



## Marico Limited

### Analysts/Investors Conference Call

**Event Date / Time : 27<sup>th</sup> July 2007, 3:00 PM IST**

**Event Duration : 1 hr 1 min 20 secs**

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#### *Presentation Session*

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**Moderator:**

Good afternoon ladies and gentlemen. I'm Shirley, moderator for this conference. Welcome to the Quarter 1 FY08 conference call of Marico India Limited. We have with us today Mr. Anirudh Joshi of Anand Rathi Securities Limited and Mr. Vinod Kamath, Chief Finance and IT, Mr. Chaitanya Deshpande, Head of Strategy, M&A, and Investor Relations of Marico India Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press \* and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Anirudh Joshi.

**Anirudh Joshi:**

Thanks Anitha. On behalf of Anand Rathi Securities I welcome you all to the conference call of Marico India Limited. We have Mr. Shirish Pardesi, Industry Consultant from Anand Rathi and Mr. Chaitanya and Vinod from Marico. Now I will hand it over to Chaitanya and Vinod for their comments on the result performance.

**Vinod Kamath:**

Good afternoon everybody. Mr. Mariwala, our Chairman and Managing Director was supposed to be on this conference call, but unfortunately due to some last minute development he is not available, so let me apologize on his behalf. I have Chaitanya with me, and we would both take questions you might ask. Before that I hope you have gone through the information updates, which we had circulated. However, let me just go through the highlights of the last quarter quickly, the first highlight, which I want to share with all of you is, the organic growth for last quarter was 20%, the inorganic growth was 6%. The inorganic growth was largely lead by our Egypt acquisition, which got stabilized in this quarter. Secondly, most of the organic growth which happened in this quarter has happened through volume growth. There has been very little inflation led growth. Growth has been all round with all product

categories growing, Parachute, Saffola, hair oils have shown significant growth, so has Kaya. International business has grown, both in organic and inorganic terms.

The other highlights of this quarter are in terms of acquisitions. The acquisitions have integrated very well. Egypt has met whatever acquisition assumptions, which we had made, and Nihar has been doing quite well too. In terms of bottom line numbers, the bottom line growth has been higher than the top line growth, the bottom line growth was 33%. Last but not the least, we have had another quarter of dividend, maintaining our very consistent record of dividend pay out. We are now ready to take your questions.

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*Question and Answer Session*

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**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Ms. Mohini of Sharekhan.

**Mohini:**

Good afternoon sir.

**Vinod Kamath:**

Good afternoon.

**Mohini:**

Congratulations on the good set of numbers. Sir, my question was on Kaya's performance. Could you throw some light on Kaya's performance, how had been the profitability of Kaya in this quarter?

**Vinod Kamath:**

You would have observed that the Kaya growth was 31% in India, and this has been the same clinic growth, as we have not added any clinics during the last year. So the entire growth is from the same clinics. Gulf turnover was about 4 crores, but since the base has been very low during the previous year, I am not talking about the growth percentage for Gulf. The growth has primarily come from better utilizations of the clinics. There were no new clinics, which have got added last year. With respect to clinics in this quarter, though we have not added any clinics yet, there are some clinics in the pipeline, which would come on stream in quarter 2. We would have about 8 clinics, which would come on stream in quarter 2, and we plan to add a further 7 clinics during this year.

**Mohini:**

Okay, and sir last year we had reported a PBT of around 0.4 crore for Kaya, so in quarter 1 can you throw some light on the PBT?

**Vinod Kamath:**

The quarter 1 PBT has been marginally negative, and that is largely because of some provisions, which we made. There were some insurance claims, filed on some machinery damage, so there is a marginal negative on that count, otherwise the profitability has been maintained.

**Mohini:**

Okay sir, thank you sir. And what has been the volume growth in Parachute sir?

**Vinod Kamath:**

The volume growth in Parachute has been in double digits. It will be close to around 20%.

**Mohini:**

20% sir?

**Vinod Kamath:**

Yes.

**Mohini:**

Thank you sir.

**Moderator:**

Our next question comes from Ms. Preethi of KR Choksey.

**Preethi:**

Sir I have a couple of questions, what was the volume growth in the value-added hair oil?

**Vinod Kamath:**

Yeah go ahead; you want to start your second question?

**Preethi:**

I wanted to know the volume growth in hair oils and the price hike taken, second, what was the growth in the edible oils that is Saffola and Sweekar, and any price hike taken in the same. Thirdly, for Parachute, which you just mentioned that there was a 20% volume growth, was there any price hike also?

**Vinod Kamath:**

Let me take the last one first for continuity. In terms of Parachute, we didn't take a price hike in the quarter, which went by, but we have taken a price hike post the quarter. There has been an approximately 3% price increase, which we had taken with effect from July 1<sup>st</sup>. With respect to Saffola and Sweekar, in Saffola we had taken a price hike mid quarter 4, and the growth in Saffola had been about 28%. Growth in Sweekar has been 11%, and growth in hair oils is about 20%.

**Preethi:**

This is volume growth that you are speaking about, or the overall growth?

**Vinod Kamath:**

It's the overall growth.

**Preethi:**

And sir, what kind of growth can we expect going ahead in case of hair oils?

**Vinod Kamath:**

I would not really be able to share category-wise growth, but we believe that this growth momentum would be sustained. At an overall level, in hair oils about 12% to 15% is what I can guess at this moment.

**Preethi:**

And sir will we be able to maintain our margins at these levels?

**Vinod Kamath:**

Can you repeat it, its not very clear.

**Preethi:**

Are we able to maintain our margins going forward?

**Vinod Kamath:**

At a company level, you mean?

**Preethi:**

Yes.

**Vinod Kamath:**

Yeah, we expect to maintain the margins going forward.

**Preethi:**

And sir, what would be the CAPEX for this year and next year, and what would be the debt funding pattern for the same?

**Vinod Kamath:**

Okay, in terms of CAPEX, there would be one normal maintenance CAPEX, then the second part of the CAPEX would be with respect to the additional Kaya clinics. We are planning for our new office, and depending on when we start work on that, there will be a CAPEX on that account. You would be aware that the CAPEX for Kaya would be about roughly about 1 1/2 crores per clinic. I had shared with you earlier that we would be putting up about 15 clinics, so that would be the investments in Kaya. With respect to normal CAPEX, we estimate to be within 15 to 20 crores and with respect to the new office, it depends on when the work would actually start, but it would be in the region of about 50 odd crores in this year.

**Preethi:**

Okay, sir can you throw some light on Kaya Life?

**Vinod Kamath:**

Kaya Life is different from Kaya Skin. They don't exist in the same clinic, it's a separate establishment by itself, and we have set up one center at Juhu. It has been operational for a little over a month now and the initial response has been quite encouraging. We plan to add a couple of more



centers going forward in the city of Bombay itself, at Malad, and Bandra. Going forward during the year we might add a few more centers, depending on how the successful the model is.

**Preethi:**

Sir, how much CAPEX does one Kaya Life need?

**Vinod Kamath:**

Similar levels.

**Preethi:**

What kind of revenues can we expect from that?

**Vinod Kamath:**

It's actually a little early to tell. Let me just briefly share with you what Kaya Life is all about. It's about sustainable weight loss. There are a lot of weight loss programs, but the distinguishable factor in this particular case is the whole idea of counseling a person, where you would counsel him so that the weight loss is sustainable. LIFE is actually an anagram, where L stands for Lifestyle counseling, I stands for inch loss and body shaping, F stands for food and meal planning, and E stands for energizing exercise. So you would have a team of counselors, dietitians, and trainers who would be working along with our customers and the whole objective being a sustainable weight loss.

**Preethi:**

And last question, can you share with us the rate of growth of soaps, Fiancee, HairCode, and Nihar?

**Vinod Kamath:**

Yeah, let me take the last one first. I think Nihar data has been shared in the investor update. We have marginally de grown in Nihar on a quarter on quarter basis, but on a sequential quarter basis, we have actually grown in Nihar. The reason why we have de grown on a quarter on quarter basis is because we had just acquired Nihar in the first quarter of last year, and there was some pipeline filling at that point of time. So there's a marginal de growth on a quarter on quarter basis, but on a sequential basis there is a growth on Nihar.

**Preethi:**

Sir, okay so in that case can we expect similar growth of 12% to 15% in Nihar?

**Vinod Kamath:**

See the targeted growth rate on Nihar would have to be looked at along with Parachute, because they almost compete in the same market, and because of the margin profile of the two being very different, I would not be able to really say what would be the growth on Nihar at this point of time, but definitely we would expect it to be less than Parachute.



**Preethi:**

Sir, regarding the other three categories that I asked of soaps, Fiancee and HairCode.

**Vinod Kamath:**

Fiancee and HairCode, in terms of the turnover, in the 1<sup>st</sup> quarter, we had a turnover of 21 crores, we have shared that detail in the note, the turnover for this year is expected to be around 90 crores. The heartening fact has been that there has been a market share improvement to the extent of about 1.8% during this quarter for Fiancee plus HairCode put together. Our current market share is roughly about 61%.

**Preethi:**

Sir, so then soaps?

**Vinod Kamath:**

Yeah?

**Preethi:**

What was the rate of growth in case of soaps?

**Vinod Kamath:**

You would want to know about Manjal. We had launched Manjal and had extended it to state of Tamil Nadu in the previous quarter. You would recollect that there have been some issues with trade channels in the state of Kerala during this quarter, with respect to VAT implementation. So we are not able to really give a true comparison on the growth rate. There has been a marginal decline because of this trade disruption, but we expect that going forward the growth rate for Manjal to be in line with expectations. .

**Preethi:**

Sir, what kind of margins would Fiancee and HairCode have?

**Vinod Kamath:**

The margins on that business at an overall level would be in the region of about 15% to 18%.

**Preethi:**

What would be the margins for Nihar?

**Vinod Kamath:**

See, we are not able to share with you brand-wise margins, that's not what we would like to share at this point of time.

**Preethi:**

Okay, thank you sir.

**Moderator:**

Our next question comes from Mr. Akhil of Enam Securities.

**Hemant:**

Yeah hi, this is Hemant here.

**Vinod Kamath:**

Yeah hi Hemant.



**Hemant:**

Just two questions, one being, I just noticed your advertisement and sales promotions expenses for this quarter, which had gone down as a percentage of sales, and you had mentioned I think last time around that you had a sort of new product introductions in the whole of last year and that's the reason it was up. And I think you spent something like around 60 odd percent on new products. So, I was just wondering if this was a lower spend this year, a continuing trend for the next few quarters, and does it mean that we have a lesser number of products in the pipeline for introduction.

**Vinod Kamath:**

The ASP figures could actually vary from quarter to quarter, as you rightly mentioned, it would depend on what is the product launch, and what are the specific media plans for a particular brand. Last quarter was slightly low because of these media plans but going forward we expect the ASP ratio to be in the region of about 12% to 13%.

**Hemant:**

So this would mean that the next few quarters, it would be significantly higher.

**Vinod Kamath:**

Yeah?

**Hemant:**

12% to 13% meaning next few quarters is going to be significantly higher.

**Chaitanya Deshpande:**

As compared to the 1<sup>st</sup> quarter, yes.

**Hemant:**

Okay, and second question being in Parachute, I think in your results update, I had noticed that it was mentioned that the input costs had been the same as pertaining to the last quarter of last year. Could you just tell me what the pricing scenario has been for the other players in the coconut oil segment, because here you have gone and increased prices and my sense was I thought the input prices have come off its peak in the last few months? So given the fact that probably prices are actually dipping in the near term, have the company tills actually maintained the prices or increased the prices, what's happening over there?

**Vinod Kamath:**

The way the whole pricing works in this category is, Parachute has not been a discounted brand, it has got on the brand power. All the other competitors actually work on different levels of discounts, so the MRP itself may not be a true reflection of how much they are charging. To that extent they would vary the discounts, but we don't vary the discounts on Parachute. Our MRP would be a true

reflection of what are the prices in the market, with some normal discounting. So it's not a true comparison, whether they have taken up the MRPs or not. But we believe that the brand would be able to absorb this increased MRP by about 3%.

**Chaitanya Deshpande:**

Hemant, just to add on to that. Typically Parachute is the price leader, so at most times you will find us taking the price, whichever way, either up or down first. You will find that the competitors follow us. Now this particular price change has got implemented at the fag end of last quarter, and in fact you will see it in the market place only in July, so it's possible that the competitors will follow us on that. In this case we would expect that competition will take up MRP following Parachute, now whether it's a couple of weeks, or a month or two, I am not too sure, how quickly that might happen. There are some markets in the country, which are MRP markets. For instance, if you go to a shop in Bombay, you would almost invariably buy the product at MRP. And in certain other markets in the country, as Vinod was explaining, you do have an MRP, but then the discounts that are offered to trade, are often times passed on to the consumer. So competitors could again take up the MRP there, but also increase the discounting, so as to keep the same band of discount as compared to Parachute. Competitors will technically take this opportunity to take prices up and earn a slightly higher margin, or pass on the increased input cost as the case may be.

**Hemant:**

All right, thanks a lot. And just another follow on question, I think the growth rates across the industry-wide have been quite good for all the domestic players. I wanted to get a sense that despite the concerns, which was laid much ahead in terms of the higher interest rates and the impact on share of wallet, I think the volume off take has been quite impressive across the board, so what is your sense in the urban markets, and the rural markets, and how do you see this going ahead?

**Chaitanya Deshpande:**

We continue to be fairly positive on the kind of volume growth that you will see. Of course, ours are largely urban led brands. Other than Parachute, not too many of them sell in large quantities in the rural areas. And in terms of incomes and propensity to spend, we are not seeing any kind of slowdown. This kind of buoyancy, I believe, will continue for sometime.

**Hemant:**

All right, thanks a lot Chaitanya, and thanks Kamath.

**Chaitanya Deshpande:** Welcome.

**Moderator:** Our next question comes from Mr. Manish Jain of Brics Securities.

**Manish Jain:** Hello sir, congratulations on a good set of numbers.

**Vinod Kamath:** Thank you.

**Manish Jain:** I just had one question, why has the salary cost as a percentage of sales gone up suddenly in this quarter, and are these levels sustainable going forward also, or are they one time expenditures, which are included over a year?

**Vinod Kamath:** I think you should really look at it on a quarter on quarter basis, last year there was a provision, a write back which happened, so truly it's not a comparison on a quarter on quarter basis. This first quarter also has some provisions for incentives.

**Manish Jain:** So how much would that amount be sir?

**Vinod Kamath:** I am not in a position to share with you that amount in specifics.

**Manish Jain:** Okay, but as a percentage of sales probably going forward Q2 onwards, we will be probably see them coming down.

**Vinod Kamath:** Yeah, yeah certainly.

**Manish Jain:** And just another question sir. The tax rates, why have they been again higher in this quarter? On a consolidated basis, if I look at it, it's something around 25%, 26% tax rate.

**Chaitanya Deshpande:** If you look at the tax rate on a whole year basis, we were looking at some increase in the tax rate this year, because of the change in tax status of the Goa plant that we have for making of Parachute, 30% of the profits from that plant were exempt from tax until last year. That has moved out of the tax exemption period. Our entire profits from the Goa plant are now taxable. So that is one of the reasons that you will see a slightly higher tax rate. Also some of it has come by way of the deferred tax number. This is on account of the fact that we are getting tax depreciation on the intangibles that we acquired, whereas in the books of accounts it is not there. So you will see a slightly higher deferred tax number in the books of accounts. Our estimation for the year as a whole is that we would have an effective rate of about 22% to 25%, and this is likely to be



true for this year and maybe going forward into the next year as well.

**Manish Jain:** Okay, fair enough sir. My questions have been answered. Thank you.

**Chaitanya Deshpande:** Thank you.

**Moderator:** Our next question comes from Mr. Pritesh of MK Shares.

**Pritesh:** Good afternoon sir. Congratulations for the good set of numbers.

**Chaitanya Deshpande:** Yes, thank you.

**Pritesh:** My question is related to Kaya. First question is we saw a sequential drop in Kaya revenues, and that's been first time in the last about 12 quarters that we have seen, so maybe you could share the reason. Second is, has Kaya now become a self sustaining model in terms that the internal cash flow is sufficient enough for the expansion of Kaya since the number of outstanding clinics, which are open for Kaya are now more than the number of clinics per year, the new clinics that are supposed to come up. And the third question is, is it possible to know what kind of asset turns is typically possible in Kaya?

**Vinod Kamath:** Let me take the first one first. In terms of turnover, the turnover on a sequential basis is marginally higher. And second one is in terms of; you mentioned about whether Kaya would have a sustainable investment on its own, is that the question?

**Pritesh:** Yeah.

**Vinod Kamath:** I don't think so, because it all depends on the number of clinics which we open. As I mentioned to you earlier, the CAPEX for the clinic is about 1 1/2 crores per clinic and we have fairly ambitious growth plans going forward. Also there is Kaya Life, which would also consume a lot of CAPEX.

**Pritesh:** So 15 clinics guidance per year, it includes Kaya Life, or it...

**Vinod Kamath:** No, it excludes Kaya Life, only Kaya Skin Clinic.

**Pritesh:** Okay, and asset turns, have you done some kind of analysis whereby, what could be the maximum possible, or any such thing?

**Vinod Kamath:**

You mean, from what I understand you are talking about capacity utilization?

**Pritesh:**

Yeah. In terms of sales to capital employed, as you said about 1 1/2 crore goes in for clinics, so is it possible to know the maximum asset turns which are possible, have you all done some kind of rough analysis whereby, kind of guide post is possible?

**Vinod Kamath:**

See the average revenue per clinic is 1 1/2 crores. So if you take the average revenue by investment, it would be one in this case.

**Pritesh:**

But this one is at what capacity utilization?

**Chaitanya Deshpande:**

At the moment, I think, there is some scope to improve capacity utilization and we have been working on that. There could be a possibility of taking that up at least 20%, in terms of services. In addition to that, there are the products sales that we could do. At the moment, the ratio of product sales to total revenue in Kaya is about 13%. There is scope for taking that up as well, maybe to lets say close to 18% to 20%. This can be achieved as a combination of sales from within the clinic and through kiosks. What we are trying to do is taking products out of the clinic, by putting up these kiosks at various malls, and trying to do product sales from there. Now, this is an experimentation, which has begun this year. Objective of the kiosks are both to sell products as well as to try and drive foot falls to the clinic. So you introduce the Kaya concept etc at the mall. With that there is the possibility of taking the product turnover to 20% but still its slightly early to talk about that. We haven't yet really seen too many of these kiosks coming up as yet. We are going to experiment with putting up these kiosks in the malls and see how that does. So I would say that maybe about 20 odd percent in terms of capacity utilization, plus whatever additional revenues come from products.

**Pritesh:**

Okay, but when we talk about say 20% capacity utilization, we are trying to build in higher foot falls, or we are trying to build in higher ticket per customer, which has actually already come in, in Kaya?

**Vinod Kamath:**

See, there is also a third element of quick services, there would be some services, which would consume less capacity. Most obviously something which is product intensive, would consume less, so there is a third element,

so one has to look at it as a combination of these three. So obviously foot fall increase would lead to a higher capacity.

**Chaitanya Deshpande:**

There would be even smaller things to do, for instance let's say at the moment we face this problem of no shows. Okay, now to some extent you can't really avoid all of it. If you look out of the window today, its raining heavily, somebody would have canceled their appointment. But some part of it can be avoided by lets say doing a call two days in advance and say, look you do have an appointment 48 hours from now, and we hope you are going to make it, and if at that point in time the customer tells us, the answer is no, then we try and fill that slot with something else. In terms of doing work in the back room, where you are trying to reduce the set up times between doing one service and doing the next, we have already done some work in that area, so we have managed to actually reduce the time taken between two services. I don't think the scope from that would be very, very high any more. So now it would be primarily trying to get some more foot falls. Though Kaya is premium priced, we believe that there might be scope to take prices up further also, though we are not doing anything in the immediate future. We have just taken some price increases, not very long back. But yes, there could be scope. The kind of clients who come into Kaya, some of them do travel overseas, they see the kind of rates at which these services are available there. If you compare that then there's a huge difference. Kaya pricing is at, maybe 20% or 30% of those prices. So as compared to those, there's still enough scope to increase prices..

**Pritesh:**

Just to confirm quarter 4 revenue for Kaya was 22 crores or I have a wrong figure?

**Chaitanya Deshpande:**

Yeah, the figure is correct.

**Pritesh:**

It's correct. And current quarter is 21 crores.

**Chaitanya Deshpande:**

No, in current quarter we have just rounded off some numbers, actually it is more like 22 crores and last time it was maybe around 21 odd crores.

**Pritesh:**

That is quarter 4 was 21 and quarter...

**Chaitanya Deshpande:**

Yes there is a marginal increase.

**Pritesh:**

Okay, many thanks and all the best sir. Thank you.

**Chaitanya Deshpande:** Thank you very much.

**Moderator:** Our next question comes from Ms. Nupur of UBS.

**Chaitanya Deshpande:** Yeah hi Nupur.

**Nupur:** Hi, good afternoon sir. My question is on the raw material cost increase in copra. Could you just throw some light on this?

**Vinod Kamath:** See, what we have shared in the information update is, the prices in this quarter have been similar to the corresponding quarter last year. And while it is difficult to forecast what would happen in terms of copra prices, we estimate at an annual level it would be marginally higher by about 5% compared to the previous year.

**Nupur:** Okay, thank you.

**Moderator:** Our next question comes from Mr. Abhijit of Prabhudas Leeladhar.

**Abhijit:** Hello sir, congrats on a good set of numbers. I had a few questions, first was what would be the key reason behind strong 28% volume growth that has happened in Saffola. One was that. And also in case of hair oils where we have seen about 20% volume growth, what would be the main driver behind that, because it has actually out performed the hair oil industry. And third was, in Kaya, what has been the capacity utilization levels in this quarter as compared to the last year same quarter?

**Vinod Kamath:** Okay, let me just take the first one in terms of Saffola. You would have noticed that there was significant ads spend, which we have done in the previous quarters, and this has started kicking in, so it has helped the brand, and the Saffola franchise has significantly increased. So that is more to do with the ASP spends, which had happened in the previous quarters, which is helping the brand. With respect to hair oils, a very similar reason, the other thing which is also happening in the case of hair oils is, Nihar is helping us in a very synergistic way in the East. And your third question is with respect to Kaya capacity, I don't have those figures immediately, I'll be able to give it to you only a little later.

**Abhijit:** Capacity utilization levels would be higher as compared to last year in the same quarter?

**Vinod Kamath:**

Yeah, because there is the same clinic growth. I mentioned in the beginning that there were no additional clinics, so obviously utilizations have been higher, okay but I am not able to give the exact figures of utilization.

**Abhijit:**

Okay, so mainly we could say that, the volume growth that has been seen in Saffola and hair oils, has been because of more of marketing initiatives.

**Vinod Kamath:**

Yeah, absolutely.

**Abhijit:**

Going forward what would be your strategy in these two categories mainly, would you be continuing with the marketing initiatives, or how would that...?

**Vinod Kamath:**

Yeah, we propose to continue with the marketing initiatives and I shared with you a little earlier that we hope to keep the average ASP figures for this year between 12% to 13%.

**Abhijit:**

Okay and sir, what could be the contribution by your post wash conditioners, like a ballpark, what could be the figure of sales turnover from post wash conditioners and what would be your strategy there and how are post wash conditioners panning out for you?

**Chaitanya Deshpande:**

This is Chaitanya here. Overall post wash, as you are aware, is fairly small and we are still in the process of participating in market creation. We definitely see enough potential. We have a lot of youth spending money on these, more, so to say. "modern products". So whether we are talking about creams or gels, or lets say in the case of Silk 'n' Shine, something like a detangler, etc. Now in creams and gels, what happened earlier was, before we came in the incumbent, Brylcreem, had not really promoted the products in the market place. But after we have come in, they have also started aggressively advertising and that is good. We think that there would be scope of growing this market. In terms of actual numbers, I know you asked me a specific question in terms of what has been the contribution here. It is small. In terms of percentages it is going to be very low single digit kind of percentage as of now.

**Abhijit:**

Okay, in case of hair cream, I believe it is about 70 crores market?



**Chaitanya Deshpande:** The Market may be a little more than that, may be around 80 odd crores.

**Abhijit:** And how much is that growing by?

**Chaitanya Deshpande:** The growth rate, Abhijit, will be quite significant, it will be in may be in the twenties or thirties.

**Abhijit:** Okay and how big would this market be, Brylcreem and Silk 'n' Shine market, basically I am looking at the potentials lying in Silk 'n' Shine and Parachute After Shower Hair Cream...

**Chaitanya Deshpande:** Yeah, see what you mentioned about Brylcreem (and our product is Parachute Shower Cream), typically one would look at the creams and gels market together because people would interchange. You have the same user using a cream and using a gel as well. May be sometimes simultaneously or they will use one pack of cream and then after finishing uses a pack of gel. So it is better to look at this as a whole. That market is about that, 80 to 100 crores as I mentioned.. The other market where Silk n Shine operates is smaller. That would be around a 50 crore kind of market.

**Abhijit:** Okay, thanks a lot.

**Chaitanya Deshpande:** Welcome.

**Moderator:** Our next question comes from Mr. Abash Modi of HSBC.

**Abash:** Hi, Chaitanya, thanks for the invite for this call. I just wanted to check now the vision of 2,000 crores is likely to be achieved this year, so does that mean a slow down in acquisition?

**Chaitanya Deshpande:** About whether the 2,000 crore will be hit this year, I think you are really pushing the bar up on us.

**Abash:** 469 crores already.

**Chaitanya Deshpande:** Yes but lets see how it moves. I mean, 26% growth in this quarter and the kind of numbers we are talking about is a broadish range of 15% to 20% growth for the year. May be the fact that we have done 26% already in the first quarter, it could look like 18 to 20%. We had set the 2,000 number for 2009 earlier. There you can definitely push the bar up, I am sure we will do a number that is higher in 2009 than the 2,000-crore target. That doesn't remain a target now



for the year 2009. You were saying does that mean no acquisitions, no it doesn't mean that. We would, like we have been saying, and I guess that's what a company would always say, that we are on the lookout. We are looking at possibilities in India as well as overseas, but right now there is nothing that I comment on, nothing that's close to consummation.

**Abash:** Okay, the other thing is that you were shifting to a new premise, which you would be spending 50 crores on.

**Chaitanya Deshpande:** Yeah.

**Abash:** Which would mean that the current premise that you are on would be vacant?

**Chaitanya Deshpande:** No, what we are doing is, we are constructing a building there, Abash, so that construction process will take lets say about 18 odd months and the 50 crore number that we spoke about was, what we will spend on it this year. The entire cost of the project would be higher. At a gross level it may be closer to 100 crores. That would get spent over FY09. At the end of that period, yes we would move there and then we would sell the Rang Sharda premises.

**Abash:** And what would be the value of Rang Sharda about?

**Chaitanya Deshpande:** It may be around 25 to 30, that's the range. On a net basis it will be about 70, 75 crores, but the Rang Sharda inflow is rear-ended.

**Abash:** Yeah, okay. Alright, thank you.

**Chaitanya Deshpande:** Welcome.

**Moderator:** Our next question comes from Mr. Surjith of HDFC Securities.

**Surjith:** Hello, yes sir, congrats on a good set of numbers, I have just two questions. One was what is the current debt and cash levels as of Q1?

**Vinod Kamath:** The current debt is 325 crores at the end of Q1. Cash is marginal.

**Surjith:** Okay and sir, next question is regarding the depreciation charges, I mean, after your restructuring in FY07, your depreciation charges have come down drastically in this quarter, so I just wanted to know the trend going forward?

**Chaitanya Deshpande:** This quarter is representative of what it will be going forward.

**Surjith:** Okay, so you mean to say that this trend is likely to continue for next two, three quarters?

**Chaitanya Deshpande:** Yes, it is. There would be marginal increases to the extent that there is a normal CAPEX in the Kaya Clinics, but that's going to be marginal.

**Surjith:** So, over all your CAPEX for FY08, if I correctly understand it is around 70 to 80 crores?

**Chaitanya Deshpande:** Yeah, right.

**Surjith:** Okay sir, thanks a lot sir and have a nice day, bye.

**Moderator:** Our next question comes from Mr. Ankit of Mada Securities.

**Chaitanya Deshpande:** Yeah, hi.

**Ankit:** Hi sir, this is Ankit and sir, I just wanted to know like the marketing strategy going forward for Sweekar, like the numbers has not been or performing like, its like more of a mature market?

**Chaitanya Deshpande:** Sweekar is one of our non-focus brands, that's what we have been saying. In terms of its marketing strategy, the reality is that we haven't been investing behind the brand over the last three or four years. So, in a sense it is a brand that is on float, nevertheless it is fairly large, it's about 8% of our turnover, but it is more of a sales led strategy now, we don't plan to have too many marketing campaigns behind Sweekar.

**Ankit:** Sir, there has been news, like Sweekar is for sale, is it market speculation or if you are finding a (inaudible)?

**Chaitanya Deshpande:** Yeah, it is market speculation definitely. We are not aggressively chasing any sale of our brands.

**Ankit:** Okay, thank you sir.

**Moderator:** Our next question comes from Mr. Ajay Thakur of Edelweiss Securities.

**Ajay:** Hello sir.

**Chaitanya Deshpande:** Yeah hi.

**Ajay:** I have two questions, first is what would the market size of the starch and the stiffener and what would be the market share of Revive in them, you have just launched your Revive stiffener, so I just was curious to know about it. My second question is, can you just throw a light on what would be the breakup of revenues that are generated from the Gulf markets, like UAE or Saudi Arabia, Oman and also from Bangladesh and Egypt markets?

**Chaitanya Deshpande:** Okay, in terms of market shares, Revive is almost at about 80% to 85% of the market and the approximate turnover on Revive is about 15 odd crores. So on this basis you can compute that the market is not a very large market as of now. Sorry, your second question was?

**Ajay:** Can you just throw light on the revenues that are being generated from UAE, Saudi Arabia, Oman, Bangladesh and Egypt market?

**Chaitanya Deshpande:** The Egyptian market we have put in the note that our revenue from there is in the range of about 20 odd crores. Let us look at our international business in terms of Bangladesh and the Middle East, we are almost half and half, its slightly larger in Bangladesh, may be about 60% of the turnover comes from Bangladesh and 40% from the Middle East.

**Ajay:** Okay, sir also can you just throw light, what would the market size of the lice treatment, where you have around 90% of the market share with Mediker?

**Chaitanya Deshpande:** Which market, I am sorry?

**Ajay:** Lice treatment that is Mediker?

**Chaitanya Deshpande:** it's a size of around 20 odd crores.

**Ajay:** Okay, thank you sir.

**Chaitanya Deshpande:** I just wanted to respond to one of the earlier comments that Surjith made, Surjith had talked about total CAPEX of this year in the region of about 70 to 80 crores, actually it will be more than that, because 50 odd crores is what we are looking at investing on the building, then there is another 15 or 20 odd crores as regular CAPEX that we have



and then we need to add on what we might spend on the Kaya clinic, 1.5 crores each for about 15 clinics.

**Moderator:**

Our next question comes from Mr. Rahul Rathi of CPM Metrics.

**Rahul:**

Hi, I had two questions. The first one is, what is the target customer profile for Kaya Life and Kaya Clinic and the second question is, what is the thread that ties Marico to such diverse products, is there a strategy behind all these different product offerings?

**Chaitanya Deshpande:**

In terms of the profile of the consumer for Kaya Skin Clinic, we are looking at people may be in the age group of the late teens going up to fifties, because we have got anti-ageing products like Botox and fillers. So we have got may be 60, 65 plus kind of age group there as well as. When we are looking at services like just a Microdermabrasion or a skin peel, etc, you can even look at, late teens, early twenties. Then there are products like laser hair removal, which could be anywhere between these ages. In terms of also the power to spend, yes, Kaya Skin Clinic is at the premium end, so you are definitely looking at a SEC A kind of profile here. In the case of the Kaya Life Centers, essentially, at the moment, what we are offering is a sustained weight loss program. Also we are looking at some body shaping accompanying that. So, the kind of consumer that we are looking at, is those who want to look much better, feel much better, feel healthier also. Again it would be slightly at the premium end because the kind of spend that you would expect in a month may be about 7,000 or 8,000. We have, at the moment, three basic offerings, which are a one-month program, a two-month program, a three-month program and most of the people who have signed up as of now, have signed up for the three month program, so they are actually signing up about 25 odd thousand.

In terms of your question of complete diversity, the only thing that is really quite different is Kaya; most of the other products are quite focused. We are in hair care and skin care; we are saying we are in the businesses of beauty and wellness. Lot of them are, lets say oils, oil based, cream, etc, so its not really very diversified in terms of the kinds of products that we have in the FMCG base. Kaya, yes, has come along as something that is quite different from product offerings to start with. We were looking at skin care as the business to be in, we think the potential is large, fairly under penetrated in the country and while we were



looking at this opportunity, we did find that on the product side the shelves are a little crowded. We also tried to figure out, what's happening globally and then we came across a model that is similar to Kaya, which looked very interesting and we thought that there was a big opportunity here, because you have in the model dermat-led services, where efficacy levels were very high. There was nothing, in terms of the alternatives that a person has. The option is of going to a beauty parlor and getting a facial done or let's say in the case of hair removal, its waxing, etc. But, our solution offering would be quite different in terms of efficacy being much higher and therefore we thought, there is great potential here and lets try. We think we understand consumers well and so hitherto we had been offering products and we tried to take this, in a sense it was also a leap of faith, of getting into services and solutions, but it has worked out well, I think.

**Rahul:**

Yes, is that a DNA going forward, that you are going to look at different opportunities for consumers and try and introduce products?

**Chaitanya Deshpande:**

Yes, I think we would do that. It is just that we are a little focused on the areas of business, so we would want to remain in beauty and in wellness. In beauty also we have largely defined ourselves as being in the space of hair care and skin care. Now, in a sense Kaya Life is also both about health and about beauty. So, we would remain around this, I don't think we will stray too far from beauty and wellness, hair care, skin care and health care.

**Rahul:**

Great, thank you very much.

**Chaitanya Deshpande:**

Welcome.

**Moderator:**

Our next question comes from Ms. Toraf of ABN Amro.

**Toraf:**

Yeah, good afternoon, I just had a question on the inventory levels; they seem to have moved up sharply in this quarter, is there any particular reason for this?

**Vinod Kamath:**

Yeah, see along with the products there are some items which are seasonal like Kardi. It is largely procured during this period, and so the inventory levels would be higher on that count.

**Toraf:**

Okay, but there is almost a 24% increase and we would opt from 37 days to 46 days, is it also partly a function of the



broadening of the product segment that we are getting into and is this going to be a trend going forward?

**Vinod Kamath:** No, it is not because of the product segment, it is largely because of seasonality.

**Toraf:** Okay, so going forward for an annual average, what kind of inventory there is?

**Vinod Kamath:** It would come down to what were the figures of last year, I mean, the same averages would continue.

**Toraf:** Okay, thanks.

**Moderator:** Our next question comes from Mr. Mehul Mehta of Dolat Capitals.

**Mehul:** Good afternoon gentlemen.

**Vinod Kamath:** Yeah, good afternoon.

**Mehul:** This is in connection with Parachute volume growth, can you repeat this?

**Vinod Kamath:** Yes, it's about 18% to 20%.

**Mehul:** 18% to 20%, earlier it used to be I believe 11% range and has really jumped up to this, if I am not mistaken?

**Vinod Kamath:** Yeah, one is I don't want you to extrapolate this number for the year because it could be relevant for this quarter, but you are right, earlier it was in early double digits at around 11%.

**Mehul:** So, is it that increased marketing activity or what has led to, are there any, because this is a significant thing, I mean, parachute is one of the single largest brand kind of, for you, and that is growing at such a fast pace?

**Vinod Kamath:** Yeah, you would have noticed our advertisement in the past, which was basically targeted consumption and there are lot of micro marketing initiatives also which we have done. All this has started kicking in and we have had these growth rates.

**Mehul:** But only marketing activity doesn't lead, so what I want to ask is, is there anything like, are there any particular pockets where you are finding growth, because 18% to 20% is quite a significant growth?

- Vinod Kamath:** It is across the country.
- Mehul:** Okay, fine, thank you.
- Moderator:** I request the participants to press \* and 1 for your questions. Our next question comes from Mr. Gaurav of First Global.
- Gaurav:** Hi.
- Vinod Kamath:** Hi Gaurav.
- Gaurav:** Yeah, my question is related to growth in Bangladesh, I suppose that Parachute oil has gained significant market share in Bangladesh, so how is the competitive scenario and market growth in Bangladesh in going forward?
- Vinod Kamath:** You would have noticed in Bangladesh our market shares were already high. We have grown significantly in terms of volume as well as market share, so what this means is, the market itself has grown and that has happened because of a lot of initiatives, which we have taken up there. So, there has been a significant increase in the market as well as the market share in Bangladesh.
- Gaurav:** So, what is the growth recorded in Parachute hair oil in Bangladesh, in this quarter?
- Vinod Kamath:** We will have to get back to you on that figure.
- Gaurav:** Okay and another thing is soap market has grown significantly in this quarter, around I suppose 14% growth in this quarter, so is there any particular reason or because of a low base it is growing at...?
- Vinod Kamath:** It has more to do with the base actually.
- Gaurav:** So, that soap market itself is growing at double digits in Bangladesh, is it right?
- Vinod Kamath:** No, soap market is not growing at double digits because it is more to do with the base in this particular product for us.
- Gaurav:** Okay and another thing is, Kaya Skin Clinic, are we targeting only female customers in Kaya Skin Clinic or is there any strategy for targeting male consumers also?



**Chaitanya Deshpande:** We have a mix of male and female customers, in fact, some of the, lets say services like Kaya Glow, which is a Microdermabrasion service or lets say you have peels, etc are also undertaken by men. Even in the case of let's say something like the laser hair removal; some men also want to do beard shaping, etc. Having said that, in the overall client base, we have got about 80 odd percent ladies and 20 odd percent men.

**Gaurav:** Okay, so is there any separate strategies going in that way, that targeting male consumer also?

**Chaitanya Deshpande:** There are some of these service offerings that are there for the men, but I don't really think we have any specific strategies targeted at men, other than the fact that there are these services being offered.

**Gaurav:** Okay, fine, thanks a lot.

**Chaitanya Deshpande:** Welcome.

**Moderator:** Our next question comes from Mr. Vishnu of Premji Invest.

**Vishnu:** Good afternoon Chaitanya.

**Chaitanya Deshpande:** Good afternoon Vishnu, how are you?

**Vishnu:** Yeah, I am fine. Chaitanya, I was just going through your information update and you mentioned the material cost of sales is up around 80 basis points from last year and it is primarily because of edible oils, do you see this trend going forward for the year?

**Chaitanya Deshpande:** See, in the case of refined edible oils as well as Parachute, we believe we would be in a position to pass on price increases. In Parachute, we have already taken that price increase, as mentioned in the information update. In the first quarter of this year, in the case of coconut oil, there actually wasn't any increase on a YOY basis on the last year. The increase that you are seeing is largely on account of increase in the commodity prices of sunflower, rice bran oil and corn oil. As we go ahead, we think even in Saffola there is the ability to pass on the price increase, so we should be in a position to neutralize that.

**Vishnu:** The full year margins wouldn't be under stress, right?

**Chaitanya Deshpande:** No, I don't think so.

**Vishnu:** Okay, thanks.

**Moderator:** Our next question comes from Mr. Abhijit of Prabhudas Leeladhar.

**Jagan:** Yeah, Jagan here, this was regarding your debt equity and the debt books, 325 crores and debt equity has also increased 1.36 times, so what has been the main reason for that, why the higher borrowing as of date and another thing was would debt equity remain at higher levels for the full year, how is it?

**Chaitanya Deshpande:** Yeah, in terms of why it has gone up from, lets say where it was in the earlier couple of quarters, is that you might recall for the acquisition of Fiancee, we had paid part of the consideration in September and then we had linked the payment for the balance part of the consideration to achievement of certain targets. So, that was completed towards the middle of March. So the second tranche of the Fiancee consideration was paid in April and that's why the debt level has gone up in April. Going forward, in terms of where this would be, there is a 1:0 situation in terms of whether any acquisitions would take place. If there is an acquisition, then obviously it means we will have to figure out ways and means of financing. Depending on what size it is, we would decide to either raise additional debt or if it is a much larger one then we will have to look at other ways and whether we do part debt, part rights or QIP or something like that might have to be considered. But this is all hypothetical, I mean, at the moment we are not at a stage where we are closing any deal. So, other than that, the cash flows are quite healthy and you would find repayment of debt taking place.

**Jagan:** Right, so in view of no acquisitions happening, there would be a repayment of debt, right?

**Chaitanya Deshpande:** Yes, there would be and one of the earlier participants had also talked of the level of the inventory going up, in the terms of Kardi, there is some position that we have account of seasonality. So even on that some debt level would get liquidated towards the latter half of the year.

**Jagan:** Okay, thanks.

**Chaitanya Deshpande:** Welcome.

**Moderator:** Our next question comes from Mr. Sameer of IL&FS Investsmart.

- Sameer:** Hi Chaitanya, how are you?
- Chaitanya Deshpande:** I am very well, thank you Sameer, how are you doing?
- Sameer:** I am fine, Chaitanya, by what percentage copra and safflower prices increased in the last quarter because I think your gross margins have fallen by around 300 basis points?
- Chaitanya Deshpande:** See, in the case of copra what we have been saying, there is not much of an increase, it is less than 1% increase, but in the case of the other commodities the increase has been fairly high between, lets say if you take safflower oil, it has gone up by about 15%. In sunflower, it has gone up by as much as 25%.
- Sameer:** Okay and going forward, do you think this trend will continue, because you are taking a price increase in Parachute, but Saffola, I believe you have already taken a price increase, so going forward are you open to go for another round of price increase in Saffola as well?
- Chaitanya Deshpande:** Yeah, if the situation demands, we should be able to take it; the brand has been able to do that in the past.
- Sameer:** Okay and regarding advertising and sales promotion, in this quarter it is little subdued, so going forward if you are looking at the overall range, do you think you will maintain the ASP expenditure at the same level as last year?
- Chaitanya Deshpande:** Yes, it would be in that 12% to 13% range.
- Sameer:** Okay and is it possible for you to give some numbers on how Fiancee and HairCode has performed in this quarter?
- Chaitanya Deshpande:** Yeah, they have done about 22 crores of turnover and what we had indicated was our target for the year is 90 crores, so we are on track to achieve that.
- Sameer:** Okay, fine, thanks and all the best.
- Chaitanya Deshpande:** Thank you very much.
- Moderator:** There are no further questions. Now I hand over the floor to Mr. Anirudh Joshi for closing comments.



**Anirudh Joshi:**

Thanks Shirley, I thank all the participants and Mr. Chaitanya and Vinod for the con call. Mr. Chaitanya, if you have any final remarks?

**Vinod Kamath:**

Yeah, thank you all for joining on this con call and if you have any further queries, you can write to either Chaitanya or me. Our e-mail is there in the information update and you can get in direct touch with us. Thank you once again.

**Anirudh Joshi:**

Thank you.

**Moderator:**

Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.