



Marico Limited  
Q4 FY24 Earnings Conference Call

**May 06, 2024**

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



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**Moderator:** Ladies and gentlemen, good day and welcome to Marico Limited Q4 FY24 Earnings Conference Call.

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

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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:** Good evening to all those who have joined the call and hope all of you are doing well.

With FY24 having come to a close, I would like to reflect on the operating environment during the year and the quarter gone by, after which I shall touch upon our performance and our strategic objectives going forward over the next 3 years.

The FMCG sector has been fairly resilient amidst challenging circumstances during the year. Volume growth for the sector, on a normalized basis, has remained stable, even while grappling with volatile input prices, erratic climate events, subdued environment in the general trade channel and slower than anticipated recovery in rural demand. Similarly, in Q4 the operating environment remained largely consistent with preceding quarters. While urban growth slightly moderated, rural growth witnessed a visible uptick towards the end of the quarter. Premium segments maintained their lead over mass segments across FMCG categories. With improved macroeconomic indicators, enhanced government spending, a favorable monsoon forecast, moderate retail inflation and reduced volatility in commodity prices, the upcoming year holds promise for a gradual uptick in consumption sentiment across both urban and rural.

Moving to our performance in Q4, the domestic volume growth inched up sequentially, with steady trends across a majority of our portfolio. Domestic volume growth was flattish after three quarters of decline, owing to incremental anniversary pricing drops taken in key portfolios last year. We expect domestic volume growth to trend up consistently from Q1 FY25. We have continued to witness healthy offtakes with 75% of the business either gaining or maintaining market share and 100% sustaining or enhancing penetration.

Delving further into the domestic business, we shall now touch upon the key trends in each of our categories. Parachute has seen steady recovery over the last three quarters amidst the resumption of loose to branded conversions as copra prices have inched up on the expected lines. This shift also reflected in the 50-bps gain in market share. We expect an improving trajectory in volumes driven by the favorable trend in copra prices. Gradual escalation in copra prices is a positive for the brand as it affords us the opportunity to strategically leverage the brand's pricing power and the tremendous procurement system advantages we have versus other brands and thereby gain volume traction and market share. In response to the rise in copra prices so far, we have already implemented price hikes in select packs in April amounting to ~6% increase at a brand level. We could take another round of price hikes in case of any further rise in copra prices during the course of this year.

Saffola oils also exhibited stability as trade sentiments eased, and both input and consumer pricing stabilized. With pricing decline abating early this year, revenue growth is expected to trend in the positive direction in this year. Offtakes for the brand have remained healthy and we expect the portfolio to gradually resume a steady growth trajectory. During the quarter, we initiated range advertising under the master brand "Saffola" by launching a powerful campaign on the importance of taking 'Roz Ka Healthy Step' through Saffola's entire range of offerings comprising Edible Oils and Foods which emphasize the fact that healthy living is a lifelong journey and not just a temporary fad. We believe this is a first step towards leveraging the equity of the master brand which will enable far more efficient brand building investments going forward across the entire portfolio.

Value added oils had an optically weak quarter on a high base while there has been sluggish demand and higher competitive intensity at the bottom of the pyramid segment. The performance largely reflected the subdued sentiment in mass BPC segments. Notably, our mid and premium segments of value-added hair oil have continued to fare better. While we had a challenging year in the bottom of the pyramid segment, we expect a more rational competitive environment going ahead given the significant bearing it has on profitability. We anticipate a gradual pickup in the franchise's performance next year, driven by a strategic focus on

premiumization of the sales mix and augmented investment in brand building, which may be supplemented by an improving consumption sentiment in mass BPC categories and more innovation from our side.

Foods had a healthy quarter with Organic Foods portfolio comprising Oats, Honey and Soya Chunks growing in double digits. We have closed the year at about 4x the scale of FY20. This is short of the revenue aspirations set earlier as we took a step back this year to reset a few fundamentals in order to be able to drive a consistent 20%+ CAGR in Foods over the medium term. This involved refinements in our supply chain and GTM strategy and strengthening the cost structure. We now believe we have the building blocks in place to double the scale of Food business by FY27 and drive consistent improvement in profitability as each of these organic components get critical mass. We have expanded gross margin of foods by about 800 bps in FY24 through some of the aforesaid initiatives and expect this to further improve as we scale up. Within the Food's portfolio, the Oats franchise maintains its category leadership with healthy growth in offtakes. Saffola Soya Chunks continues to scale well while Saffola Honey emerged as the fastest growing brand in terms of penetration within the category and continued to gain market share. True Elements and Plix have also sustained their accelerated growth momentum.

Premium Personal Care has maintained its healthy growth trajectory, led by digital first portfolio clocking an exit ARR of around 450 crores. Beardo has scaled to about 3x since FY21 and achieved positive EBITDA this year. We will aim to move Beardo to double digit EBITDA margin in FY25. Just Herbs surpassed the 100 crores ARR milestone in FY24. While the traction in Plix's personal care portfolio has been encouraging, both Plix and Just Herbs have been scaling with minimum cash burn. We now have a playbook and considerable in-house capabilities to scale Digital-First brands profitably and aim not only to double the ARR of Digital -First brands by FY27 but to also achieve double-digit EBITDA margin in the portfolio. Taking the growth trajectory and business drivers into account, we believe both Beardo and Plix have the potential to reach 500 crores each in terms of turnover in the next 4 to 5 years' time.

With the new businesses contributing to over 20% of the domestic revenues, our portfolio diversification objective has led to a marked shift in the revenue construction and reduction in commodity linkages of margin and revenue growth. We will sustain the aggression to drive 20%+ CAGR in these portfolios and expect the composite share of Foods and Premium Personal Care including Digital-First to reach 25% by FY27 accompanied by a visible improvement in their profitability.

During the quarter and the year alternate channels continue to gain salience while general trade has been subdued by profitability pressures as a consequence of muted growth and pricing corrections in mass categories. We have observed, that over the last few years while disproportionate focus and investment on premiumization and innovation by the sector coupled with the emergence of D2C has led to a quantum leap for alternate channels, the GT channel has been under pressure. However, we believe that the GT channel will remain a source of long-term competitive advantage for large, organized players and the primary channel of our mass or core categories to thrive in. While the price cycle turns positive, we have been taking initiatives to enhance the profitability of our general trade channel through stock reduction and selective credit extensions.

Over the last couple of years, we have also implemented a sales framework that enables us to continue winning in the marketplace by strengthening our micro market focus and execution, bringing enhanced agility, and leveraging technology and analytics. We have successfully streamlined processes and ironed out teething issues faced during the restructuring of the operating model over the last 6 months and expect much more positive outcomes going ahead.

Lastly, we also observed that the pace of expansion in our distribution reach had slowed down post the pandemic. Therefore, in this direction we have also rolled out a definitive plan to transform our direct reach over the next 3 years through the rollout of Project SETU. Project SETU lays a phased 3-year roadmap to expand our direct reach from 1 million outlets currently to 1.5 million outlets in FY27, taking the total to direct reach multiplier from 5.8x to 4x, which would be one of the best in the sector. We have committed investments of INR 80 to 100 crores by FY27 towards coverage and infrastructure enhancement and demand generation initiatives which will not come at an incremental cost to the company but will be funded by reallocation of resources through optimizing - spends in the wholesale channel and organized tradesavings from improving process efficiencies and reducing wastages in the supply chain and large-scale use of technology and analytics.

Over the next 3 years we will deploy analytical capabilities to concurrently weigh the return on the investment and ensure Project SETU is cost neutral. In addition to improved direct reach and weighted distribution, especially in challenger brands other than the core, we expect Project SETU to drive market share gains across categories in urban and rural as well as to enhance assortment levels in urban stores, thereby enabling diversification and premiumization in the domestic business.

We will continue to drive differential growth in our urban centric and premium portfolios and large packs through organized retail and e-commerce channels. Therefore, our focus will

deliver consistent and competitive growth through a much sharper and targeted portfolio-SKU strategy in each channel. Amidst the backdrop of improving macro indicators, we expect a gradual uptick in the growth of our core categories through these concerted efforts of reviving growth in the GT channel. Further with pricing headwinds behind, we expect domestic revenue growth to outpace volume growth from Q1FY25.

Moving to International Business, we have rebounded to double digit constant currency growth in this quarter and expect to retain the momentum in FY25 and beyond. The Bangladesh business has recovered strongly on a sequential basis amidst the challenging environment on the back of its broad-based portfolio and robust fundamentals of the business. We expect the business to grow in double digits going ahead.

In Vietnam we are seeing a slowdown in HPC demand, although the expanded portfolio which now comprises three distinct female personal care brands should enable us to hold strong in the meanwhile. Over the last couple of years, we are seeing a strong ramp up in our MENA through the expansion of hair oils portfolio in Egypt and the Gulf region as well as healthy traction in the hair care and healthcare portfolios in South Africa. This has accelerated the broad basing of our business reflecting in a reduced dependence on the leading market, Bangladesh. We expect the revenue share of Bangladesh, which was more than 50% in FY22, to reduce to about 40% by FY27. In addition to strengthening the growth prospects of the business, the ramp up of MENA and South Africa adds margin upside potential through scale benefits in the medium term.

To sum up, Consolidated revenue growth has moved into positive territory in Q4, and we expect it to trend upwards during the course of FY25. We believe we have put in place building blocks to deliver double digit revenue growth through consistent outperformance vis-à-vis category and market share gains in the domestic core portfolios, accelerated growth in foods and Premium Personal Care and double-digit constant currency growth in international business. We have delivered our highest ever operating margin in FY24 led by robust gross margin expansion, even while investment towards brand building, which was at 10% of sales remained a key thrust area. While key commodities are exhibiting upward bias, we are confident that we will be able to maneuver margins through pricing, driving more favorable mix, cost management and procurement gains to hold steady in the coming year.

In the medium term, we expect operating margin to structurally inch up over the next few years with leverage benefits as well as premiumization of portfolios and diversification across both the India and international business.

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

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

**Abneesh Roy:** My first question is on food's vision, doubling in 3 years that would mean 25% CAGR and related question is taking direct reach from 1 million to 1.5 million through Project Setu, for both these do you need to do more M&A or is it based on the current portfolio largely?

**Saugata Gupta:** As far as Project Setu is concerned, actually in certain states we are under indexed in distribution. We believe that post COVID, we haven't had a significant increase in distribution and therefore, in a lot of places we want to move our reach from indirect to direct. The current core is good enough but you could see far more aggressive participations in some of our core categories, especially in value-added hair oils. Project Setu is specifically focused at certain states where we are under indexed and most of it is by two things- a lot of expansion in direct distribution including quality of direct distribution, especially in rural and a far more segmented approach in foods and premium personal care in urban. And we expect an outlay of 80-100 crores over the next 3 years for Project SETU which will be funded internally from some of the savings and the reallocation of resources within the overall sales system as well as cost management across the organization. This is a big bet for us where we have put a dedicated team, including senior leadership, to drive this over the next few years.

**Abneesh Roy:** One related question is on the India demand. Some companies have started talking about high single digit to double digit volume growth in some quarters of FY25 and some companies are also saying that going ahead rural will grow faster than urban. I think it will differ company to company. Wanted to understand for Marico on these two aspects, in terms of volume growth for the full year for the India business and in terms of rural versus urban, what will be your take for Marico?

**Saugata Gupta:** We are definitely seeing some rural uptick especially during the end of the quarter while urban has moderated. The way we see it obviously as far as the core is concerned, definitely there will be far better rural growth. Also, the benefits of Project Setu will start kicking in the second half. Also we have a significant digital business that is growing which is essentially a little bit of urban. But as far as the core business is concerned, rural demand will be significantly showing improvement at least as we gradually move towards the second half of the year. As regards, we are, at this stage, in a position to perhaps say that we look forward to double-digit

revenue growth, although not the composition of volume and inflation as we will see how it pans out during the year.

**Abneesh Roy:**

My second and last question is on Bangladesh. So, you have come back to decent sales growth, and you are aiming for a double digit growth going ahead. So, wanted to understand how because we keep hearing that there is a currency issue there. There is overall some level of anti-India sentiments also. I don't know if that does impact you. And overall economy also facing a lot of challenging times. So, in that context wanted to understand this acceleration in growth, is it coming because Parachute? has it taken price hike? and you do have a sizable Parachute business but in terms of volumes and market share if you could comment how are things shaping up there?

**Saugata Gupta:**

I think volatility in a post COVID world is here to stay and black swan events have to be integrated into any company's risk management framework. In times of volatility, we always believe the strong get stronger and the weak get weaker, and it has been seen during COVID in India where organized players have gained share. In Bangladesh, we have a relatively strong position and we are extremely robust. The last quarter's sales have been on the back of volume growth and market share gains. We have significantly reduced dependence on Parachute in that market through portfolios such as value-added hair oil, shampoo and baby care driving incremental growth. We have a much more broad-based business out there and therefore, given our distribution strength and brand strength, in spite of some of the issues in the country, we are seeing significant improvement in the on ground situation as far as our brands and our position is concerned. But having said that the Bangladesh situation is far better in terms of economic growth, and we believe the currency and economic situation will get better as things progress.

**Moderator:**

The next question is from the line of Avi Mehta from Macquarie.

**Avi Mehta:**

I just wanted to understand Project Setu a little better and clarify a point. Now in addition to this benefit that could come in terms of reach and hence to segment level growth rates, do you see it fair to see such a reduction in inventory lowering the impact of channels, down stocking or up stocking that is witnessed during periods of copra and vegetable oil price hikes?

**Saugata Gupta:**

The two things it does is, it radically improves the quality of distribution. Now what happens if you look at it as a core brand like Shanti Amla in the north and Parachute in the south and west, obviously, we will have a huge indirect reach based on pull effect. What happens is the moment you move from indirect reach and wholesale dependent reach, which also is a factor of a significant pull and only focuses on a limited amount of SKUs having significantly high



velocity, to drive direct reach, it increases your range, it increases your assortment, your control and it also leads to better rates because sometimes wholesale discounting and dumping leads to some kind of a rate instability. So, it gets far more controlled. Now direct reach also ensures that perhaps the cost of doing sales for entire rural will go down with our technology driven live visibility of what is happening in the system. Also, as you know we don't do sachets and therefore our portfolio mix is reasonably good in rural. Given the margin profile of the brands we sell, our breakeven as you drive rural distribution is fairly attractive. Now what had happened in reality was that post COVID in our focus on driving diversification, perhaps this had taken a backseat and therefore we didn't make significant improvement in our direct distribution. We strongly believe that for mass consumption in the core categories, direct distribution especially rural will be a source of long-term competitive advantage as opposed to indirect distribution. In urban, especially in OT, you can buy distribution in some way. However, rural requires significant investment, infrastructure, even scale, operational efficiency, and huge investments in technology and this is what we intend to do. As you know that we also compete with a lot of small players who will never be able to do that kind of investment. And this is something we are now determined to do, and this will actually drive three or four things. It will drive range selling; it will drive far more weighted distribution. Now you know if you want to compete or challenge our ability to take on certain brands or when we are the challengers, it will be far better, especially in some parts of the country like north where we are slightly under indexed compared to south and the west. It will also lead to, far more of smoothening and lowering of sales dependency. We don't have to depend on the indirect channel for some of our growth.

**Avi Mehta:** But as I clearly understand, there is a lot more benefits in sales perspective and reach retrospective in terms of quality, that is what you are targeting. The second bit I just was your comments on pricing growth coming back in Parachute, vegetable oils, decline coming in the base, foods sector doing well, I just wanted to reconfirm that our expectations for FY25 are at double digit profit revenue and low teens profit growth remains or is there any update on it?

**Saugata Gupta:** No, I think directionally it remains that way.

**Moderator:** The next question is from the line of Percy from IIFL.

**Percy:** Questions on a couple of the core categories. So, in VAHO there is still a sales decline. Just wanted to understand when will the pricing anniversaries and secondly even apart from the price reductions, I would guess that the volume is probably either marginally negative or just marginally positive, so what do we need for the volume growth in VAHO also to accelerate? And the same next question is for Saffola also, Saffola volume growth is not bad at I think

around 5% but there is a significant price cut which is going on. So, when will that sort of anniversaries on a YOY basis, it's something that will help in the modeling exercise?

**Saugata Gupta:**

As far as Saffola is concerned, it will anniversarize in Q2 because the last price drop happened sometime at the end of Q1, it was initiated sometime in June-July. And our current estimate indicates low volatility in the immediate term as far as Saffola is concerned. As far as VAHO is concerned, there are two things. Yes, sometime during the next 2-3 months, the shrinkflation anniversarization will happen. Well, it's not just pricing but it is a shrinkflation anniversarization because some of it was in our 10 and 20 packs because post inflation, we took down the ML-age. We are focusing on value growth and once that anniversarization happens, we get back into positive value growth territory. Secondly, there is competitive pressure at the bottom of pyramid. Without getting into exact details or breakup, one good thing is that since the last quarter, we are beginning to see volume growth and therefore better mix growth, driven by our performance in the non-bottom of pyramid segments, where we are also gaining some share, which should lead to the value growth happening. We also expect some rationality in competitive intensity at the bottom of pyramid because consistently pricing down doesn't make money for anyone you know.

**Percy:**

Also wanted to understand on the digital brands, like in foods you have said that in 3 years you want to double the turnover. Any such targets for the digital brands?

**Saugata Gupta:**

Yes, it is 2x in 3 years for digital brands as well. Our endeavor will be that the diversification portfolio, which consists of Foods and Premium Personal Care grows at 20+% every year. So, that's the aspiration. In digital we are very excited about the way Plix and Beardo are scaling up. I have reinforced this that we now have a reasonable playbook to ensure that we profitably scale up these businesses.

**Percy:**

And lastly on your overall consolidated margins, we are already sitting at very decent kind of margins versus history. So, over a 2-to-3-year period what kind of headroom do you see in the margins if at all?

**Pawan Agrawal:**

There are some structural levers in place which we will deploy as we go ahead and there could be some possibility of improvement of margins over the next 3 to 4 years. Some of the things that we can talk about is for example Foods, you would have seen that we have expanded the gross margin this year by 800 basis points. That itself has given a significant ramp up. And some of the initiatives that we had taken, was during the year and therefore full year benefit will flow through the year next year. Similarly, we are making big strides in margin improvement in digital business next year, also on the back of a significant enhancement this

year. Beardo has broken even, and we aim to move to double digit EBITDA next year. You would have also noticed that we have started the master brand campaign in Saffola which will help us optimize the A&P spends. And similarly, some rapid scale up in some of the international territories will build operating leverage and that will aid margins. Apart from that Saugata also spoke about premiumization. So, we will also try to drive a better mix. We do expect that the share of portfolio with higher margin profile will also increase, having a positive rub off on overall margins. So, with all of these levers in place, I believe that there is still an opportunity of margin improvement over the next 2 to 3 years. However, given the fact that we have inflationary pressures, we do not see any margin improvement happening next year. But of course, we will definitely strive for healthy profit delivery.

- Moderator:** The next question is from Manoj Menon from ICICI Securities.
- Manoj Menon:** Before the questions I just want to have a clarification. So, did I hear correctly did you mention that the relative competitive intensity in VAHO is likely to get better?
- Pawan Agrawal:** Hopefully, at the bottom of pyramid, as Saugata mentioned, because there is some irrationality with respect to the way it is happening at this point in time.
- Saugata Gupta:** Yes, ust to clarify, that in any case, we will continue to focus in ramping up the slightly higher RPI end of the business.
- Pawan Agrawal:** And also, just to add Manoj, in fact ex of BOP segment we have grown well. And in fact, we have also gained share in ex of BOP segment. So definitely we are doing a good job in the mid to premium segment. Because of hyper competition at the bottom of pyramid, is where we are facing stress.
- Manoj Menon:** Pawan, BOP would mean only Shanti, or would you include other brands?
- Pawan Agrawal:** Basically, it is Shanti Amla and Sarson.
- Manoj Menon:** Secondly on the D2C I just want to double click on a couple of things actually. One, D2C brands are about 5% of the overall India revenue today. There is an opportunity to go online to offline etc. and even companies which have been predominantly online have created which means that company like Marico conceptually for the success proportion ratio in offline should be far higher. But could you just talk a little more in detail in each of these four brands, which and by when you actually see the higher opportunity from online to offline and is that one of the key considerations in the guidance of doubling of revenue in D2C? And another one just

the one last thing on the D2C part is, if you also talk about organizational changes if any, we did find one exchange announcement few months back of an EVP digital appointment as well. So those would be helpful.

**Saugata Gupta:**

I will just give you a more high level view on the movement to GT. As far as startup branch is concerned, food is far more easier to first get into GT. Because I believe that anything which is low AOV and moderate to low margin categories like food obviously needs to go to general trade or premium general trade quickly instead of being present only in digital model, nutraceuticals being an exception because nutraceuticals are high margin and high AOV. Accordingly, as far as brands like Beardo and Just Herbs are concerned, the focus should be to take some of the SKUs to GT. Just because I have money to throw, and I take big display units in the outlet doesn't necessarily mean I will generating an offtake in GT. That might give you one-time sales, but it doesn't necessarily give you long term repeat offtake. So, our approach has been methodical, and the first step would be to get into maybe premium cosmetic. which we have already done with Beardo and we have some contributions coming from GT, for Just Herbs its minimal. With Beardo we are already experimenting a little bit. And yes, there are two sources of competitive advantage. One is obviously the existing access to GT. But more importantly the fact that we now have scale in digital brands to enable sharing of resources costs best practices and the first party data, which we have not yet harvested. So it's a composite thing and not just GT.

**Manoj Menon:**

And is it fair to say that you've already done the groundwork in terms of for example when I think about you have put ink on paper actually giving a guidance. Is it fair to say that you have actually identified which brands, geographies outlets SKUs, so you do have fair amount of clarity on the execution? Now obviously you have to just execute. So, is it fair to assume that way on D2C?

**Saugata Gupta:**

Again, as I said that we will do a lot of test and learn. Unlike Project Setu which is a very proven concept, to expand outlets; to expand distribution and it gives reach, as far as GT in D2C is concerned, it's going to be a series of tests and learns. For example, sometimes it surprises you like a certain category, or a subcategory starts flying. I'll give you an example of it. One of the D2C brands without naming; we are seeing huge traction on quick commerce now. We didn't realize that we will have some, later we realized, it's an emergency top up or an impulse and it can work. In Beardo we are checking out the salon channel. That's an alternate channel and, hypothetically, we should also be open for looking at any inorganic opportunities in alternate channels tomorrow. So, we are doing a series of tests and learns. And therefore, to say that we have an extremely cookie cutter approach that this is going to happen

would be incorrect. le. One of our stated intents is that while we will continue to grow the core, over the next 3 to 5 years we will ensure that the diversification or decommunitization of the business keeps on happening rapidly. And in those areas, we will do some experiments. Now how much will be the percentage of GT, is very difficult to say but all I can say is that in food it will be far more accelerated than personal care. Because in personal care we believe that by just mere presence in OT and bringing it to modern trade itself is a huge opportunity. And as you know the other interesting thing is that even 2000 top cosmetic stores contribute a significant portion of beauty in this country.

**Manoj Menon:**

And one last thing if I may, I am not sure it's relevant for a quarterly call, but you know it's a platform to engage. I still get portfolio managers questions on if hair oil is a sunset category. I understand that this has been discussed many times in the past, particularly during down cycles in general for FMCG. And historically you have helped us with some quantitative information in terms of recruitment rates, lapse rates, performance of different segments of hair oil versus some other personal care segments particularly in the BOP etc. Could you just help us with some statistics to kind of continue to assume that it's not a sunset category as it is perceived to be?

**Saugata Gupta:**

Manoj, it's a 45 minutes presentation. I am happy to do it. All I can assure you is that trend of VAHO growth has largely trended BPC. In fact, its now been 20 years since I joined the organization and since then there was a note that the category is dying, even in 2004.

**Manoj Menon:**

I will probably connect with Pawan's team separately.

**Saugata Gupta:**

Absolutely. Let me tell you another interesting thing, we are seeing good traction in international markets and some of the western markets too. I believe the more people damage their hair, the more people do a lot of treatment this practice will be relevant and come back. I look at the practice of this category just like yoga and having a turmeric latte. If you look at the today's youngsters, they are far more proud of Indian music, Indian traditions than perhaps the earlier generations who were just looking up to west for everything.

**Pawan Agrawal:**

Also, if I may add Manoj, the three important consumer metrics that we keep track on which is the penetration, the frequency of usage and the consumption per usage. On all these three parameters we draw a lot of confidence looking at the numbers. There could be a little bit of lapses in the top SEC A section of the society but that's not something which is a matter of concern. In fact, they are only moving to some better formats where also we are present. So purely on consumer metrics, we have a huge amount of comfort. And as Saugata mentioned, we can always have a much longer discussion in terms of to take you through as to what are

the broader trends in hair oiling. But purely from a consumer metric standpoint, we are absolutely comfortable.

**Saugata Gupta:** The other thing I want to add, is that sometimes when the category growths are presented, when you add up the category growth of the organized players, in some of our categories what gets missed perhaps is the growth at the top end and the growth of the small brands or unbranded and especially during inflation. So, you have to add that as well. For example last year, we believe that people have moved to smaller brands because of inflation pressure, because of a lot of categories. Similarly at the top end people have moved to digital brands. Now they don't get captured when you add all the volume growth of the large players and then you get a feeling that the category is slowing down.

**Moderator:** The next question is from the line of Tejash Shah from Avendus Spark.

**Tejash Shah:** Saugata, just wanted to understand the genesis of the project of distribution expansion because in recent past whoever has gone down this path, has not resulted in numeric expansion at least in terms of sales expansion sales growth. So just wanted to know how should we think about that, this as a growth driver or this is a quality of distribution driver, or this is a margin driver going forward?

**Saugata Gupta:** It's both growth and quality of distribution driver. I perhaps would beg to disagree with your point because there are at least two or three players, peers in our sector who have significantly added distribution which has resulted in distribution led growth and contributed to some of the outperformance. If you see in volume growth or top line growth in the sector in the last 5 to 7 years, two or three players that stand out will have all been through direct distribution increase.

**Tejash Shah:** So today when we analyze our own data, numerically 16% of our distribution is total reach is actually direct. So, should we assume that a large part of our revenue is actually coming from direct or how should we think about over indexation of that number versus our current revenue base?

**Saugata Gupta:** Usually your leader brands are dominant brands like a Parachute in the south and west and Shanti Amla or a Nihar in east. They can reach through indirect distribution channel because the indirect distribution channel likes to have a minimum amount of SKUs with tremendous high velocity. However, for challenger brands, newer categories in value added hair oil or some of the other categories which we want to develop for diversification of the portfolio, direct reach and retailing is far more important. Another thing is that ultimately general trade and the profitable sustenance of general trade is going to happen when you expand far more in

rural because there is a significant competition with OT in urban. For large scale manufacturers like us, we have categories with significant penetration in rural., Parachute for example still has a 12% to 13% gap between rural market share and urban market share. We have data to prove for brands like Parachute, Nihar, etc., if I don't start driving distribution and direct reach the vulnerability to counterfeiting is extremely high as I have brand awareness but not brand availability. So, the combination of all that with the belief that our direct to indirect ratio of 5.5 is extremely high is why we are doing it. The average of indirect to direct ratio, of our peers is slightly lower because in the last 3 years we didn't do that much in expanding distribution. we have taken tremendous strides in the last 2-3 years, in our cost management initiatives, driving analytics based spend models and therefore today we are very confident in terms of people effort, in terms of resources is available to proceed in a very focused sort of way. In fact, as we speak there is a dedicated team of seniors this one actually driving this initiative.

**Moderator:** The next question is from the line of Akshen Thakkar from Fidelity.

**Akshen Thakkar:** Just a couple of questions from my side. One was, just double clicking on your commentary around profit growth for next year. I think till last quarter we were calling out low teen growth. And while you've not called it out it did sound like you're talking about low double-digit growth here. So just wanted to understand if the interpretation is correct and if so, is Project Setu or investments that you're making there or elsewhere in the business causing this sort of lower and we're all for good investments to be made. No problem over there. Just wanted to be clear on where the difference is coming from versus the previous commentary.

**Pawan Agrawal:** So, there's no difference Akshen. We definitely will strive for low teen profit growth but there are multiple moving parts at this point in time. For example, if you look at, we don't know as to how inflation will pay out in key commodities or how will geopolitical scenario pan out which will have impact on crude prices and its derivatives and the corresponding impact on the pricing on portfolio. So, first of all for margin percentage, we are still saying that we will try and hold. Now depending on what is the kind of revenue growth, we definitely will deliver healthy profit growth. So low double digit is something definitely which we believe will definitely happen but will definitely strive for low teen growth as well. So, there is no change per se in terms of what we have said earlier.

**Akshen Thakkar:** So, we should take it as a bound that you try to keep it within that range, and we should read it only as volatility in raw material and not that incremental investments in Project Setu or something else which is about....

**Pawan Agrawal:** Project SETU as Saugata has clarified is self-funded. So, there are multiple sources, we spend about 300 to 400 crores in various channel spends. And while Saugata said that we will spend about 80-100 crores, in the first year this investment could be about 20-25 crores. And taking out that 20-25 crores out of a spend of 300 to 400 crores is not something which is a very difficult task. There are a lot of inefficiencies which we can weed out and therefore we will reallocate the resources. So, this Project Setu will not have any impact on the profitability purpose.

**Saugata Gupta:** Just to clarify that 80-100 Cr is over a 3-year period, it's not 1 year.

**Akshen Thakkar:** Secondly just wanted to leave you with a comment on really welcome the disclosures on gross margins for food and whatever the EBITDA margin targets for digital first brands etc. are. I think that just helps us understand margin drivers on your business a lot better from these levels. Otherwise, we come to think of 21% as historical peaks. But as I think you called out well that some of these drivers continue to help margins. Look forward to more disclosures around some of these businesses which are becoming less a part of your business. One very last housekeeping question from my side. On other income, there is a sharp dip this quarter. Is there anything one time that we should be thinking about in this quarter?

**Pawan Agrawal:** Akshen I think it's better to look at a full year number rather than Quarter 4 because of some one-time sitting in the base. So, at a consol full year level if we have to look at like-to-like, it has increased by about 10%. Specifically for the quarter of course, it has one off if you remember. base had a one-time gain on sale of land in one of our units which is approximately 3 crores. And apart from that, also this quarter we have a lower investment income due to higher dividend payout. And additionally, there is a forex revaluation hit due to currency depreciation in Egypt and MENA. So, these are some of the one-off items in Quarter 4 which is distorting the picture. And therefore, it is better to look at the full year which is about like to like about 10%.

**Moderator:** Next question is from Mihir Shah from Nomura.

**Mihir Shah:** A quick question on VAHO. If you can again try and help us understand whether the 7% decline was largely because of high basic volumes or is there a price correction that was taken? I am sorry if I am asking again, I missed out on that part. Is it a price cut in VAHO that we have implemented or its largely volumes have contracted meaningfully?

**Saugata Gupta:** I will just give you a construct. We have done relatively better in the mid and the premium segments. There has been a little bit impact in the bottom of pyramid which is a combination



of not price but shrinkflation and some volume impact. But the good thing is that since last quarter we have started doing much better and our focus will also be in that. If I had to do a cut between low RPI and high RPI, as the RPI moves our market share progressively reduces. Therefore, there is a huge market share pool which is sitting there. You will see during the year some more concerted action on our part to get that market share.

**Mihir Shah:** Thank you for that clarification because I was just wondering if it's pricing led then it'll direct you for the remaining part of the FY25.

**Saugata Gupta:** The shrinkflation anniversarization is also happening as we speak.

**Mihir Shah:** One more question on margins actually. I am just trying to understand the waterfall on the margin because Saffola which was a low margin segment for you, Saffola edible oils was kind of in a very massive decline phase which is coming back to growth phase and hence it can ideally add on to the pressure. VAHO probably yes, there is some anniversarizing that is happening. But again, contribution will be lower. The positive swings will come from your new portfolio or the growth portfolio but add on to the project. So, if you have to hold on to the margin will it be at the cost of ad spends or there is sufficient room for that to get investments behind the growth brands can be run with the kind of margin swings that we are expected to see?

**Pawan Agrawal:** So, as I explained earlier, margin swings will basically come from three-four things, one is as I said Foods. There has been a margin expansion in the current year and in the current year also these initiatives were identified during the year. So, there will be benefit for next year also. Plus, in digital business, we have moved significantly this year and there's a plan to move to positive EBITDA in the next year. So that will all aid the overall margins. And similarly, if you look at VAHO performance, it has not been the best and if you are able to drive better VAHO and a better mix, it will also help improve the margin. Again, at the cost of repetition, I just want to clarify that SETU is not going to impact the profitability. It will be self-funded and as I mentioned that there are multiple resources. We will do a reallocation of resources. So that will not have any impact on profitability. Margin percentage guidance as I said, it is more about we will try to hold the margins, but we will be striving for healthy profit growth.

**Moderator:** The next question is from the line of Karthik Chellappa from Indus Capital Advisors.

**Karthik Chellappa:** I have two questions. First is on your direct distribution expansion of the additional 0.5 million outlets. Can you talk about predominantly which states will see this expansion?

**Saugata Gupta:** No, we don't want to get into details but as I said that in certain parts of the country, we have traditionally been weak, where our competition is perhaps relatively stronger. And which means that other than our top brand, the second or the third brand weighted distribution is weak because we don't do direct distribution. So, obviously it's not an all-India thing, we have selected certain things, we will go in a phased manner and it's a 3-year effort. So, we will take couple of states. Then next 6 months we will take a couple of states. Right now we have started the test and learn. In fact within a state also sub-region and sub-cluster focused. And as a result we have also done our sales structure revamp just the way we have for the cluster kind of an approach, which is there in our sales system now, some of the other peer companies have also done it. So, it's similar to winning in many Indias if you may.

**Karthik Chellappa:** The second question is, as far as the gross margin expansion in foods is concerned of 800 basis points, what portion of this will be cyclical simply because of moderate inflation? And what portion do you think will actually be structural?

**Pawan Agrawal:** Most of the expansion is actually more structural in nature. Let me give you a bit of a color on that. So, first of all we have improved the relative price index for some of our products in relation to the competition. That's quite prominent. We have also moved to in-house manufacturing from 3P operations for one of our key product portfolios, which has helped improve the gross margin. Thirdly we have also reconfigured our supply chain footprint to move closer to the marketplace. That will optimize the supply chain and logistic cost. And also, now with honey and soya gaining scale, we are getting scale advantages in procurement. Yes, some part of it is also driven by gains in commodity but a large part of it were due to all the structural reasons that I spoke about.

**Karthik Chellappa:** Just one housekeeping question. If I look at the others, under other expenses of 321 crores, I think this is the first time where in a particular quarter it has crossed 300 odd crores. What would be the key expense items which saw this rise? Anything specific to call out there?

**Pawan Agrawal:** There will be some of the inorganic element of the acquisition that we have done, which is Plix. So, if you exclude that then your growth will be in line with the volume and revenue growth.

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

**Pawan Agrawal:** Thanks for listening in on the call. To conclude, the year has ended on a positive note with both the domestic and international business headed in the right direction. We expect an



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improving trend in domestic volumes through the substantial initiatives being taken to bolster growth in the core categories and sustained focus on diversification. We also expect to continue strong momentum in the international business while expanding the growth levers of the business. With pricing and currency headwinds largely in the base and commodities exhibiting an upward bias, the pricing cycle has turned positive. Owing to the above, we believe we have set the stage to deliver double digit revenue growth in FY25 and we aim to deliver healthy earnings growth in the coming year. If you have any further queries, please feel free to reach out to our IR team and they'll be happy to address. Thank you and have a great evening.

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

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(This document has been edited to improve readability)