

Transcript

Conference Call of Marico Limited

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MODERATORS: **Milind Sarwate – Marico Limited**
Chaitanya Deshpande – Marico Limited
Sanjay Singh – ICICI Securities

Moderator: Good afternoon ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the Marico Limited Conference Call hosted by ICICI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to the international bridge. After that, the question and answer session will be conducted for participants in India. Now, I would like to handover to Mr. Sanjay Singh. Thank you and over to you sir.

Mr. Sanjay Singh: Yeah, good afternoon everyone. On behalf of ICICI Securities, I would like to welcome all the participants to Marico quarter two FY09 earnings conference call. We have with us Mr. Milind Sarwate, Chief HR and Strategy and Mr. Chaitanya Deshpande, Head Investor Relations in M&A. Over to you sir. Hello.

Moderator: Hello Mr. Sanjay.

Mr. Sanjay Singh: Yeah.

Moderator: I think the call has been.....has been disconnected from the call.

Mr. Sanjay Singh: Yeah, yeah, yeah.

Moderator: I will just call him back, I request all the participants to kindly stay connected to the call. Sir, you can go ahead please.

Mr. Sanjay Singh: Yeah Mr. Sarwate.

Mr. Milind Sarwate: Yes.

Mr. Sanjay Singh:

Yes sir, you can go ahead.

Mr. Milind Sarwate:

Hi, this is Milind Sarwate from Marico Limited along with my colleague Chaitanya. I am sorry for the initial inconvenience that you all have had because of the telephone disconnection. Welcome to the Marico Analyst Conference. I will give a brief overview of the results and also some of the thoughts that we have about the ambience and effects of that on the business and then we can throw open the field for questions. The quarter two of FY09 which is the quarter ending, September 30, was yet another quarter of growth for us. We grew in topline at the group level by about 30%, at the bottomline, however, the growth was lower at around 12%. All segments of our business, that is the domestic business, international business, and Kaya, registered handsome growth in terms of topline, domestic business growing by 22%, Kaya by about 67%, and international business by about 59%. In terms of profitability, we more or less maintained our operating margins. There has been some fall as compared to the previous year, but operating margins were in line with the earlier quarter. We have circulated a detailed analyst update which gives all the usual details that we have been giving over the quarters. If you look at the macro factors which were prevailing during the quarter, they have actually grown in severity during October 2008. The economic ambience has been rather tough and volatile. There have been overseas crises which have had their bearing on the Indian economy, although the thrust of the crisis has been in the financial sector, there has been a rub off on other parts of the economy, largely because of the Domino effect. Also, fundamentally there has been a crisis of confidence of sorts, first in the business circles and I see that it is percolating down to the consumer segment too now. We are seeing some impact on the buying behavior. There has been a foreign exchange related upheaval too leading to a very rapid and substantial reduction in the value of the rupee and one of the factors which have hurt many companies including Marico has been write off or major cost on account of foreign exchange during the quarter. We also booked a net expenditure of about rupees 7 crores during the quarter. In terms of growth, after several successive quarters of growth, we continue to grow but growth now onwards can be somewhat challenging. We have had pressure on volumes

although that is not very evident in quarter two, in quarter three we have been sensing that, however, with our focus on our building blocks of growth, we hope to retain our journey on the path of sustainable profitable growth. So with this very broad summary statement on the ambience as also Marico's results, let me throw the field open for questions. Both I, that is Milind and Chaitanya my colleague, will answer the questions, so you could specifically ask any one of us or have a general session. Thank you.

Moderator:

Thank you very much sir. At this moment, I would like to handover the proceedings to international moderator to conduct the Q&A for participants connected to international bridge. After this, we will have a question and answer session for participants at India bridge. Thank you and over to you Zyna.

International Moderator:

Thank you Sandhya. We will now begin the question and answer session for participants connected to the international bridge. Participants please press 01 to ask the question. First question, Mr. Karthik from Canyon Capital.

Mr. Karthik:

Yeah, good evening, am I audible.

Mr. Milind Sarwate:

Yes, you're audible, good evening.

Mr. Karthik:

Yeah this is Karthik here from Canyon Capital. Good evening gentlemen, I just had a couple of questions which I was hoping you would give me some color on. First is actually on Saffola, I just find that Saffola volumes this quarter have come off significantly, they grew at barely 9% say compared to 28% last quarter. Now you have mentioned in the note that the other edible oils have actually declined in tandem with palm oil but safflower oil is kind of held up, I was just curious to understand why that has happened, is it because of some low correlation that safflower oil has with palm oil and secondly I always presumed that Saffola being positioned on the health platform, there would definitely be some resistance in terms of price points but that actually does not seem to be happening here because you have actually taken a 10% price cut, so I was just curious to understand the dynamics of Saffola positioning going forward. And my second question is on the international business, at the topline, I think it has actually

grown pretty well, but I was curious as the EBITDA level how that growth has kind of panned out this quarter and what are the challenges you see going forward and in which geography would that be. Thank you.

Mr.Chaitanya Deshpande:

Alright, thanks Karthik, this is Chaitanya here. On Saffola, there were two parts to the question that you have raised; one was in terms of the prices of kardi oil. Yes kardi actually has not come off during the quarter two periods like some of the other edible oils have led by palm. There have been reductions in prices of sunflower oil, soya bean oil, etc. The correlation is a little lower in Safflower. The moment you see palm coming off, the first thing that it will have an impact on is likely to be soya bean and other large oils like mustard and sunflower which will react. Why safflower does not react in a similar fashion is that it is quite a smallish crop, with a limited supply of safflower, particularly in India. Marico is a fairly large procurer of that surplus crop that comes in. What Marico has done over a period of time is found sources of safflower oil in other parts of the world. We now source it from Latin America as well as from Australia. This also helps us in terms of timing because imported supplies come in the latter part of the calendar year and may be also in Q4 of the financial year. So those supplies could come in between November and February. However, safflower oil prices in these parts of the world are actually higher than they are in India. Normally in any particular year, you will find landed safflower prices higher than domestic kardi (Safflower) oil prices. Therefore, even when Marico is looking at sourcing from these sources, it is more to get ourself supply certainty rather than actually buying at lower prices. In other parts of the world you know, safflower seed can be put to various uses, including bird feed in Japan and is not a very big prop for oil. The correlation of kardi to a reaction in palm prices is therefore likely to be lower.

The other question you asked was in terms of the growth in Saffola. There has been 9% volume growth in this quarter, but what I have been saying is we should try and look at it in the context of what we have done in the half year and we have grown by 18 odd percent in volume terms, for both the quarters put together. Now in the first quarter, we had launched a new variant called Saffola Active. This contributed to a 28% growth which is anyway

extraordinary. It is not the kind of sustained growth that you might be able to see in this brand. We have been doing about 18% to 20% in volume over the last two years, but even that, I think is slightly on the higher side. A sustainable rate would be about 15% to 16% odd percent in terms of volume. Active actually contributed to as high as about 7% or 8% of the growth in Saffola in the first quarter, and typically when you launch; there will be a little bit of pipeline filling. While Active was not there in the second quarter of FY08 either, the first quarter this year has some pipeline filling as might be expected during any launch. That is why you are looking at a number of 9% odd volume growth. Going forward, you should see that moving up little bit.

The third part of the question was with regard to the price drop. As you know, we have taken a temporary price off on two of the variants that is Saffola Active and Saffola Tasty and not for the entire portfolio. These two blends are actually strategically priced at the premium end of sunflower, where you have Sundrop and our own Sweekar. We like to price these two blends so because that is where we try and get conversion from premium sunflower brands into the Saffola brand. Once they move in to the Saffola franchise and they become Saffola consumers, they can upgrade into Saffola Gold which is the rice bran blend or Saffola pure refined kardi oil. Now in the second quarter what has happened is you have seen a big drop in prices of edible oils led by palm oil and therefore some of the other brands have dropped prices. It is only to be in line with the premium end of sunflower that we have dropped prices of these two blends. That correction has been taken towards the end of the second quarter that is towards the last fortnight of September.

Karthik, does that cover what you wanted to know?

Mr. Karthik:

I mean just to take it a little further, a followup question, because you said that in the third and fourth quarter the sourcing from, you know, the international side would increase of safflower oil and that comes in at a higher cost, now coupled with a 10% price off that you have taken, so can we conclude that third and fourth quarter volume should improve but margin can come down a little bit because of these two effects.

Mr. Chaitanya Deshpande:

The price off that we have taken is in two of the blends where the quantum of safflower consumption is lower it is only about 20%. It is not 100% safflower oil as we have got in the original Saffola. Thus only 20% of it will get impacted by the higher cost. On those two blends, yes, there could be a little bit of a margin decline. However if rice bran oil prices come off, we will get some advantage there.

Mr. Karthik:

Okay, fair enough and the question on international operations.

Mr. Milind Sarwate:

Karthik, this is Milind, just to add to what Chaitanya mentioned about Saffola, over a period a time, we also reduced the dependence of the brand Saffola on safflower, we will find that through this strategy on blends which is very good to the consumer from the health ground, we also ensured that our supply lines are healthy and we do not have to depend only on one of the oils. Now coming to your second question on international business. The international business over time has grown into quite a few countries on which our operations depend. To start with, Bangladesh has done quite well in terms of both the topline as well as bottomline simply because it has been there for a long time and we have been able to build a very powerful brand in that country. You will recall that our franchise in the middle east is also similarly old as in, it is nearly 10 years since we first established in the middle east. Over there too in terms of topline as well as bottomline we have held course. Amongst the newer acquisitions, South Africa and Egypt would be the two big ones. In South Africa we have largely been on plan with no surprises on either side. In Egypt, however, as we migrated from the erstwhile direct distribution to a new scheme of distribution, we have had some transition issues and the first two quarters of the year have been virtually very flat for Egypt. This has been some bit of a surprise for us although we had always factored some element of uncertainty in a country like Egypt. Egypt is also transiting through turmoil on account of inflation, there has been inflation ranging between 20% and 25% in the country. So there has been some element of disruption in the market place on account of macro economic factors, some planned by us on our own including this transition of distribution, so I think

Egypt has done badly in terms of contribution to the overall operating margin increase.

If we take a 4 or 5 year horizon, the international business which was very firmly in an investment mode and hence either losing money or earning very little for the company has moved up considerably. Its operating margins are still not comparable to the Indian business, but they are moving up slowly but surely. On that journey, I think the first two quarters have been not as well as we would have thought, primarily on account of Egypt. But by and large I think that we are right on track as far as the international business is concerned. Does it answer your question?

Mr. Karthik:

And what proportion of your turnover from international business would be coming from Egypt as of now roughly.

Mr. Milind Sarwate:

It would be about 4%.

Mr. Karthik:

4% of your international business is it.

Mr. Milind Sarwate:

Of the international, oh I am sorry. In terms of international business, it would be close to 30%.

Mr. Karthik:

30% of your international business, okay, thank you very much sir. Thank you very much for your clarification.

International Moderator:

Thank you sir. Participants please press 01 to ask the questions. At this moment, there are no further questions from participants at the international bridge. I would like to handover the proceeding back to Sandhya, over to you ma'am.

Moderator:

Thank you very much Zyna. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First question comes from Mr. Preetesh from Emkay Shares, over to you sir.

Mr. Preetesh:

Yeah, congratulations for the good set of numbers.

Mr. Milind Sarwate:

Thank you.

- Mr. Preetesh:** Can you just give some details on what is the total price hikes now taken in Parachute till date and also Saffola franchise till date after considering that 10% discount that we have offered.
- Mr. Chaitanya Deshpande:** In the case of Parachute, for this year we have taken 10% price hike. We took a 5% hike in April and then a 5% hike in the month of August. In the case of Saffola, we have not taken a price increase this year. The increases that we had taken were in the last financial year. As I explained earlier we took a 10% price off in the two blends (not across the franchise) during the last fortnight of September.
- Mr. Preetesh:** Should that be about 25% of the Saffola portfolio or more, the two blends.
- Mr. Chaitanya Deshpande:** Those two together would be about 25% to 30%.
- Mr. Preetesh:** Okay, after these price hikes and second the drop in edible prices that we have seen in the last two odd months, in terms of gross contribution now, are we over and above the generally set target by Marico and if we are over and above them, could you just quantify in terms of numerics in terms of how higher are we from the targeted gross contribution.
- Mr. Chaitanya Deshpande:** Actually we are not above the target gross contribution.
- Mr. Preetesh:** Despite the drop in prices of edible oil.
- Mr. Chaitanya Deshpande:** Yes that is right because, as I mentioned we have dropped prices in the two blends with the lower oil prices. Moreover, we have not seen a drop in the kardi oil prices despite a drop in the oil table for the reasons that I explained. And in the case of Parachute, we have passed on the price increase in the raw material. However, we are slightly short of passing the entire amount on, because we are stuck in between, you know, 39 bucks and 40 bucks. It is difficult to take a price increase to an MRP of say Rs 39.40. So we have chosen to be at 39, therefore, you know, while we have passed on an increase which will compensate for approximately 26% to 27% of copra price increases, on a YOY basis, the price increases in copra have been a little higher, a little over 30%. So overall our EBITDA margins this year are lower than last year and we want to target to be at last year's level. However, like we have been explaining, the strategy of the company is actually

to try and pass on the raw material increases on an absolute basis so that we maintain our absolute margins. In a year when you have high cost inflation, there is likelihood of the percentage itself being squeezed. Having said that, we would have liked it to be a little higher, but the current ambience may not allow that.

Mr. Preetesh:

Okay.

Mr. Chaitanya Deshpande:

What would happen is going forward and here anybody's guess is as good as mine, is that input costs may come down. You have seen crude coming off, though you do not know how long that will last, but it might see packaging cost ease. Moreover a lower crude price will have its own impact on other input cost, you know, food, oil, etc. So, over a one year time horizon, if you see cost coming off, then at that point in time we may not need to drop our MRPs to the same extent and thereby make up for margins a little later.

Mr. Preetesh:

Correct.

Mr. Chaitanya Deshpande:

Right now, the objective would be to try and keep the consumer franchise and hopefully grow it and make up margins a little later.

Mr. Preetesh:

Okay then how far are you from the target contribution margins or I should put it how far are the raw material prices for your target contribution margins.

Mr. Chaitanya Deshpande:

I would say may be about 100 basis.

Mr. Preetesh:

Okay. On the, there is a 7 crores FX loss, could you just tell us the nature and where it is accounted in the penal account of the quarter two.

Mr. Chaitanya Deshpande:

Yeah, on that, in the table that we have provided in the Information Update, it is part of the "other expenses" which has jumped. Now the nature of this is that we have some loans on the books which are in US dollars. These are to the extent of about 40 million dollars. We have also taken some forward covers, for our exports on which there is a mark-to-market loss, but there is a loan to Sundari which is receivable in dollars.

Mr. Preetesh:

Okay.

Mr. Chaitanya Deshpande:

So by and large what is happening is losses and gains on forward covers and the loan to Sundari are knocking each other off, and the remaining number which is the mark-to-market loss on the loans is about 7 odd crores.

Mr. Preetesh:

Okay, just taking reference to your opening remarks on the slow down, it seems percolating to the consumer products, if I have to look at a portfolio or a product categories, could you just identify, may be, any product category or brand which could be or which is highly vulnerable to it, may be a couple of product categories if you could identify if the current scenario persists.

Mr. Milind Sarwate:

This is Milind. Now as a business model, most of our portfolio component are in a zone where they would not be highly vulnerable to slow down.

Mr. Preetesh:

Correct.

Mr. Milind Sarwate:

When I say most I mean on two counts, one is that the categories in which we operate are not highly discretionary items, so it is unlike consumer durable where the consumers take a conscious decision to go out and buy a product, that is one point. The second point which is in our favor is that the unit prices of most of our SKUs are less than 100 rupees, some are even significantly less than 100 rupees, so the impact of any price increase is relatively felt not so strongly and in the overall buying basket of consumers, he is not excessively worried about these items. Having said that, there are some parts of our portfolio where the unit prices appear to be large. For example, 15 kg pack of an edible oil would typically appear as a large item, our treatment in Kaya would appear as a large item, so in case of these, there may be a tendency on the part of the consumer to postpone the purchase. We have not sensed that as yet, but over time, one of the advantages which we have is that the business in which we operate, we can also experience as consumers. So if I say go by a common sensible observation, people would tend to at least think twice when they are making relatively larger expenditure.

Mr. Preetesh:

Okay.

Mr. Milind Sarwate:

While I would say that no product is specifically vulnerable. I think at the top end, there would be

some deferment. I also feel that the categories in which we operate, they do not afford a great scope for down trading. Example in case of Kaya, I do not think there is a down trading option available to the consumer. So I think in all probability it will result in a deferment and not a complete cancellation of the purchase.

Mr. Preetesh:

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

Mr. Milind Sarwate:

Thank you.

Moderator:

Thank you very much sir. Next question comes from Mr. Akhil from Enam Securities, over to you sir.

Mr. Hemanth:

Yeah hi, this is Hemanth here. Hi Milind and Chaitanya.

Mr. Milind Sarwate:

Hi Hemanth.

Mr. Chaitanya Deshpande:

Hi.

Mr. Hemanth:

Two questions. The first one being while you have actually pointed out the fact that there has been evidence of consumer shifting to small packs, what I wanted to know is how in client is our overall portfolio to the rural markets and we have incrementally hearing news that you know there has been a little bit of increase in disposal income at rural levels, so are we seeing any benefits of that at this particular moment, that is the first question.

Mr. Chaitanya Deshpande:

Hemanth, not very high and that is do with Marico's portfolio. It is quite likely that actually you will see higher demand coming from the rural markets at this point in time. We have about 25% of our portfolio going to the rural markets. The way we measure this is actually sales done through our super distributors. Super distributors are guys who have a mandate to sell in the hinterland. Now that 25 may have you know gone up to about 26 or so, so it is not a very big change. Only some of our brands like Parachute, Nihar and perhaps a Shanti Amla go into rural. The refined edible oil basket, you know Saffola, even Sweekar or if you pick some of the smaller brands like Revive and then some of the extensions of Parachute, none of these really go into rural India.

Mr. Hemanth: Okay, the second one being on advertisement expense this particular quarter and this one frequently asked question, so let me put it forward this way that in your update you mentioned that there has been no new product launches during this quarter, but however, even after I had accounted for that, this has been a significant.....

Mr. Milind Sarwate: Hello? Yes Sandhya.

Moderator: Sorry for the interruption sir, line was disconnected. We will move on for the next question. Next question comes from Mr. Anirudh from Anand Rathi, over to you sir.

Mr. Anirudh: Hello Chaitanya and Milind. Congrats for an excellent set of numbers. Just on the advertisement policy change. I just wanted to know what is our total ATL and BTL spent, means we have reported 54 crores to the P&L, but apart from that we also gave lot of promotion offers and we also pay for keeping our products where the consumers can see, means in shop advertisement we can do, so what is your total spend which gets reduced straight away from revenues.

Mr. Chaitanya Deshpande: That part is small. If you look at the advertising and selling and promotion separately, that would be about 75-25 or 80-20 typically for Marico. But what you have asked is what the amount which has got reduced from revenue is. This pertains to price offs given to consumers or incremental material given to consumers – such as 10% extra or 50 ml extra. Such consumer offers are now being netted off from revenue.

Mr. Anirudh: Okay so earlier that were going as part of advertisement and were getting reflected in net sales as well.

Mr. Milind Sarwate: Yes.

Mr. Anirudh: So now that is getting reduced from straight away net sales.

Mr. Milind Sarwate: Yes.

Mr. Anirudh: Okay, instead if advertising or the amount which we pay to the shop owners to keep our products in front or where consumers can see easily, so those

kind of spend for, probably lets say for entire FMCG industry as well as Marico would be again 80-20.

Mr. Chaitanya Deshpande:

It may not be true of all companies in the industry but typically for us it has been between 75-25 and 80-20.

Mr. Milind Sarwate:

See directionally, Marico's policy has been that we would try and reach the consumer directly adjust to the communication or through some other device where we make our message reach to the consumer. The policy of so to say buying sales by giving something free on something, we have typically avoided that. It is not that we have no consumer offers, but you would find that in the market, the Marico products would have the least number of consumer offers as compared some of our competitors in the personal care space. That policy leads to this ratio of 80-20 as opposed to may be about 50-50 or 55-45 for the rest of the sector.

Mr. Anirudh:

Okay, second thing you said that probably we may go through some slight lower growth patch, so probably are we looking at something like 2000 to 2002 patch, in those three years probably the entire FMCG including Marico has not grown only and then we have seen a sudden growth spurt for may be 4 to 5 years, so do you think that can happen right now.

Mr. Milind Sarwate:

See it will be difficult to state with conviction that we are seeing some kind of a cycle and we will go back to the 2002 days, but personally I feel that phenomenon is not evident over here. What we are experiencing is that there has been a crisis in the global markets which has grown out of proportion and into all parts of the globe. Unlike many economies in the world, we have been a very strong domestic focus economy, so I think it is a question of time before the immediate adverse impact of this crisis goes out. If India continues to grow quite well based on the domestic story itself, I think the current crisis of confidence will go away, so I do not think this is a longer term phenomenon as far as India is concerned. If the global crisis continues for a very long and it becomes very severe, yes then we cannot remain isolated from the world. If you look at the cyclical pattern in the domestic consumer product market, there would be some signs of

cyclicality but I would not be able to say whether it has exactly 5 or 6 year duration.

Mr. Anirudh:

Okay but again sir even the signs are very similar, like interest rates have started reducing slightly. Again in 2002, the interest rates were lower and people were shifting to mobiles or motorcycles and all those kind of products and they spend on, relative spend on FMCG was coming down, so again is that the sign we are looking at.

Mr. Milind Sarwate:

I doubt whether, your observation over interest rates is right for the time being, but you will find that the sudden burst of liquidity into the economy is not because of any cyclical phenomenon but it is a concrete step by the government to protect the country from effects of the global crisis. I do not think it is a free economy or market which is at play, so it will be difficult to extrapolate this into a major economic trend. The second point is that there has been waves in the Indian economy and the wave relating to personal consumer durable products in the telecom space, the first wave would have been over and it is unlikely that the second wave would be as strong as the first wave. Again if you look at the financial sector, I think that sector is reeling under some kind of consumer default at the first level, so I do not think the boom that we saw in the consumer durable market aided by use personal loan portfolio expansion will recur again, at least in the near future. So all I am trying to say is that the situation in 2002 as compared to today, we are facing two different situations and it would not be proper to extrapolate our consumer market slow down only on this count. On account of some other events, yes, there may be a cause for that.

Mr. Anirudh:

Okay, thank you very much.

Moderator:

Thank you very much sir. Next question comes from Mr. Nikhil from IDFC-SSKI, over to you sir.

Mr. Nikhil:

Hi Milind.

Mr. Milind Sarwate:

Hi.

Mr. Nikhil:

Couple of things, one was our debt on book as of date, what is the scene on that and how soon do we think we will be able to repay the debt out. Second was I do not know whether we are in a position to comment but any status on the FEM Care bid or

acquisition that has been planned out. Thirdly on the progress of Kaya and how do you see that shaping up in terms of scalability of the business.

Mr. Chaitanya Deshpande:

In the case of debts, we have got about 475 crores on debt. If you look at our cash generation, we should be able to pay this down fairly comfortably. The CAPEX requirements for the company are not extremely high. We have got planned expansion in Kaya of about 1 to 1.2 crores per clinic and we are going at about 15 clinics a year like we have been saying. 15 may go to 20 at best. About 15 to 20 crores is normal CAPEX for us. And then there is some plan we have for a corporate building. That will be to the tune of about 100 crores, starting may be 2 months from now. The cash flows for the company would be sufficient to service this fairly comfortably.

Mr. Milind Sarwate:

Nikhil, this is Milind.

Mr. Nikhil:

Yeah Milind.

Mr. Milind Sarwate:

You asked a specific question about FEM.

Mr. Nikhil:

Yeah.

Mr. Milind Sarwate:

Now, you know that we have been an acquisitive company in general over the past few years but you would also know that it is not possible for us to specifically comment on whether we are chasing a particular acquisition or we are not chasing an acquisition, so if you allow me, I would like to leave this delivery outside the off stump as it is.

Mr. Nikhil:

Okay sir.

Mr. Milind Sarwate:

Your third question was about Kaya and you wanted to know what is going to be the future of Kaya.

Mr. Nikhil:

Yeah.

Mr. Milind Sarwate:

In case of Kaya, you would observe over the year that we have taken an approach which is more fundamental rather than straight away attacking scale. So unlike many businesses which start with a very high number of target outlets in mind, for example a retail bank, we have decided that we will establish our franchise in the consumer mind very solidly and expand but not in a rampant manner.

So, you will recall that we set up the first 15 clinics very fast, then took a lull and then set up the next 25-30 and then again took a break. This year we are again in an expansion mode and we have expanded the number of clinics to quite a reasonable number by about 12. Now going forward this expansion drive would continue, but you will also notice that we have expanded Kaya franchise into 2 noticeable areas, one is Kaya products which is now about 13% of our turnover and we have also gone into Kaya Life which has 3 prototype clinics in Mumbai. So there has been some expansion of the franchise itself into related territories. In addition we have gone to the Middle East where we now have a total of 10 clinics. We have also shown what I would call an audacity to open a clinic in Saudi Arabia despite all the regulatory consents over there. So there has been a great focus on broadening the Kaya business proposition as opposed to just linearly expanding the scale. Now this approach people may or may not agree with this approach, but we find that if we are to grow in a sustainable manner, we need to lay down a very strong foundation and I think Kaya is moving towards that. If you look at the profitability of the margin profile of the business, Kaya Skin in India has been distinctly profitable and if the profits are not being seen on the Kaya Skin Care Limited books, it is only because the other expansion into things like Kaya Life or the experimentation we had about Kaya product kiosks. Those issues still clog the bottom line in some way or the other. So on the whole I would say that we believe in the Kaya business model. It has been proven in Kaya Skin India very clearly. We are very confident we will prove it in the Kaya Gulf Skin area. In case of Kaya Life, it is still early days because what we are offering is something unique and different from other weight loss clinics. So on the whole, in Kaya there is a good mixture of some proven concepts which are making money and some relatively nebulous concepts which are yet to make money.

Mr. Nikhil:

Okay, on Kaya again. I know we have debated this earlier, but you still do not believe we have now gained enough traction or understanding of the skin business in India to now go the franchise way and thereby grow this entire segment disproportionately. Second most, on Kaya itself, with the incremental growth that we are starting to

address now, but I still think at a smaller pace, do you think the profitability of the earlier clinics will start to improve significantly or do you think they are broadly at a mature phase and thereby there is possibly a limited milking that one can really do from the earlier clinics.

Mr. Milind Sarwate:

I will take up the last question first. In case of Kaya skin, the older clinics have continued to grow. For example in this quarter the growth in sales of the older clinics was 26%, so I do not know whether to call them mature because if we continue to offer the same products or services in the Kaya Clinic, simply because we are offering life time guarantee on many of them, there would come a point when the consumer franchise will stop growing and it will plateau and even fall, but we have continued to expand our range and I think that is one reason why Kaya will continue to grow even in older clinics. I think that would continue. You asked a very pertinent question about franchising, and that question occupies our minds too whenever we discuss the Kaya strategy. It is an option which we could exercise. I would say that we have been a little more open and less dogmatic about franchising as an option, but we have not yet taken the call internally, whether we will grow through the franchisee route or not. One of the limitations which we have is that we have built the Kaya brand around the presence of an expert. That is why Kaya products are not sold in a non Kaya outlet. We would like every interaction with a Kaya consumer to take place, when an expert is present on the house and while you would easily argue that even franchisees could have dermatologists on their panel, we have not yet made up our mind whether to let the entire process go into franchisee hands as yet. But yes, basically that is the thought which has not escaped us and we would look at franchisee model as and when we are mentally ready for that. You know that we are in a very boringly focused lack-luster company in making these kinds of news, so you have to bear with us for a while. Okay.

Mr. Nikhil:

Done, sorry just one more thing. While you have been boringly lack luster or whatever, but I think in terms of NPDs and stuff, how does it really look like from here on and just to dwell on it, if one looks at the maybe the foods portfolio or the Skin portfolio, where does really the strength of Marico from hereon get exploited and which space do you think

as what one would target or one is already there and possibly looking at leveraging on those spaces.

Mr. Milind Sarwate:

If you see our journey into new products we have had 2 broad thrust areas and both of them revolve around our flagships brands in the mainland Marico. One was taking Parachute out of the oil area and positioning it in various newer areas which included a host of things from something like Parachute Therapy to Parachute Aftershower gels and creams and the Parachute Night Repair Cream. So that journey of getting into newer products in and around Parachute, that continues. We also have gone into Parachute Starz which is a kids product and probably that would enable us to catch consumers young and keep them on the Parachute franchise. So that is one stream of new products. Work continues in that area and concepts like Parachute Therapy were relatively difficult to prove and get established. Those have continued to stabilize at reasonable levels. The second flagship was Saffola, where again the journey was to transit Saffola beyond edible oils into more of a lifestyle brand. We have made an attempt years ago with Saffola Salt, which we have continued selling, but the saliency of that product was not as high as the recent foray that we have made into functional foods under the brand Saffola, both for simple cholesterol management and for helping diabetics. I think that journey would get strengthened and the whole functional food area is something which we find not only exciting but also an opportunity of occupying profitable niches. So we have not taken Saffola into the mainline atta but we have chosen to get into atta mixes. I think that journey will continue. We find that Saffola as a brand is a very powerful brand in the consumer psychic and we would like to leverage that brand into more lifestyle products so that is clearly one area of new products and growth. In the area of skin, Kaya itself has come up with several products including an anti-ageing product. That would continue. Probably our efforts in the near future would be around these 3 brands, Parachute, Saffola, and Kaya.

Mr. Nikhil:

Okay, Milind just one more thing, this acquisition that we have done over the last couple of years, do you now think that there is still need to look at global acquisitions in the consumer space or do you think learning of those acquisitions are good enough for us to be there in that phase and then

possibly transit that into the domestic market now. I am presuming I am going by the bench that maybe the growth rates in those markets would or the transition of our brands into those markets is not necessarily the easiest thing to do.

Mr. Milind Sarwate:

See, we have not taken a joint view of acquisitions per se. So our international acquisitions have been so to say standalone. We get questions from time to time regarding overseas acquisitions about whether we would take Parachute there or conversely, whether we are going to bring say the brand Fiancee into India. The fact is we acquired something in Egypt for the local strength and not necessarily for bringing that into India. So the flow of so to say, business knowledge and intellect from one country to another is not that strong, nor are we targeting that in a big way. What we find is that whichever country we go to we need a critical mass to be in that country. So, if you look at Bangladesh we are a pretty big company over there. We are the third largest company in Bangladesh, so in Bangladesh whatever acquisitions we had to make to strengthen our presence have been done. Maybe going forward if we get into to any other area of beauty and wellness, we might acquire something over there. If you look at Egypt, we have had 2 successive acquisitions giving us a reasonable critical mass. The country is still reeling under very high inflation. We do not know what opportunities could present to us in that country, but we may be open to an acquisition in a newer market like Egypt or UAE, but we are not keenly chasing any in that part. In South Africa we made our first acquisition and that is not as large as we would like it to be, but then again simple wishes do not make anything happen in the acquisition area. So we will have to wait and watch if something comes up which is of interest which helps us build scale, we will take it up. The same story holds good in India. It is not a question of whether we want to acquire or not, it is a question of what is available and is it available at any reasonable sane price or something is available just because acquisition is the flavor of the month. So we would typically refrain from acquiring something just to show to the world that we have acquired brands.

Mr. Nikhil:

Thanks Milind, thanks Chaitanya.

Mr. Milind Sarwate:

Thanks Nikhil. Bye.

Moderator: Thank you very much sir. Next in line we have Ms. Mayana from DSP Merrill Lynch. Over to you ma'am

Ms. Mayana: Hi Milind, Hi Chaitanya.

Mr. Milind Sarwate: Hi.

Ms. Mayana: Most of my questions have been answered, in fact thanks to Nikhil on Kaya. But just a quick observation, you know, after listening to everything for the last half an hour or so, you know, we have of course been talking about a global slow down and we are talking about discretionary spending maybe slowing down, going forward in consumer goods. At that same time, you know, as a company you all highlighted that there is not too much scope down trading in a lot of these products and necessities more than a luxury, but it just so seems that you know, the strategy presently in going forward seems to also be focussing quite a bit on value added products. You know, we talked about functional foods, we talked about extending the Parachute range, Kaya products, and all of these seem to be more discretionary in nature, so as a company is there anything you all are tweaking in terms of your strategy presently given where we are, you know, with the economy and with the slowdown and also in terms of Kaya, is there something that you would then change maybe over the next 3 months given that that is as discretionary as it gets really.

Mr. Milind Sarwate: Mayana, very good observation. I would say 2 things, one is one is not sure how long the current slowdown overseas would last and what impact it would have eventually on the buying behavior. My personal guess is that we are seeing an extreme reaction in many areas and more than the financial crisis or a business crisis it is becoming a crisis of confidence. It is to some extent compounded by some of the developments which happened for other reasons, for example the sacking of the Jet Airways employees, while that in itself is not a macro economic development, it just highlights the saliency of unemployment created by the slowdown. So all these factors are currently clouding the consumer mindset and it maybe over the next 3, 4, 5 months the situation would clarify and things will probably come back to an even keel.

So that is one factor simply because currently there is an overreaction. The second area is that in many parts of our business, we have focussed on occupying niches that provide a distinct value to the consumer. I would not include Parachute or Kaya in this, but Saffola for example has always focussed on health which in terms of the propensity of the consumer, occupies a higher plane than let us say skin care treatment or an exotic personal care product. The elasticity of demand for anything to do with health is pretty low and hence if we develop good products in the functional foods area, I think it would be possible to get them into the consumer mind-space notwithstanding a slowdown. I agree that I cannot say the same thing about Kaya or some of the higher end skin care products, but really speaking over the next few months, the situation would clarify itself. Moreover as a responsible company we have to keep investing into the future and if we are innovative enough, we would come out with products which are anyway a hit with the consumer.

Ms.Mayana:

Okay and in terms of you know, you said that in beginning during the introduction, you had mentioned that there is growth going forward could be challenging in quarter 3. Is there anything you all are quantifying as far as that goes or is this something you are just going to wait and see.

Mr. Milind Sarwate:

I think it would be prudent to wait and see because what we try and give is what our directional understanding is. That is what I shared with everybody. I would not put any number to any specific issue. See, there have been developments which are positive and there are developments which are negative. For example, the crisis overseas I think highlighted to the government also that liquidity issues could impact growth in some way, so there has been some understanding of the growth phenomenon that while we are trying to control inflation, we cannot sacrifice growth for that. So there has been some macro economic realization. The other factor could be that fuel prices, crude that was at an astronomical level has come down to some more reasonable level. Now if these things hold out in the medium term, then the situation could be significantly better. So while there are negatives, there have been positives also. So I would say at this point it is important to note that the situation has changed and it is a little

adverse as compared to what we were seeing earlier, but it has not reached adversity of such certainty that I would want to give you a profit warning or I would want to give any specific number to the analyst.

Ms. Mayana:

Thank you.

Mr. Milind Sarwate:

Thank you.

Moderator:

Thank you very much ma'am. Next in line we have Mr. Hozefa from Morgan Stanley. Over to you sir.

Mr. Hozefa:

Hi Milind. Hi Chaitanya. How are you.

Mr. Milind Sarwate:

Hi Hozefa.

Mr. Chaitanya:

Hi, doing well, thanks.

Mr. Hozefa:

Okay, just 2 questions, one is on the prototype that you launched in the last few years, can you just give us a qualitative and quantitative view on how they have performed so far, which are the most promising ones, what percentage of total turnover do they contribute now and from your 5 year perspective, how much would these new businesses or new products contribute to revenues. That is my first question and my second question is on Egypt margins and you actually said in the last 3 quarter since you acquired Egypt business, the margins have been very very poor. Can you just highlight the reasons why the margins shrunk so much and what do you expect in terms of margin recovery in how many quarters. Thanks.

Mr. Chaitanya Deshpande:

Hozefa, the first question was about the prototypes. Now there have been quite a few over the last couple of years. In the last 2 or 3 years we have prototyped Parachute Advanced after-shower cream and gels. We have got into the post-wash conditioners with Silk-n-Shine, then there is Parachute Therapy which is an anti-hair fall solution. Recently we have got into Parachute Starz which as you know, is in the kids segment. On Saffola we have got into the functional space with atta mixes for cholesterol management and diabetics. On most of these I would say the internal thinking is that we have done reasonably well. Many of them are actually situations where we would need to try and create a category. For instance in the case of creams and gels, yes, there

was an existing category but it was quite stagnant. Ofcourse Brylcreem was already there, then we made an entry and we also have Set Wet coming in. So, it is a question of actually trying to shake the category up a little and ensure that growth happens there. Rates of growth are still not very high. They are in the ballpark of around 10% which for a category of a 100 crores it is still quite small. But, and I have been saying this earlier also, essentially its our task to try and convert creams and gels from occasion-base use to daily use. If that happens we will see category growth going up. Some of the other new products are also fairly small but we think they are promising, for example, Parachute Therapy anti-hair fall is getting traction. In the case of the kids category, its way too early to make a comment but as of now the response has been pretty good. Parachute Advansed Night Repair Cream is still only in Bombay but numbers are looking good enough for us to look at rolling it out nationally. Now in terms of where all these contribute to the overall turnover in the company, the answer is quite small. The numbers would be range from 5 crores to 25 crores for each of these products, but they do not really contribute to a significant portion of our turnover.

Mr. Hozefa:

If you have to just look at the basket of all these new product launch in the last 3 to 4 years, how much would there basket contribute now to the revenue, rough, it is a rough 5%, 10% number.

Mr. Chaitanya Deshpande:

It will be about 12% or 13%.

Mr. Hozefa:

12% to 13%.

Mr. Chaitanya Deshpande:

And the definition we are using is 5 years.

Mr. Hozefa:

Okay.

Mr. Milind Sarwate:

Hozefa, this is Milind, one more aspect I would point out since you also asked for a quantitative comment. See we have been, there is always a dilemma when you are coming to a prototype as to when to discontinue efforts and when to continue efforts. Now we have followed an approach which has been more gut oriented or intuitive. For example Parachute Sampoorna where we had some element of doubt as to whether to discontinue or not. We have discontinued that after a couple of rounds but something like Maha Thanda which is

our cooling oil, we have continued with the prototype, we had one attempt 3 to 4 years ago, we did not do well, so we shelved it, we came back again with a prototype and it has not been launched but still we would want to continue. Years back we had an antidandruff oil which we persevered for quite some time. You will appreciate that the worldwide going rate of new products success is only 6%. We have tried to do our best as a standalone company and try and get in as many new ideas into implementable state as possible. So that policy continues and now the international business is coming into place, we have all kinds of exotic prototypes, for example in south Africa we have recently launched flavored castor oil under our brand Hercules, this is for statutory information to you.

Mr. Hozefa:

So you know from a 5 year perspective going forward, and the one prototype that we have been discussed is Saffola, but including Saffola prototypes and Parachute prototypes and all the new products, where is your internal target for this new product launches from 13% where do you think you can go to.

Mr. Milind Sarwate:

I think we will top up about 20%. In fact when we started measuring the new product contribution to total, we had a somewhat of an exotic slogan in our mind, we did not announce it even internally and that was 5/25, that is 25% of our turnover should always come from products launched in the past 5 years but after the initial euphoristic thinking we realized that it is a tough number to attempt, so we have not gone into any sloganeering after that. By and large I think 20% would be a good target to have. What is also important is that if the prototyping is broadbased across several sectors. Also in sectors like hair oil, hair oil market is somewhat like the toilet soap market, it is not a single oil market, so you have to be present across several categories and several price points, so we will have to keep innovating and coming up with newer things every now and then. It is a moot point whether to call all these as prototypes as some of these are just simple extensions of existing brands. But on the whole, we reckon this is a key area for us to succeed in the medium term.

Mr. Hozefa:

Clearly your MDA is probably the best in the sector but if you can just add this one more line, on annual basis not on quarterly basis.

Mr. Milind Sarwate:

Yes sure, I think it is a valid input and we will do that. You had another question on Egypt right. In case of Egypt, I would say two things. One is the country has had macro economic developments which have impacted both the cost and the buying behavior because fuel prices in Egypt went up by 30% overnight. The government issued a directive that all government sector employees will get a 30% salary increase and while they did not make it mandatory for the private sectors, there have been implications on our cost. Parallely, in terms of consumer behavior, most of our products in Egypt are in the VFM category and this kind of development is bound to have an impact in the short run at least, although in the long run, I think with the quality of demographic and longer term economic future of Egypt, we do not have a concern. In the short run there has been an impact. The other point would be that in Egypt since all our operations are in a tax-holiday zone, virtually the EBITDA margin that you see since we also do not have significant borrowing, it translates into a PAT margin, so at the PAT level I think Egypt is not doing as badly as it seems to be doing at the operating level. I think that once we have stabilized with the new distribution arrangement, we will do much better from quarter three onwards.

Mr. Hozefa:

Any numbers you can share on things of what kind of margin expansion do you expect in the forthcoming quarters.

Mr. Milind Sarwate:

Not really at this point in time, I also reckon it is a competition sensitive market, so.

Mr. Hozefa:

Okay, but do you think you can go back to the preacquisition margin early next year.

Mr. Milind Sarwate:

I think so, yes.

Mr. Hozefa:

Okay, thank you.

Mr. Milind Sarwate:

Thank you.

Moderator:

Thank you very much sir. Next in line we have Mr. Ajay Thakur from Mumbai, over to you sir.

Mr. Ameet Roy:

Yeah, this is Ameet Roy, my question was the strategy behind Saffola, see we have dropped prices in the corn blend and Active to really migrate costumers from the sunflower but in the balance 75% which is actually the loyal consumers, we have not taken any price hike, so these are consumers which are the loyal ones and who are sold to your health platform, so what is the idea behind not taking a price hike.

Mr. Chaitanya Deshpande:

Overall if you look at the price levels for 1 liter of Saffola pure kardi oil its 140 rupees and for Saffola Gold which is the rice bran and kardi blend, it is at about 120 rupees per liter. Now Saffola sells at a significant premium to other edible oils, but when other edible oils have dropped their prices, we cannot take price increases and increase the differential even further. So with the fall of sunflower oil prices in quarter two and Saffola and Saffola Gold maintaining prices, we have in fact already increased the premium.

Mr. Ameet Roy:

Does it mean that costumers are not loyal, they shift from your health platform back to the regular oil, so what is the consumer base, do they shift to some competing health platform being imported from outside, what is exactly happening.

Mr. Chaitanya Deshpande:

We have not been really losing large numbers of consumers from it to make that comment. After all Saffola has been growing at 18% or 20% in its franchise over the last two years and then this year first half too we have seen about 18% growth. So it is not as though people are switching out from Saffola are getting into other brands like Sweekar, our sunflower brand or some other oil. But one has to also take cognizance of the premium you are charging over the other oils and perhaps cannot keep on increasing the prices endlessly. You also have to see it in the context of the price increases taken last year. Saffola one liter was taken up from around 105 at the beginning of last year to about 140 by the end of last year. So there is a large price increase that was already effected during FY08. We have continued to keep the price at that level. The idea is to try and continue to increase this franchise right now rather than to milk it at the moment and be greedy for margins and not be able to grow the brand.

Mr. Ameet Roy:

Coming to the key raw material kardi oil for Saffola, you said you plan to reduce dependence on kardi, so does it really hit in terms of the health benefits by the change in the raw material, to the end consumer does it make any change in terms of health benefits.

Mr. Milind Sarwate:

Now see there are various schools of thought on this. There is a school of thought which talks about high PUFA content which is there in safflower oil or kardi oil, there is another school of thought which talks about balance between MUFA and PUFA which is polyunsaturated fatty acids and monounsaturated fatty acids which comes in through the blends that we offer. There is a research to show that the 70-30 blend that we have got in the case of rice bran and safflower is indeed one of the healthiest blends that you can have. So there is no compromise at all in terms of what the consumer is getting.

Mr. Ameet Roy:

That's all from my side, thanks.

Moderator:

Thank you very much sir. Next in line we have Mr. Prashanth from ICICI AMC, over to you sir.

Mr. Prashanth:

Hi Milind, hi Chaitanya.

Mr. Milind Sarwate:

Hi Prashanth.

Mr. Chaitanya Deshpande:

Hi Prashanth.

Mr. Prashanth:

I just wanted to understand the strategy on new product launches. It seems that as and when our gross margins are lower, then the pace of new product launches also become slower, is that the right observation and is that the way we internally plan our launches and is it just coincidental.

Mr. Milind Sarwate:

I think your observation is not right, at least in terms of intent I would not agree with that. Let me give you an idea of how we decide on the new products, overall investment into new products. We follow a concept called strategic funding. We earmark a part of our annual profit to investments in new products and we then ensure that this is spread reasonably over the right basket of new products as also the right time length, so the impact on the operating profit or the net profit for a particular quarter, we try and equalize that or spread it equally over the various quarters by

having a very judicious facing of all our new products. Similarly we look at what kind of new products we should get into, we look at products which would ultimately help us improve our operating margins, so even if the margin for a particular year or a quarter is low, we find it very prudent to invest into the new product so that in the medium to long run, the overall margins could go up. So, first of all it is not wise nor is it possible to make corrections to your new product strategy based on the quarter to quarter profits, so we do an annual exercise and typically we are not moved away from our annual plan unless the prototype is not doing well. We have typically stayed at course.

Mr. Prashanth:

Okay and what part of annual profit would you typically earmark for new product launches.

Mr. Milind Sarwate:

I would not share the number with you but you will find that over the years we have managed to grow in the short run as also in the long run, so I believe that we are allocating a significant proportion. We are not cutting any corners over there.

Mr. Prashanth:

Okay, thank you sir.

Mr. Milind Sarwate:

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions may kindly press *1 on the telephone keypad. Next in line we have Mr. Shirish Pardesi from Mumbai, over to you sir.

Mr. Shirish Pardesi:

Hi Chaitanya, hi Milind.

Mr. Milind Sarwate:

Hi Shirish.

Mr. Shirish Pardesi:

Good evening.

Mr. Milind Sarwate:

Very good evening to you.

Mr. Shirish Pardesi:

Just a couple of questions, in terms of our discussion which I refer last time, you say that because crude prices are going up, we had the most severe cost inflation due to packaging, how you would refer this in last 15 to 20 days or a month, I mean I just want to understand what is our strategy on packaging material what we have, do we have forward cover, how do we deal with such costs.

Mr. Chaitanya Deshpande: Shirish HDPE and LDPE that we use in packaging are crude derivatives. Typically, they would come off with some lag, so we are beginning to see some easing of the HDPE prices now. In terms of forward covers, etc., we do not take forward covers in HDPE or LDPE. We typically buy from suppliers like Reliance in India and we will have stocks of about 30 odd days.

Mr. Shirish Pardesi: Okay, so what is your reading with crude falling down to 69 and that level, do you think that this prices would stabilize or still we have a very robust outlook.

Mr. Milind Sarwate: In terms of crude prices, it is extremely difficult to predict. One of the big learnings of the past few months has been that commodities can behave whichever way they or god knows, so whenever you are getting into the commodity area, we have to shorten our perspective and not get committed for too long. The second thing we have learnt is that in terms of your business in fact you need to smoothen it out, so wherever you are dependant on any particular commodity and it could make or break that quarter's profitability or the company's future, we need to take care, so derisking in terms of dependence on a commodity or derisking in terms of staying committed for a very long period of time. I think that is the best we can do instead of trying to predict which way the crude will move or which way the dollar would move, it makes sense to get committed for a shorter period and to not do too much of activity in any particular commodity.

Mr. Shirish Pardesi: Would you be able to quantify as a percentage to net sales what was this cost a year before same quarter and this quarter.

Mr. Chaitanya Deshpande: Packaging cost?

Mr. Shirish Pardesi: Yeah.

Mr. Chaitanya Deshpande: They are in the region of about 8% or 9%.

Mr. Shirish Pardesi: And it remain in the same level this year.

Mr. Chaitanya Deshpande: There isn't too much of a shift there. It has increased by 0.5%.

Mr. Shirish Pardesi: Okay, just one more question in earlier answer, you must have answered, you said that the rural

contribution is about 25%, that means that most of our products are on urban centric.

Mr. Chaitanya Deshpande:

That is correct, yeah.

Mr. Shirish Pardesi:

So and in the rural, what kind of growth we would have experienced or on the other hand, my next question is that what decline in the volumes we have seen in the modern trade.

Mr. Chaitanya Deshpande:

In terms of rural versus urban, the growth rates are not significantly different. In terms of modern trade, we are seeing reasonably good growth. Actually, for some of our brands like Saffola Atta mixes, Parachute Advansed creams and gels, the sales through modern trade is fairly high. Even when you look at the larger brands like pure Parachute coconut oil or Saffola, the growth in modern trade has been healthy.

Mr. Shirish Pardesi:

So is it in line with what we are seeing the total growth in urban or rural, or it is higher than that.

Mr. Chaitanya Deshpande:

In the case of a brand like Saffola, it might be higher, Parachute, it would be more or less similar.

Mr. Shirish Pardesi:

Okay, in the current context what are three top issues or challenges which we see in terms of either the product launches or down trading or the economy or raw material price inflation.

Mr. Milind Sarwate:

I think the biggest challenge at this point in time is the overall ambience of uncertainty. That we as an individual company can do little about, but it is definitely going to impact in terms of consumer behavior. So in what manner can we de-risk ourselves? May be over the next couple of months there would a very cautious approach that we might follow about some of the longer term commitments or decisions that we might get into, that is our big challenge at this point in time. The second challenge would be in some of the newer categories that we want to get into or we already go into such as Kaya, how do we spend on those franchises and how do we make them grow further. The third area could be that our flagships which have typically displayed a certain rate of growth for maintaining that rate of growth, what kind of investment do we need and how do we choose between supporting the existing successful brand versus investing in the future. So essentially our challenges are in the area

of allocating resources for growth versus allocating resources for sustenance. I think other than the market place concerns in terms of either the backroom delivering the promise to the consumer or in terms of other supports like funds or talent attraction, I do not think we have any issues over there. Coming to overseas market, the same issues of understanding the market and then correcting accordingly, those issues would apply to all the overseas market to varying degrees. For example in Egypt probably the uncertainty would be the highest, in Bangladesh it would be the lowest simply because we have been present there for long. I think overall businesses pass through various cycles, and there are some periods where things appear very rosy and honky dory, and we just want to move on at a fast clip. We reckon that the current ambience is not one of that, it is one of caution and we will have to play accordingly.

Mr. Shirish Pardesi:

Okay, thank you.

Moderator:

Thank you very much sir. Next question comes from Ms. Ritika from ICICI Direct, over to you ma'am.

Ms. Ritika:

Hi Chaitanya, hi Milind.

Mr. Milind Sarwate:

Hi Ritika.

Ms. Ritika:

I was wondering if you could shed some light on Kaya Life, you know in terms of like service fonts from customers and also if like you know global scenario such as this one, like you were mentioning, like you expect postpones and delays in spending like something like Kaya Life which is a bigger, you know something like a bigger spend, would there be some sort of like incentives or like money back guarantees that you would offer.

Mr. Milind Sarwate:

This should be one of the options which the Kaya Life Clinic would consider, but let me clarify that the Kaya Life proposition that we have is, it is actually not a very typical weight loss proposition, it is more holistic and I would say a more profound proposition. Our experience has been that if consumer buys into the basic approach that Kaya Life propounds, then the pricing is not an issue, so if we are able to get the consumer on to the same page, I think she is willing to pay the premium that we are charging for our unique offering. So the

efforts will have to be far more into the area of convincing the customer rather than offering a monetary freebie or something like that. Having said that, I understand that Kaya Life is a new proposition and when the atmosphere is uncertain, the attraction of any new proposition is going to be that much weaker, so we reckon there will be a challenge in promoting Kaya Life in this ambience.

Ms. Ritika:

Alright sir, thank you.

Mr. Milind Sarwate:

Thank you.

Moderator:

Thank you very much ma'am. We have Mr. Rajeev from Dawn A Day, over to you sir.

Mr. Rajeev:

Good evening sir.

Mr. Milind Sarwate:

Good evening.

Mr. Rajeev:

Sir my question is just extension to what Ritika asked, actually I would like to ask what is the customer per clinic number for Kaya, what is the minimum number and what are the optimum number per clinic we expect at the business would be a sustainable model in the current scenario.

Mr. Milind Sarwate:

You are talking about foot fall in each clinic?

Mr. Rajeev:

Yeah.

Mr. Chaitanya Deshpande:

If you look at Kaya Skin Clinics today, we are looking at numbers in the region of about 15 a day. At that level, for all the clinics put together we are just around the breakeven level. We think that we should be able to push this up by another 30 odd percent in terms of numbers of services. Of course it would depend on the mix of services and each of the service would have a different you know gross margin.

Mr. Rajeev:

Sir, if I can ask, in the current scenario if we see lower spending in coming years, can we see a deferring in the plans. As such, we plan 15 stores per year which we are meeting as well, but can we see a deferring for this in a 5 year duration.

Mr. Milind Sarwate:

We have not started observing that kind of a slow down for us to get worried about clinic expansion at this point in time. If you look at the growth numbers even in clinics that have been around for a

year, the growth has been about 26%, so we are continuing to see growth. It might just happen that going into the next two quarters, you might see some flattening of that growth, but I do not think it will deter us, at least for us to look at drastically slowing down our expansion plan. Also let me point out that if we are going to open a clinic in a new city where there is no Kaya existing, the issue does not apply to it so much, as opposed to opening one more clinic in lets say Bombay where we already have 17 to 18 clinics. If you open one more, then there may be an issue of saturating from there. So I think the more we expand in newer cities, the less we would feel the impact of the slow down, so we might tweak our strategy in that direction but I do not think it is calls for a big concern. People have got used to some consistently higher growth numbers from Marico in the range of say 40%, 50%, to 60%. We are saying that in the coming quarters, these numbers may not be as high as they have been in the past.

Mr. Rajeev:

Thanks a lot and all the best.

Mr. Milind Sarwate:

Thank you.

Mr. Chaitanya Deshpande:

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions may kindly press *1 on their telephone keypad. At this moment, there are no further questions from the participants, I would like to handover the floor back to Mr. Milind Sarwate for final remarks, over to you sir.

Male Speaker:

Sir, I have a couple of questions.

Mr. Milind Sarwate:

Yes go ahead.

Male Speaker:

Sir, just to get a sense, what will be your cost on sales force and distribution expenses, by that I would mean cost of salesmen, freight, field level sales force, etc. Just approximate figures.

Mr. Milind Sarwate:

About 5%.

Male Speaker:

5% of?

Mr. Milind Sarwate:

Sales.

Male Speaker:

Of sales.

Mr. Milind Sarwate:

Actually there would be a detailed answer to this question, so may be we can discuss it one-on-one so it would involve understanding what exactly you should include and what you should leave out.

Male Speaker:

I understood, just wanted to know currently your sales force would be in the sense of a salesman and sales force would be under utilized, over utilized, can they carry, I mean new range of products.

Mr. Milind Sarwate:

I think traditionally we have taken a call that the pipeline of our own products is going to be significant. As a result we have actually discontinued distribution of other companies' products that we were earlier doing, for example years ago we used to distribute Procter and Gamble products, then till recently we were distributing Top Ramen's.

Male Speaker:

My sense is with Indo-Nissin Foods going out and you know Sil going out, there would be some kind of under utilization, especially in remote area because the number of SKUs will be selling it at pretty less.

Mr. Milind Sarwate:

Not really because neither Top Ramen nor Sil, were widely distributed in terms of their reach, the problem with these two SKU if I call it a problem of sorts is that these two brands, is that the ratio of number of SKUs per rupee lakh of sales was very high and as a result the quality of sales engagement on these products was not right. For achieving a given rupee of margin, the work that they had to carry out on both these brands was excessively large and I think discontinuing them has relieved the certain share of mind and not necessarily a share of time. So I think our sales guys would be able to focus more on qualitative aspect of the rest of our products and not necessarily that they will have more time. Again if you are familiar with a typical sales process in a FMCG company, the time commitment for the sales force is reasonably fixed, they have a permanent journey plan, and they end up doing the same thing everyday irrespective of what products they are selling, but when they are walking to a outlet and they are trying to push some of their products, they are also saddled with 17 SKUs of Sil and another 12 of Top Ramen, I think they get defocused to that extent, so discontinuing

these two are an act towards focussing rather than creating more time in their life.

Male Speaker:

This actually is linked to my next question, which is you know we have seen your prototyping strategy, I think the sense what I am getting from most people is that you know while Saffola and Parachute has been doing extremely well, you know probably there needs to be next leap of faith you know in terms of either a new brand or a category etc. Now most prototyping has been around extensions around Saffola and Parachute and while I understand that you said the resource to new products is a challenge, are we looking at a radically new category, is it possible with the current resources that you have, look at a new category, new brand which may be you know will be as big as you know Saffola 10 years down the line.

Mr. Milind Sarwate:

Yes, but we may not be looking at necessarily creating the next new Parachute or Saffola. For example if you look at the last 5 years, we have created a brand called Kaya which is a significant brand in size as also in terms of its presence with the consumer. So I think that approach will continue, but I do not think we are looking at a X or Y situation over here. We should continue our extension strategy as far as certain segments of our market are concerned and we could look at a newer brand as far as some other segments are concerned. I think we will follow a joint approach towards this. I do not think we will give up on extensions which are logical simply because we want to launch a new brand.

Male Speaker:

And finally sir, which is, I mean in terms of opportunity suppose a new brand, a new company is available in terms of acquisition giving similar returns and similar valuation compared to say our international opportunity, which is more valuable to the company, how does it, suppose two opportunities come in the same time, similar valuation, similar importance which would the company choose.

Mr. Milind Sarwate:

Actually there are certain broader objectives of acquisition, so we will have to evaluate these opportunities together. For example, one of our objectives of acquisitions has been what synergies does that acquisition provide across the Marico range or does it upgrade our margins significantly.

So we will pick out a key factor in evaluation and then decide. Another issue which plays a big role in acquisition is the degree of confidence we have in the projections which underlies a valuation. So if you are in a newer market, you do not know anything about that country and the valuations look rosy, as opposed to that you are in a known place and valuation do not look so rosy but the degree of confidence is higher, we will probably pick that acquisition which is more certain. Finally there is a risk in going to a new place and for example if you look at the Nihar acquisition that we completed and there was a huge consensus outside Marico that we have overpaid for that acquisition, but we knew exactly what we were doing. Our degree of confidence was very close to 100% and we have been able to significantly improve the bottomline of that brand from what HUL used to make. So I think if you want me to pick a country, obviously we will be most confident about an acquisition in India in an existing segment.

Male Speaker:

Okay, thank you very much sir. Thank you for your time, thank you all the participants for taking part in the call. Thank you sir.

Mr. Milind Sarwate:

Thank you.

Moderator:

Thank you very much sir.

Mr. Milind Sarwate:

Thanks to you all.

Moderator:

Thank you sir. Ladies and gentleman, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
