



Marico Limited  
Q3FY23 Earnings Conference Call

**February 03, 2023**

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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 Marico Limited Q3FY23 Earnings Conference Call.

We have with us the Senior Management of Marico, represented by Mr. Saugata Gupta – M.D. & CEO, and Mr. Pawan Agrawal – CFO.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

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

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

**Saugata Gupta:** Hi, everyone, and good evening to all those of you who have joined the call. I would firstly like to wish all of you and your loved ones a Wonderful and A Happy 2023.

**I will start off by giving you a flavor of the operating environment before delving into our performance during the quarter:**

After the FMCG sector grappled with the dampening effect of inflation for the better part of 2022, we believe that there are indications of the start of a gradual improvement in consumption trends, following the sequential moderation witnessed in commodity and retail inflation. CPI has come down from the levels of 7%+ earlier to sub-6% in December 2022. We've also seen visible softening in prices of some key commodities from the unprecedented levels brought about by the geopolitical tensions and the supply chain constraints earlier during the year. Amidst this evolving context, FMCG sector recorded a marginal volume decline in December quarter, its lowest in the last five quarters.

Amongst the categories, Foods stayed on the growth path while HPC recorded mid-single-digit volume decline. Urban continued to grow in low single-digit while rural remained the weak link,

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although its trajectory appeared to improve. Easing inflation, a healthy rabi sowing season and indications of higher farm income augur well for rural growth prospects. Also, increased budget allocations from the slew of initiatives announced in the Union Budget should provide the much-needed impetus in this direction.

Coming to our performance in Q3, we are enthused by improving trends seen across most parameters. Top line growth was underpinned by 4% domestic volume growth and 8% constant currency growth in international business. If not for the volume reductions in value-added hair oils, volume growth would have been at 5%. On a three-year CAGR basis, domestic volumes grew by a steady 6%, which I believe is in the top quartile amongst all companies in this sector. On a three-year CAGR basis, International business constant currency growth stood at a robust 11%. In terms of profitability, gross margin has seen YoY and sequential expansion owing to a stabilizing raw material and consumer pricing environment and a healthier broad mix in the India business. On a three-year CAGR basis, A&P spends were up 6%, and we delivered growth of 11%, which has validated our strategy of optimally investing in long-term brand building despite transient cost pressures along the way.

Delving into the India business, I will now be taking you through the trends we are seeing in each of our categories and some color on the strategy and outlook for the period ahead.

After seeing some sluggishness in the branded coconut oil over the last four quarters owing to the extended deflation in copra prices, we have seen a revival of volume growth since the month of December in Parachute. Loose to branded conversions picked up with copra prices firming up favorably in the off-season and it was the first instance when we were able to establish the right pricing in the market. As a result, the brand gained 30 bps in volume market share during the quarter. With copra prices expected to be range-bound in the near-term, we expect to clock volume growth in line with our medium-term targets going forward.

Saffola Oils furthered its growth momentum with low-teen volume growth driven by stable trade inventory and consumer pricing. Overall, with the commodity prices softening, the revenue growth was subsequently lower. While the international vegetable oil complex needs to be observed in the near-term, we will remain focused on balancing volume growth and profitability in a sustainable manner in the coming quarters.

In Foods, we remain on course to achieve the FY24 aspiration. The segment was led by superior growth momentum in the Oats category which grew at 20% and maintained its strong leadership



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position in its category. Our newer offerings under Saffola and Fittify ranges continue to gain traction. During the quarter, we entered into the ready-to-eat space under our brand, Saffola Munchiez with the launch of Ragi Chips and Roasted Makhana in multiple flavors. Post-Covid, as people have become more health conscious, the industry has shifted for indulgent snacking to guilt-free snacking. Saffola Munchiez combines the power of healthier grains along with delightful flavors to provide better alternatives in a healthy snacking category. We will continue to drive meaningful innovation in the Foods over the next few quarters, and some of the innovation will leverage the goodness of 'Shree Anna' or millets in line with the government's focus on establishing India as a global hub for millets.

In Value-Added Hair Oils, we were unable to tide over the weakness in rural consumption, which is witnessed in most mass personal care categories. On a three-year CAGR basis however, value-added hair oils delivered a reasonable 7% value growth. We continue to see better traction in mid and premium segments also, reflecting the 80-bps gain in value market share. After some degree of commoditization and increased competitive activity in the bottom of pyramid segment, we are expecting better volume growth and market share gains now that there have been substantial price increase taken by other competitive brands. With inflation easing and rural slow down showing signs of bottoming out, we expect to see pickup in growth in line with the other HPC categories.

Premium Personal Care maintained its strong momentum and registered double-digit growth. We have seen a remarkable recovery in this portfolio since the pandemic and aim to deliver 20% growth consistently over the medium term given the lower penetration and our market-leading position in this category. Digital-First portfolio is scaling up well in line with internal targets. As we focus on scaling up these brands in the digital first portfolio, we are also charting a sustainable path to profitability along the way.

Coming to our international business, we are able to continue a healthy momentum despite macroeconomic uncertainties and currency devaluation in some markets. The business, excluding Myanmar, which declined due to forex-led challenges, registered 11% constant currency growth. Bangladesh is witnessing some macro headwinds, though the severity is not any different compared to those seen in some of the emerging economies in Asia, Africa and Eastern Europe. However, we have been resilient even in the midst of a challenging macroeconomic environment, which goes to showcase our portfolio and distribution strength and consumer belief in our brands. Vietnam business further strengthened with both HPC and Foods exhibiting continued growth. During the quarter, we also entered into female personal



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care in Vietnam by acquiring brands, Purite and Olive, which offer a range of premium and differentiated haircare and skincare products. We are upbeat about the growth prospects in Vietnam and look to significantly expand our play in the personal care category. Our MENA and South Africa business have also displayed significant growth momentum while the NCD business, which is New Country Development, is also growing in line with internal aspirations.

**Looking ahead,** we are confident of maintaining an upward trajectory in volume and earnings growth in the quarters ahead on the back of stabilizing raw material and consumer pricing environment in the domestic business, coupled with consistent market share and penetration gains in our core categories, while we expect macro headwinds to gradually recede along the way. We believe that the worst of inflation and volatility is over. Moderating inflation and measures in the budget to enhance disposable income and spending will gradually reverse the flow and accelerate unbranded to branded conversions.

In Coconut Oil and Saffola Oil, pricing has taken some time to settle in and our consumer pricing is now more stable and in line with the market. We also expect competitive pricing action and relatively lower inflation to reverse the commoditization in VAHO to a significant extent.

The diversification journey through Foods and Digital-First is progressing in line with expectations. Now, that two of our brands are hitting critical mass, we are also focusing on improving their cost structures.

In international business, we are confident of continuing the double-digit growth trajectory, as the business have been relatively more resilient despite external challenges in some of the markets.

Gross margin should remain steady from hereon with an upward potential, EBITDA margin should remain in the 18-19% range as we close FY23 and move above the threshold of 19%-plus next year.

We continue to build fundamentally sound franchises in the domestic and international markets and make progress along the core strategic areas of diversification, distribution, digital and diversity, that shall enable us to deliver sustainable double-digit growth over the medium-term.

We also continue to make credible progress in our ESG program in each of the focus areas. “Creating shared value for all” remains the ingrained purpose of our business and will allow us

to drive superior long-term performance. We are committed to achieving net zero emissions in our domestic operations by 2030 and global operations by 2040.

With that, I will now close my comments. Thank you for your patient listening and we will now take your questions.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** Just wanted to ask on VAHO segment. So, we understand that there is overall slowdown in the industry, but is there anything that you can do from your side to sort of improve the growth in VAHO and if at all, when do we see the results of this coming through?

**Saugata Gupta:** So, firstly, I think VAHO largely mirrors some of the mass segments in the HPC categories. Secondly, if you look at VAHO compared to other categories, its more rural and rural has seen some stress, particularly in the east region or UP. So, I believe two things are happening; people within the category are downtrading, and also there's a reverse flow that is happening in the unbranded to branded journey. Now, with that there are two things that have happened, one is the input costs have gone down and the other is inflation going down. I believe that this reverse journey will get corrected. Additionally, I think interestingly, what has happened in the category is that there has been significant activity at the bottom of pyramid with some players not taking price increases and were perhaps operating with unsustainable margins. Those players have taken the price increase, and therefore, we believe that is good, because that gets us to focus on investing behind the category in terms of ATL and actually growing the mid-segment. We are focused on gaining a gap between value share and volume share. Earlier, there was significant downshift of money from ATL to BTL which was witnessed in other competitive brands. I believe that will also change which is good for the category because everybody then invests behind category growth. And I'm pretty confident that as we move towards the next two, three quarters, this decline will get reversed.

**Percy Panthaki:** Secondly, on this launch of Munchiez, the overall snacking category in India is huge with the unorganized, organized, put together might be a lakh crore or even more. So, just wanted to understand how you are looking at the opportunity size here for yourself?

**Saugata Gupta:** You're absolutely right. I think it's a vast segment. Having said that, I think we are offering a 'better for you' healthy brand. We have learned one consumer insight that the Indian consumer

will not compromise on taste for health. And therefore, we have actually managed to deliver a product with all the goodness of millets, and of course, the fact that in terms of fat and other things, it is far lower than other competitors and is a very tasty product. Obviously, its priced slightly higher. If you look at, we will now participate in line with our strength, which is modern trade and eCommerce. In Ecommerce, we are also doing quick commerce, and a significant amount of food outlets in offline. As we are rapidly scaling up our food GTM in top 8-10 cities, we now have a critical mass. Any segment which covers 50%-plus weighted distribution of the premium part of any of the segments, we are participating in. So, we are going slowly. I am not giving any numbers. And in food if you ask me, if the product is good, if you can generate trials, automatic repeats and scale up happens. And I think we will go up gradually. I think the best thing we are doing is we are coming up with products which deliver on taste. We are investing significantly behind distribution and I believe we will get a multiplier effect on this. And as I said, in overall Foods, we're more or less on track to meet our aspirations.

**Percy Panthaki:**

What I noticed in back snacks is that typically the Rs.10 price point is very, very important, I mean, even for premium products let's say for products where the rupees per kilo is higher than let's say a normal product in the industry, just making that product available in a Rs.10 price point really drives sales. So, I was just curious as to why you do not have a Rs.10 price point in these products yet?

**Saugata Gupta:**

I think various categories have actually vacated the price point, and I think, it takes boldness and courage to vacate that price point. If you look at Oodles, it had vacated that price point. If you look at the history of masala oats, despite competition, we entered at 15. Today, we have more than Rs.300 crores business. So, I think ultimately if you offer consumer value today, I don't think that is an issue, because at the end of the day, as I said that, if I have to invest behind the brand, I have to start with a GM that is sustainable. And therefore, given the fact that we have a superior product like millets and a strong offering, I don't think Rs.10 works for us since we will never have made a sustainable margin on that.

**Percy Panthaki:**

No, for ragi for example, which you have launched, I think it's Rs.25 price point if I'm not mistaken, keeping the gross margin constant, can't you just reduce the grammage and make it available? The reason I'm asking is the examples which you gave of Maggie and Oats and all that, they're not exactly in the same category of baked snacks. In baked snacks Rs.10 price point is probably one of the most selling price points.

- Saugata Gupta:** No, but at the same time, there are brands which have operated higher and have good critical mass.
- Moderator:** The next question is from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** I just had one clarification on the gross margin comment, where you said that you expect gross margin to remain steady. How should we read the business, because are you expecting currency depreciation in international which is what is the worry, because India margins are still much below that 45%-odd average that we saw historically. So would love to understand the reason for this comment?
- Pawan Agrawal:** Thank you for this question. So, gross margin will remain steady, which means YoY it will definitely improve, and therefore there'll be some upward bias as compared to where we are at this point in time. However, the point to look at is that we should be looking more from an operating margin standpoint because multiple levers will be playing out. From an operating margin standpoint, we will be maintaining 18% to 19% for the full year.
- Avi Mehta:** So, you're essentially saying that sequentially is what you're looking at, and that whatever that 41%-odd level that India is at is what you're essentially saying will sustain even in India? It's not a geographical mix that we are talking about over here, which is the reason for the number?
- Pawan Agrawal:** We do not expect any further improvement in the international business because the currency situation has not improved, and in fact, there's a translation hit that comes due to Bangladesh currency depreciation. So, whatever improvement will happen will largely happen on the India business side.
- Moderator:** The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.
- Vivek Maheshwari:** Two questions. My first question is a follow up to what Percy asked. So, on the value-added hair oil side, is there a white space that you can target? In VAHO, there were like four or five quarters where it grew double digit, but for a long, long time, it has barely grown. So, what is your thought process on, is there a way out to gain market share more aggressively, whitespace that you can target, or you just need to wait for the market to pick up?
- Saugata Gupta:** Firstly, I think the three-year CAGR is 7%, which is still healthy if you see our performance compared to any BPC category. Now, it is not double digit which can be attributed to two things;



one is there is a far more rural skew in this category; and second, within rural also some of the markets in the country are witnessing a little more sluggishness and VAHO has a higher concentration in that. We have continued to gain value market share and you will see more participation in mid and premium segment as we continue to drive that. There have been price increases by competing brands recently at the bottom of pyramid. Earlier, what was happening was that one was maintaining a share of voice at lower spend. Now, if players convert money from BTL to ATL, that will also lead to overall better category saliency and drive the growth of the category, since converting ATL money to BTL and doing unsustainable margins is not good for the category. So, that change is happening. So, that will also lead to overall better category saliency and drive category growth. As such, the other thing that has happened, which is specific to this category, unlike other categories in HPC, where there is only downtrading, a significant portion of the people have also moved back to loose mustard. And to me, with inflation going down, I believe a reversal is going to happen and driven by increase in rural income, because people want aspirational brands. On the whitespaces, we have started doing is two things. One, we have now started taking onion oil to GT where we believe we have a better right to win than digital-first brands. The second thing is, we are also doing a little more exploring in some of the plays in the mustard area, because that's an area which has grown. So, both at the bottom of the pyramid, and at the mid segment, you will see more. We are just waiting for the category to grow, as there is no point investing right now. We will also get significant gross margin play to invest given that there will be a decrease in the input cost table. So, we are waiting for some tailwinds to come for us to invest and gain that market share.

**Vivek Maheshwari:**

It's an observation, I don't know, correct me if I'm wrong. But, if I leave aside your digital-first portfolio, organically speaking, it looks like that, your energy is far more towards new launches on the Foods side and lesser on the personal care side, is that observation correct?

**Saugata Gupta:**

Let me just give you the perspective. If you look at COVID, and this is a story from 2020, we believe that there was a significant move towards in-home consumption. Now, if you look at the opportunity on expanding the total addressable market to Saffola, we actually leveraged it. And if you believe the strategic funding to sales multiple in food, you quickly get scale. And therefore, in Foods, it is very important to quickly get scale because that also has an importance on cost leverage, so, we are focusing our energies on that. During that time, two things also happened; one, while there was growth in digital space, there was significant contraction in a lot of premium categories in HPC. There was also a contraction in value-added hair oil. So, therefore, when there are headwinds in that category, trying to invest behind new products is not perhaps the right strategy. We invested and put all our energies behind categories, where there

is a tailwind, because that is not climbing up so you rather go with the tide. Having said that, I think in the next 12-months, we will see equal number of innovations also in this part of the business.

**Vivek Maheshwari:** You mentioned 12-months. So, if you take a three, five years out, my impression is that, increasingly, I know food still is smaller part, but increasingly, the launches will be more on the Foods side and it will keep seeing an expansion in the mix from an overall portfolio standpoint, is that a correct view?

**Saugata Gupta:** Not really. I think in Bangladesh, we have exhibited our ability to expand the total addressable market in Parachute Advansed. So, I don't think we can't do it. Similarly, I believe, the premium personal care which is categories like serum, male grooming which got impacted during Covid, or things like onion oil and others in VAHO, I think there's enough opportunity. Having said that, I think the Foods business and Digital, yes, the new part of the business, will continue to increase in contribution. I see in the next two, three years, the diversified part of the business will get into mid-teens, and it is in line with our overall strategy to diversify our portfolio. What is equally important is that the fact that I alluded to during my opening remarks, having achieved scale, we are also looking at improving the margin structure of Foods and the profitability of Digital brands, because that is also important, because they will become a higher contribution to the overall portfolio.

**Vivek Maheshwari:** On the digital brand side, so in the context of all that is happening to let's say internet franchises or profitability focus, two parts to this question; one, are you looking aggressively to acquire more assets, because I think, you were at least among the first one to take a shot at this opportunity, when I don't think there were that many players who were thinking about it. And number two, in a scenario where there is a paucity of capital, isn't that a good time for you to actually be more aggressive and gain shares given that competition will in a way see a pullback in spending, etc.?

**Saugata Gupta:** We will look at acquisition, okay. Having said that, I think we like brands that fulfill an unmet need, that delivers on basic unit economics, and we like to work with founders who have a mentality of building to last versus building to sell. So, therefore, we will not acquire the assets which have no potential just because it is available cheap. And I believe that, again, we will continue to look at assets which have growth potential. And I think there are assets in the market like that, and we will see some acquisition. But, just because its cheap, I will not buy, because there is no point buying things cheap which have no value of future potential. And as I said, we

not only look at the brands and the headroom for growth and the unit economics, we also like to work with founders who have a certain amount of a cultural fit and mindset fit with us.

**Vivek Maheshwari:** On the second part, Saugata?

**Saugata Gupta:** What was the second part?

**Vivek Maheshwari:** Sorry, what I meant was basically in a cash crunch environment, do you think there is a case for you to, at least whatever acquisitions we have done and in Marico's own initiative, is there a case to be more aggressive to go after market shares or build categories at the time when competition is under stress?

**Saugata Gupta:** You're right. Having said that, therefore, the onus is also on us to accelerate the path to profitability journey. Because, see, if you look at it this way, that it is very important that now since Foods and Digital business have a certain scale, we have to also look at profitability, because at the end of the day, as I said while our businesses don't have that much cash burn compared to a lot of startup spaces in the digital space, at the same time, we will look at market share while also looking at profitability.

**Vivek Maheshwari:** My point is that let's say you have already have investment in Coco Soul for example, right? Is there a lot of sense in supporting those businesses and letting them go aggressively after market share at the time when digital first companies are under stress?

**Saugata Gupta:** Yes, obviously, but we will not do something which is unsustainable in the long-term. See, I will not do something to shore up short-term turnover, which is not sustainable, if the unit economics of the business is fundamentally not right. For me, I don't have to show valuation. I'm not going to do something which I know in the future is not sustainable. So yes, I will continue to invest. I don't have a cash crunch. Having said that, I will be equally prudent.

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

**Shirish Pardeshi:** So, just little more depth if you can provide? You said that you are going to relook at the cost structure. Would you be able to help me understand what is the current gross margin or is there any aspiration that you will do and what exactly we are trying to do -- are you going to relook the entire supply chain and the channel distribution or it's more at the back end, you will get yourself into manufacturing?

**Saugata Gupta:** I'm just giving you a generic sense without getting into specifics. All I said that these two businesses we were driving growth. Having reached scale, I think it's a good opportunity for both the digital and the Foods business to look at an improved profitability, that's all.

**Shirish Pardeshi:** My second question is on PCNO. We have taken a few rounds of price changes. Is there any further price decline which is to happen in this quarter?

**Saugata Gupta:** Not this quarter. But, as I said next year if there is again some deflation, we will be taking price drops if necessary, but I don't see right now for price is range bound.

**Shirish Pardeshi:** I was talking to someone in the south, and he gave a classic reason that the loose versus pack, the difference is now almost Rs.14, 15 per litre. So, maybe in that context, the relevance for the end consumer, and obviously, I'm comparing this in the highly penetrated market with the south, I mean, coconut has a very strong brand equity there. So that's why I wanted to check with you that, is there any such vibes you are getting on ground?

**Saugata Gupta:** So, we have a very robust pricing model. Our current pricing model indicates that the pricing is extremely right and that's what I alluded to during the opening remarks that finally we have got the pricing right, because as you know, there is a six-to-eight-week lead time for the price to be discovered in the market by the consumers because of all the stocks you have between factory, C&F, distributor and retail. So, our pricing is absolutely right. That's the reason we are seeing a bump up in volumes in Parachute, that's the reason despite so-called high inflation and rural stress, we are seeing an increase in market share in Parachute, and that gives us a confidence that we will be able to deliver the medium-term aspiration of Parachute volumes in the immediate term.

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

**Harit Kapoor:** I just had a few questions. One was on premium personal care. Just wanted to understand for Livon and Set Wet, it's been a fairly volatile journey, and it seems like the brands are now kind of growing at a fairly good clip. I just wanted to get your sense on how do you redesign over the next two, three years, any learnings that you've got from your digital-first portfolio that you think could apply to these, we have been applying technology, just an outlook?

**Saugata Gupta:** If you look at a premium personal care portfolio, I think there is male grooming, there is serums and there is participation in body lotion skincare. Now, yes, I think it had a volatile journey

because of certain reasons, and especially during COVID between '20 and '22 because it was discretionary, and some of it was linked to outdoor, the fact that when you move out, so that I think has stabilized now. In the case of Livon or body lotion we have crossed the pre-Covid benchmark and in male grooming, we're almost at the pre-Covid benchmark. I think we now have a broad operating model. There is a significantly robust demand generation model and a channel mix. And we are pretty confident that in this part of the portfolio, we should be able to deliver 20%-plus, if not higher growth in the next two to three years. I think we now have a repeatable model of growth, which is now embedded into the system. Also, I think as we scale up our portfolio, as I have mentioned earlier in the past, that the cosmetic and chemist outlets are the channels, in which we were under leveraged. We have started our journey in terms of having a larger presence in cosmetic and chemist in the urban area, just like we have done in Foods. Food obviously has been a far higher and a more aggressive play as far as food GTM is concerned. And thirdly, you're absolutely right, I would believe that our expertise today in digital marketing or digital quotient of our brands, given our experience in our digital brands, and therefore, the learning that has come from them into the mothership, that has also helped in delivering sustainable profitable growth in these brands.

**Harit Kapoor:**

Second question was on the international business. Maybe Pawan can help with that that. With three quarters of pressure on the margins, based on your outlook of how the impact of currency depreciation in some of these markets play out, till when do you see some of the pressures kind of alleviating, will it take a couple more quarters for it to kind of pan out?

**Pawan Agrawal:**

Very difficult to project currency trajectory. But large part of depreciation happened starting from Q2. So, at least till Q1 FY24, there will be some hit, and subsequent to that, that will be coming in the base. And largely it is on account of Bangladesh where we have seen a very sharp depreciation from the levels of 85-86 to about 105. And that is leading to two things; one is a transaction hit, which is impacting the gross margin of the business over there; and secondly, when we translate that at INR level, that is giving the second level of hit. And at overall level, it's approximately 2-3% of profitability that is getting diluted on account of this translation hit of Bangladesh currency.

**Harit Kapoor:**

The last question was on a slightly longer term, margins at a consolidated level. One of the key focuses over a long-term is diversification. And in that structure, you have growing Foods portfolio, which is growing faster than the overall business as well as a digital-first portfolio, which is growing faster in new business, both these have inherently lower margins to start with at an EBITDA level. Is the best way to look at this business at a consolidated level over a three,

four-year perspective, you are happy to keep margins in the broad range, and to strive for revenue growth in food diversification, is that the playbook we should look for?

**Pawan Agrawal:**

If you look at it, by FY24 in Foods we should be about Rs.850 crores to Rs.1,000 crores. And we're also saying that digital-first brands of about Rs.450 crores to Rs.500 crores. If both these land together, then the dilution in the food business will be made up more than what is required for the digital-first, because gross margin of that business is very high. So, if you are able to land these together by FY24, we don't think there's going to be any stress on the margin side. Secondly, also, on the Foods, whichever products we are coming up with, those definitely have margins which is better than the existing portfolio. Just to give you a sense, when we entered into oats, oats has a better margin than oil. When we entered into value-added foods, those foods has the potential of having gross margins better than Oats. So whenever we are extending our portfolio, gross margin is only accretive. But from a portfolio perspective, of course, Foods margin is lower. But, if both the portfolio of digital-first and foods we are able to achieve our aspiration, I don't think there's going to be a challenge from a margin standpoint.

**Saugata Gupta:**

So I want to add to that is if you look at a premium personal care portfolio, which is also expected to grow at 20%-plus, that's also a high margin. If I just want to address the question directly that there is no concern that a blended gross margin of a business will get diluted just because of food journey has got accelerated.

**Pawan Agrawal:**

And having said that, we also have a task in terms of improving the gross margin in the foods also, which Saugata alluded about in the previous question. So therefore, if all these things land together, I don't think there's going to be any stress on the gross margin at the portfolio level.

**Harit Kapoor:**

And how about that translating in EBITDA margin level? My question is more from a slightly longer-term basis. Is the idea to drive sustainable kind of revenue growth, get the diversification going, as you have done so successfully over the last two years and keep that EBITDA margin band in the 18% to 20% range, plus/minus something in the 19%, is that the longer-term playbook or, you keep driving operating leverage and still see an improvement there? Because at a standalone level, your overall margins are lower than international. My thesis was that you could continue to see expansion over a longer term. But just wanted to get your sense on how you're thinking through it.

**Pawan Agrawal:**

If you look at from operating margin standpoint, we used to guide about 17% to 18%, and then to about 18% to 19%, and as we speak, we believe that this year, we should be ending anywhere

between 18% to 19%. Now, having said that, if you ask me from a two to three-year perspective, “Is there a possibility of further improvement in operating margin?” Answer is directionally yes, because there could be an improvement in the mix of the portfolio in India business. Secondly, also, in international business there are some territories where we expect that the margins can go up further. So, if I were to take a view of two to three years out, yes, there's quite a possibility of operating margin going up further. But in the near-term, we would rather focus more in terms of our volume growth and market share, and therefore if we have to invest more, we would do that and really not on short-term margin, let's say in FY24. But two to three years out, margin expansion is definitely possible.

**Saugata Gupta:** Also, if you look at the international business specifically, there is a significant profit pool, especially Middle East and North Africa where we were marginal players but we are now growing very aggressively. And therefore, while Bangladesh is at a certain margin, but both in Vietnam and MENA, which are growth businesses, I think there is enough opportunity. And as I explained earlier that ultimately once we get scale businesses in the diversified portfolio, the blended margin is no way going to be lower, and with economies of scale, some day you will move from 19%-plus and then start moving ahead beyond that.

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

**Sheela Rathi:** My first question was, Saugata, do we have any revision with respect to the Foods business target say over the next three years, what would that number be now?

**Saugata Gupta:** No, I have given FY24 aspiration. We are growing on track, I mean, it's fine.

**Pawan Agrawal:** Sheela, we first want to reach FY'24 target of Rs.850-1,000 crores, from there on, we recalibrate FY26-27.

**Sheela Rathi:** Second question again was in the digital-first brands. I actually came across a Beardo store at Ahmedabad airport, and it was very interesting to see the kind of SKUs which have been brought up there. So, is there any other incremental plan with respect to the physical expansion of the Beardo stores and also the other digital brands?

**Saugata Gupta:** So, I think as far as the Beardo store is concerned in Ahmedabad airport, it's a prototype, it's a quick hair cut as an idea and for you to also experience the brand, because we are merchandising some of the products out there. It's still in the prototype stage. We are looking at various

prototypes to expand because the way we look at Beardo, it stands for a certain cult, it's the Harley-Davidson of male grooming, that's how what the brand stands for. And therefore, just as the way the journey of that brand happened, in our own small way, because we are in no way that big, we are a very small brand, we will basically chart the path for it. As far as the other brands are concerned, which is Just Herbs etc. each of the brand is prototyping with beauty advisors in GT, in some outlets, in one or two markets, and we will see if that model works well, we will expand that model.

**Sheela Rathi:** In this particular quarter, what percentage of the portfolio gain market share, just an aggregate number?

**Saugata Gupta:** Most of the brands gained market share. None of the big brands lost market share.

**Moderator:** The next question is from the line of Vishal Punmiya from YES Securities. Please go ahead.

**Vishal Punmiya:** Just two questions. Firstly, on other income this quarter, any specific reason for a sharp jump from Rs.22 crores to Rs.40 crores?

**Pawan Agrawal:** There are largely two reasons. One is with rising interest rates, the yields on the surplus has improved by about 230 basis points, so because of that, the investment income has gone up. And secondly, there is FX depreciation gain on the receivables on the balance sheet. So, these are largely two reasons because of which other income has moved from Rs.22 crores to Rs.40 crores.

**Vishal Punmiya:** Secondly, just a data point, if you can also share the value-added hair oils of volume market share for this particular quarter, you have shared the value share in the PPT, but if you can also share the volume market share?

**Saugata Gupta:** As you know, in the last two years we have moved to our internal and external KPIs to value. Our objective is to bridge the gap between value share and volume share and therefore that's the only KPI we measure.

**Vishal Punmiya:** But we wouldn't have lost any share in terms of volume, right, in this particular quarter?

**Saugata Gupta:** No, we haven't.



**Vishal Punmiya:** Lastly on the new launch of Saffola Munchiez, I notice that the manufacturer is also a very active player in the market, has its own brand for that particular product, and they are also becoming very aggressive in the FMCG space. So, how do we kind of basically set areas of distribution for this particular product, because they have a very similar product, while that product might not have millets in it, but it's a very similar looking product that they have?

**Saugata Gupta:** See, by that logic, all 3P players manufacture their own brands. Ultimately, I am delivering a product under the Saffola brand name. I will not invest in my own manufacturing till I get critical mass, so it doesn't bother us. And that happens in all categories, if you look at some of the other food products, whether it's honey, for example, or the guy who manufactures mayonnaise for us also manufactures for other players. So, it's a standard operating practice in the entire global FMCG world. So, we have our own quality system, we have our own IPR, and therefore it's fine.

**Vishal Punmiya:** So there is no parameter as such in terms of online or offline reach, whether it's eCommerce or whether it's general trade for this kind of set up, right?

**Saugata Gupta:** No, I am getting somebody to do as a third-party, that's fine. I don't know which brand you're referring to, but whoever is manufacturing is a third-party, that's about it.

**Moderator:** The next question is from the line of Amit Rustagi from UBS. Please go ahead.

**Amit Rustagi:** You have mentioned rural recovery I think several times in your opening remarks. So, have we seen any incremental data points in last one month apart from the budget, which support our thesis on rural recovery? And if you have to measure some pointers for the next three to six months, what should be those pointers on that, if you can help us to give your thought process on this?

**Saugata Gupta:** If you look at the last six months, every month, there was a sort of a sequential decline month-on-month which has now gotten arrested. So, therefore, all we are saying is the worst is over. Now, if I look at some of the external factors, whenever there is high food inflation, people tend to titrate or downtrade on FMCG. So, I believe that we are coming out of that worst high level of inflation. Secondly, the rabi crops seems okay. The government is committed to investing behind rural infrastructure. If I look at these indicators, it should indicate some kind of recovery, I'm not saying it's going to be a hockey stick, it's going to be a gradual recovery. But what I believe is that the worst of commodity inflation and volatility is over. Of course, in today's world,



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you can't say anything because of any black swan event anything can happen anytime, but all trends point towards a better gradual recovery.

**Amit Rustagi:** Apart from the inflation cooling off, do you see any trends which support higher income for the rural people?

**Saugata Gupta:** That's the agricultural yield, and also if you look at the budget, the government continues to invest significantly behind infrastructure in rural. So, I think it has all positive signs. It's very difficult to say that when will the recovery come or what will be the extent of recovery. But I think if I look at it, the positive drivers outnumber the negative drivers as far as consumption is concerned.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Pawan Agrawal:** To conclude, the sequential improvement in domestic volume growth and earnings delivery so far this year is encouraging. With emerging green shoots on the demand front, we expect stable growth in core and will continue to drive accelerated growth in Foods, Premium personal care and Digital-first portfolio. International business has remained robust in a challenging environment and we are very confident of maintaining a healthy growth trajectory. Going ahead, we will ensure that we optimally invest and stay focused on execution and aim to keep inching up the pace of growth in volume, top line and profits in the quarters ahead. If you have any further queries, please feel free to reach out to IR team and they'll be happy to address the same. That is it from our side. Please stay safe and take care.

**Moderator:** Ladies and gentlemen, 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 to improve readability.)*