair Oils, this 21% growth has come on the back of a quarter last year which was down about 17% that means on a two-year CAGR basis it is more or less flat. But at the same time you have commented that you have estimated a healthy market share gain. That would mean indirectly that the category really has not grown. Despite being one of the lowest price points among the hair oil category, what would explain such a weak category growth for the sector over the last two years?

**Saugata Gupta:** Let me first clarify one number. The volume decline was -7% last Q3. So you have to see that 21% in relation to that...

**Karthik Chellappa:** I think the value growth was -17%.

**Saugata Gupta:** The value growth I explained earlier that last year we were not doing well in the brand which had a higher realization and the entire growth was of Shanti Amla and the bottom of pyramid. That was a mix issue and nothing to do with the value growth of the category. It was because in the last year we were declining in the brands which were 1.3 and 1.5 RPI while the entire growth was in 0.8 to 0.9 RPI brands and there was a pricing correction we took because of the crude coming down. It was there in the base of Q3 versus the previous Q3. So I think you should look at volume growth and look at volume growth for -7 to +21. I think that is a fairer assumption of the CAGR. Now coming to category growth, if you look at it and I am sure we will wait for other players to report their volume growth, I believe that whatever indication we have on the category growth, last year the category growth was struggling because of the fact that the rural was stressed and rural contributes a significant portion of VAHO. Now if you look at VAHO category growth, so were other personal care categories that were struggling last year. If you look at the volume CAGR, I think it will be positive and in terms of mid single digit in VAHO, that is our estimate. But I guess you have to wait and see. But our internal estimates suggest basis whatever Nielsen data household panel data, that it has come back into mid single digit kind of a growth.

**Karthik Chellappa:** My second question Saugata is on Saffola. Since you have indicated that almost two thirds of your growth are attributable to increase in overall penetration, which means new customers are coming in more at the base pack size or so and could that have an impact on your price/mix led growth, although the volume growth may still be strong?



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**Saugata Gupta:** So, if you look at Saffola, our pricing is now almost equal as we do not have too much of discounting on the 5 litres. Broadly it is similar kind of a pricing. But you must realize that in a lot of today's nuclear households and others, especially Saffola attracts people who have an average consumption of 2 to 3 litres. But if you look at our pack growths this year, the pack growth in the 5 litre and the 1 litre has been in similar trend because 1 litre is a far more distributive pack. But we do not see a significant difference. Even if for example somebody consumes 2 to 3 litres of oil, that person still buys the 5 litre pack. The other thing which we must see is that we have consciously had our entire focus on investment into pricing and communication behind Saffola Gold which is the premium part and not Saffola Active which is the entry part.

**Karthik Chellappa:** Thank you very much Saugata and wish you and your team all the very best.

**Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

**Prakash Kapadia:** I had two questions. On Saffola Honey, what is working well? Is it quality or a different product as compared to others? Is it under penetration or is it a lot of unorganized players which are there in the market and that is helping the tail? Secondly, if I look at the base going forward, obviously Q4 had a low base, Q1 had a low base and with whatever positive data points we are seeing in India, can the domestic business sustain this high single digit volume growth for the next few quarters? If you could comment that will be useful.

**Saugata Gupta:** On honey again, I do not want to get into details, but I think it is a classical marketing success getting all the mix right, which is offering consumer delight by offering a superior product and executing well in distribution and communication. We have done it and it is a category which also has growth and I think sometimes people underestimate the equity of Saffola on health. I think now we have penetrated in foods. Saffola, in terms of brand value and the equity is one of the strongest brands in the category, so that is perhaps the honey reason and we have miles to go in honey. We have done okay but I think we have miles to go so we should not celebrate early but we should just say that we have started off well. As regards volume growth, firstly, if you look carefully at the Q4 numbers of the players other than the peer food players, our base is one of the highest in Q4 because our decline in volume was only -3%. Lot of players which were non-food had actually a 10% to 15% decline. So actually our Q4 base is high compared to others. Our endeavor is to deliver 8% to 10% volume growth over a long-term and we believe that in the immediate term given





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the volume momentum and some of the choices we have made, we will be able to deliver higher volume growth and then settle down to 8% to 10%. We will be extremely happy if we deliver 10% plus but 8% to 10% is something which we are now reasonably confident of delivering as a base case on an annualized basis. Let us not look at quarter-to-quarter.

**Prakash Kapadia:** On honey is there a large unorganized market also?

**Saugata Gupta:** To be very honest, there is enough opportunity on branded. It is a habit. Honey is used for two things. I think that big drivers of honey are - one is immunity and the second big driver of honey is also which is increasing, being used as a sugar substitute. Largely honey is a very urban phenomenon. To be very honest we have not studied too much of the unorganized sector. The branded honey market which has significantly grown has a very high urban and alternate channel concentration and I would think that there obviously would be an unorganized market, but this is something we have not studied to be very honest.

**Moderator:** Thank you. As this was the last question for today, I would now like to hand the conference over to the management for closing comments.

**Pawan Agrawal:** Thanks a lot for attending the call. To conclude, we have had a very robust Q3 as we seem to be moving in the right direction on all fronts. We will aim to keep the momentum going as we plan to deliver domestic volume growth in mid teens at least for the next couple of quarters and then settle down at medium-term aspiration of 8-10%. While there are immediate cost pressures which we expect to be short lived, we will strive to deliver double-digit earnings growth in the coming quarters on the back of tight cost control and driving operational efficiency. If you have any further queries, please feel free to reach out to our IR team and we will be happy to address it. That is it from our side. Thank you once again.

**Moderator:** Thank you. On behalf of Marico Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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*(This document has been edited for readability)*