



TRANSCRIPT

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Speakers: Mr.Milind Sarwate, Chief - HR & Strategy
Mr.Chaitanya Deshpande, Head - M&A and Investor Relations
Mr. Aniruddha Joshi, Anand Rathi Securities

Moderator: Ladies and gentlemen, good evening and welcome to the Marico Q1 FY10 Results Conference Call hosted by Anand Rathi Securities. As a reminder, all participants' line will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" and "0" on your touch-tone phone. Please note that this conference is being recorded. Joining us on call today from Marico is Mr. Milind Sarwate, Chief – HR and Strategy, and Mr. Chaitanya Deshpande, Head of Investor Relations and M&A. I would now like to hand the conference over to Mr. Aniruddha Joshi. Thank you and over to you.

Aniruddha Joshi: On behalf of Anand Rathi Securities, I welcome you to the first quarter FY10 conference call of Marico. We have with us Mr. Milind Sarwate, Chief – HR and Strategy and Mr. Chaitanya Deshpande, Head – M&A and Investor Relations. I congratulate them for an excellent set of results for the quarter and hand over to them for the remarks on the quarterly performance. Over to you, Sir.

Milind Sarwate: Good evening everybody, this is Milind Sarwate, starting the conference call for Marico for the first quarter of FY10. Normally we host the call a couple of days or at least a day after the results but this time for some logistical considerations, we had to schedule it today itself. So the analyst note that is pretty detailed may have been with you only for a few hours instead of a couple of days as is usually the case. So, I would quickly take you through the highlights of this quarter so that your questions can be focused on information more than what you may already have had. Firstly, this quarter has been a quarter of solid volume growth for us. We have recorded a group

turnover of 697 crores as against 594 crores during the first quarter of last year. This is a 17% growth in terms of value. Out of this 17%, as much as 14% has come from volume increase. So, I would call this quarter as a quarter of very robust volume growth. Secondly, in terms of profit before tax, we have grown by 26% from 61 crores last year to 77 crores this year. At the PAT level, we have grown by 21% from 46 crores last year to 56 crores this year. There have been some unusual or exceptional items. If you adjust for those, then the profit before tax would have grown by about 40% and the PAT would have grown by 37%. In terms of specific business segments, the Indian business of Marico has grown by about 8%. There has been a deflation in this segment. So, the volume growth is a little higher than 8%. In terms of international business, there has been a strong growth of 63% out of which about 40% has come out of volume and value, the balance being on account of currency movements. And in the Kaya business, there has been a growth of 26% out of which same clinic growth would be about 6%. In terms of margins we have comfortably moved up to about 13.8% as compared to about 12.7% in the corresponding quarter last year. So, there has been a very distinct push in the margins by about a percentage point. Here again, if we count out the exceptional items, the margin percentage to turnover would be as high as 14.5. So, the second feature of this quarter I would describe as a very strong margin improvement and coupled with the volume growth that we spoke of earlier, this quarter has turned out to be a very profitable and robust quarter for us. We have continued to invest in the new products that we have launched in the recent past. There has been no brand new product that we have tried out in this quarter. Under the brands Parachute and Nihar, we are prototyping the cooling oil. That continues. Saffola Zest and Saffola rice are again still under prototype. Revive had two new offerings of Revive Liquid and Revive Blue Plus. Those continue to be prototyped. We have launched a hair dye in Bangladesh some time ago under the brand "HairCode." That continues to do well. It is now at 13% market share and has a no 3 market position. Similarly, in South Africa, we had come out with our first new product variant there, flavored castor oil, under the brand "Hercules." That has continued to do well. In Kaya, we have set up 12 new clinics during this quarter. Six of them were opened on a particular Friday. So this quarter has again been a quarter of new clinic opening for Kaya. With this the total Kaya clinics have gone up to 97 out of which 84 are in India and 13 are overseas. In terms of input costs, the commodity prices have ruled pretty easy during this quarter down by about 15%. This has been a factor that contributed to higher margins. At the same time, of the extra margins that we have earned we have invested a little more in our brands. The ASP or Advertising and Sales Promotion expenditure for the quarter has been higher by about a percentage point at 12%. We hope to maintain it in the broad range of 11-12% that we typically follow.

If I have to quickly give you a snapshot of the outlook as we see it, we feel that we will most probably continue this growth both in terms of top line and bottom line. I say most probably because the buying sentiment in the country is still under threat because of the uncertain monsoon and maybe we

may have celebrated too early about the economic downturn going away. We have to be careful about these two factors, which could impact buying sentiment and especially in discretionary spend categories like Kaya, there could be an impact on our top line. In terms of bottom line, we expect that we will continue to hold margins at the higher level. As we have stated repeatedly in the past, we would definitely target higher margin but not at the cost of growth because we believe that a larger consumer franchise is much better than having just a higher margin. In terms of discontinuous activities during the quarter, we have announced the plans for having an IPO in Bangladesh. In terms of size or scale, this is a very small event for the Marico group because it would end up contributing about 8 crores Indian rupees and 13 crores Bangladeshi Takas. But in terms of significance of the step, this is the first time that we are taking an overseas subsidiary public. Also in Bangladesh, this is the first IPO by an Indian-owned local company. Besides this, our effort at growing inorganically continues. There are leads that are being followed but there is nothing concrete that we could report at this stage but we continue to be a strongly acquisitive company. That is the broad scenario for the quarter. We would now field questions. I have with me Chaitanya Deshpande who heads our Investor Relations and M&A. I also have the privilege of having with me Saugata Gupta, who is the CEO of our Indian Consumer Products Business.

Moderator:

Sure sir. Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. At this time, if you would like to ask a question, please press star “*” and “1” on your touch-tone phone. Please use only handset while asking a question. The first question is from the line of Abneesh Roy from Edelweiss Capital. Please go ahead.

Abneesh Roy:

Congratulations on the good set of numbers. My first question is on both Parachute and Saffola. We have offered 20% extra promotion in this which has led to a very good volume growth. If I knock off this extra 20% because it has been a part of the quarter. Could you give us a sense if this promotion was not there, what kind of growth you would have got?

Chaitanya Deshpande:

The 20% extra in both the brands Parachute and Saffola was run approximately for one month. We estimate that in Parachute the growth would have been 10% to 11% without the offer.

Abneesh Roy:

How much likely this 20% promotion going to be continued in Q2 because I understand it is seasonal, especially for Parachute?

Chaitanya Deshpande:

For Parachute, actually the promotion is already over. In the case of Saffola, it extends to the first part of July 2009..

Saugata Gupta:

This is not a long-term promotion. So, obviously they would have a quick end point.

Abneesh Roy:

What is the reason for the seasonality in Parachute? You give for just one, one and a half month, any particular reason for this?

- Chaitanya Deshpande:** No. Typically you cannot run a promo for the full year. We spend a lot of money in terms of above the line advertising. So, usually you will choose maybe one month or maybe two points in the year to run a promo.
- Saugata Gupta:** Actually, just to give a perspective, there was a promo for Parachute even in the last year first quarter. So, there is no increase in this. April last year also there was a promotion. It is a like-to-like. In case of Saffola, obviously instead of passing on further price drops we have taken a liberty of giving extra product which we believe is much better in gaining share rather than giving price drops.
- Abneesh Roy:** Sir, I have a question on your Kaya business. In this quarter we added 12 new stores, which is much higher than what you have seen in the recent past. I wanted to understand the strategy. You have mentioned in your note that you want to have more stores in the neighborhood, but is that the only reason or we are seeing more demand, that is why we are doing this?
- Milind Sarwate:** For Kaya, we have followed a strategy of saturating a city at a given point in time. So, obviously when you analyze the consumer behaviour, geographical proximity is a big factor, and as we have mentioned in the note, if we identify pockets of consumers it is much better to locate a store nearby. It is not that all the 12 stores have opened only on this logic. We have a certain roadmap for opening new stores in a given year. Over the years we have realized that it makes sense to open as many stores as possible in the first quarter so that the rest of the year we can then focus on growing those stores. Hence, out of the annual targets of say 15 or 20 new clinics, we have focused on opening 12 new clinics in the first quarter. I do not think there is any particular shift in our strategy for opening new clinics in Kaya.
- Abneesh Roy:** Only 3 to 7 more should be expected in the next three quarters?
- Milind Sarwate:** I think so.
- Abneesh Roy:** Coming to the change in budget, there is a service tax of 10.3% and you will definitely compete partly with the unorganized sector in this which may not be paying the service tax. So, what kind of impact this can have and are you going to pass on a part of this?
- Milind Sarwate:** It will depend on service to service because the elasticity of demand for various services varies and while the endeavor would be to pass on everything because this is a completely new levy which has come up, we will have to take a call based on each service. Our guess is that we may not be able to pass on the entire incidence to customers. About the unorganized sector competition, you are right. Some of the competition does come from doctors and if they are not corporate players one may not know what approach people would follow for this kind of tax compliance.

- Abneesh Roy:** Sir, could you give us the break up of the 26% growth, how much is same store and how much is new store?
- Milind Sarwate:** Same clinic growth is 6% and the balance comprises of some price increases and some new stores. A bulk of the growth has also come from the Middle East where we have done reasonably well.
- Abneesh Roy:** Is it possible to give the India breakup of the same?
- Milind Sarwate:** India's sales store growth would be obviously less than 6%. It would be flat or marginally positive and the Gulf growth would be close to double digits.
- Abneesh Roy:** Sir, my last question is on your A&P spend. Some of the companies which have reported results till now, there is a significant decline Y-o-Y, but in your case I see a big jump and there is a 100 bps expansion in terms of percentage of sales. I wanted to understand why we are seeing this difference in terms of strategies in different FMCG companies?
- Milind Sarwate:** Firstly, I would urge analysts not to conclude on ASP strategies based on a quarter. This is because different quarters have different incidence of new product launches, new scheme launches or sheer phasing of media activity could vary from quarter to quarter. Having said that I feel that each company has a certain range in which it moves its ASP. For example, we have typically been between 10% and 12%. There are other companies which are on the higher side or some of them are on the lower side. So, I would not draw a longer term conclusion about the fall in any one given quarter or increase in any given quarter.
- Abneesh Roy:** Why I was asking this is, ad rates had corrected in Q1 and we have seen a big increase. Going forward in second half, we expect ad rates to impact. Is there a reason to worry?
- Saugata Gupta:** Not really. What is very visible is the ASP scenario in our consumer products business because we are in India and we see product publicity in India. However ASP comprises two other major components. One is for Kaya and other is in our international business. The ratio of ASP to sales in those businesses has climbed up over time as the investment in the brands over there goes up. With the sheer increase in scale of these two businesses to now occupy about 27-28% of our total turnover, ASP appears higher. If you take a composite view, I do not think there is any major shift in our case at least.
- Abneesh Roy:** Okay, sir. That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line Mr. Karthik Challappa. Please go ahead.
- Karthik Challappa:** Thank you, gentlemen. Congrats on the good set of results. I have three questions mainly. Firstly on Saffola, the promotion that you ran in first

quarter, now Saffola is coming on the back of two weak quarter of sales before where we took price correction. So, would it be fair to say that there is a certain sense of nervousness in pushing Saffola and hence this offer has materialized? And my second question would be how would you assess the success of Saffola outside the edible oil business? And thirdly, the provision for excise duty, which you have made temporarily, can we presume that you have not passed this on to customers as of now? Thank you.

Saugata Gupta:

Coming to Saffola, if you really look at it, the total drop in the edible oil price table has been around 30% to 40%. Our price drops has been about 10%. This promotion we ran is one way of passing on some value to the consumer - a strategic way of actually passing the value instead of taking price drops. And if you really look at the margins of Saffola this quarter, in spite of these price drops and net of promo, the margin of Saffola has in-fact increased a bit. In the food space, Saffola rice, our experience has been satisfactory. As far as Zest is concerned, we are looking at product modification based on our initial feedback from the market.

Milind Sarwate:

Karthik, you had a query about the excise duty provision that we have made. As you have spelt out, this provision has been made on account of conservatism and caution. For us to pass on anything to the consumer, we will have to start charging excise, which we are against because we do not believe that legally coconut oil in 200 ml or smaller pack is excisable notwithstanding our belief that we have a strong case. From an accounting standpoint, we have made the provision. We would like to look at this issue in three separate buckets. Bucket number one would be judicial where since we believe that there is strong legal case, we will keep fighting that battle and we are confident that eventually we will win that battle. The second bucket would be the business bucket where there are certain business responses, which we will have to give. That will depend a lot on how the market pans out, what actions do our competitors take and what kind of price cost equation prevails in the market. You will appreciate that it has only been a month and a half since this circular came. So, we have not really formulated any specific business response. To some extent our provision reflects that there is virtually no change in business strategy on account of this new imponderable. The third bucket is the accounting bucket. And having been an accountant myself, I can tell you that in the accounting bucket what would rule is, factors like prudence and conservatism beyond everything else. So, prudence demands that if we expect a particular liability that there is a possibility or there is a contingency that it could occur, howsoever confident you may be of success, you may want to cover it in your accounts. I would like to give an analogy that even a very good world-class batsman like Sachin Tendulkar, who is confident that the ball would never hit his head, still wears a helmet. So, this is in a way like a helmet that we are wearing. We are very confident that we will not get hit on the head but prudence demands that we wear protective gear. We also do not want this event to keep clouding successive quarters. So, in consideration of all these factors, we have gone ahead and made this provision. We also spelt out that we need not annualize this provision because there would be an

arithmetical tendency to count the number of days for which we have made the provision and gross it up to 365. Please do not do that because the annual provision may not be proportionate to this particular number.

Karthik Challappa:

Lastly, on the Bangladesh IPO, you talked about improving the visibility etc., etc., could you probably explain to me as to how this really helps growing your franchise in Bangladesh?

Milind Sarwate:

We have to take a view of Marico in Bangladesh as a corporate entity, which is housing a business entity. We went to Bangladesh about 10 years ago. About seven years ago, we set up our own factory. We've set up our own distribution which is probably the second best distribution in Bangladesh. We also have sewn up the backend. We now have a copra crushing facility. So, there is an end-to-end complete operation in Bangladesh. We felt that if we have to succeed in any particular market, the more local we are in our thinking and practice, the better it is. We are in a consumer product business where proximity and intimacy with the consumer helps. So, we felt that we should be a local company as much as possible. One has to appreciate that being a local company gives us several advantages. Some of them could be very direct and easily understandable like you may get some fiscal benefits. For example, you may enjoy a lower income tax rate and you may get certain licenses better than if you were a foreign company. But at a practical level, there are many other advantages. For example, as a local Bangladeshi listed company, we would have a much better ability to attract a local talent or for that matter even talent from overseas. Secondly, in terms of overall visibility of the Marico brand and therefore the Parachute brand and the Saffola brand, we would be much better off as a listed company because just as this conference call is creating a lot of visibility to Marico, the corporate brand, there would be many occasions where Marico can talk to its future consumers. So, this has been the broad approach in going public in Bangladesh. Separately, although not related to the IPO, let me also share with you that we are setting up Kaya clinics in Bangladesh, in Dhaka. So, one can say that as a Marico group, we are clear that Bangladesh is a good destination and one of the avenues, which can help the business grow is having an IPO being a local company and growing from there.

Karthik Challappa:

Thank you very much and all the best.

Moderator:

Thank you. The next question is from the line of Mr. Hemant Patel from Enam. Please go ahead.

Hemant Patel:

Good afternoon. I just had two questions. First on copra. You had mentioned in the investor update that the MSP for copra prices have been up and to my knowledge, I think, it is up by around 20%. What I wanted to understand is how much of the government procurement has actually taken place and what is really the long-term averages because we are already into the midst of the flush season and I think it is really over. So, pricing is really down whereas

the MSPs are up by around 21%. So, has the government really procured or is it likely to procure right now?

Saugata Gupta: So far the government procurement has not been significant. Having said that there could be certain procurement in the coming months. But you are right, as far as the season is concerned, the flush season really gets over by August end to September beginning, after which we will be entering the lean season.

Hemant Patel: So, effectively having set up a higher MSP price, can you give me a percentage as to what the government really procures as a percentage of total output?

Saugata Gupta: Data is extremely qualitative. So, I would not hazard a particular guess but as I said it is not significant enough to actually push up the prices so far.

Hemant Patel: Can you just highlight some of our procurement cycles in terms of copra? How does it work?

Saugata Gupta: The season, as I said, ends around August. So, therefore, we do take certain strategic positions as far as copra procurement is concerned. Then we do a significant portion of our buying during the period April to August.

Hemant Patel: So, by August we will have inventory for the same, is it?

Saugata Gupta: No, it does not happen that way because you have a certain shelf life. You just take a certain long position but it is not for the balance year. It gives you enough comfort in terms of supply, assurance and prices.

Hemant Patel: Some clarification on how the margins have been moving on in the international front because I noticed that your traction on the international business has been quite good after the impact in Egypt and the restructuring in Bangladesh but how has the margin been performing vis-à-vis last year and this quarter and what is the outlook going ahead?

Milind Sarwate: Directionally our international business will approximate the margins that are obtained in the Indian business. Right now the international business is slightly below the group average which is about 13%. It will move up but it will depend upon how long certain geographies remain in investment. There are different factors that play in different territories. For example, in the Middle East, while in the GCC countries we are pretty well placed, we do have a slightly different scenario in Egypt. In the GCC area, we do not have a manufacturing facility. In Egypt, there is a manufacturing facility and related overheads. Viewing these two together, I feel we are comfortably placed to improve margins in the MENA region (Middle East and North Africa). In South Africa, the scene is little different because we have a much smaller business there. The business would be only about 50-55 crores in turnover. If we acquire another brand or if we grow that business significantly to it take it beyond 100 crores, I think margin improvement

would be substantial over there. But at the moment the margins in South Africa are satisfactory; though they are not great. In Bangladesh, we have a fairly stable business which has been in existence for years. It has also integrated backwards. So it is an end-to-end complete operation. I think the margins in Bangladesh would probably settle down at a much higher level from now onwards. There is also a benefit that we will get from the IPO of a lower tax rate. But that will kick in from next year onwards. I think overall if you look at the profit after tax level, the international business is poised to break into the next higher level of PAT margins. Let us keep in mind also that the facilities in Egypt are in tax free zones. In GCC, we would not pay any taxes because there is no income tax in Dubai. In South Africa, we have a tax shield which we have procured during the acquisition itself. And in Bangladesh, we would probably have a lower tax rate. So, tax benefit is also a pivot of the international business. On the flip side, because these businesses are in overseas countries and they are in different currencies, when you translate them back into Indian Rupees, depending upon the Rupee Egyptian Pound or Rupee-ZAR relationship, there would be an accounting number, which we really do not know how it will turn out. However from a business entity evaluation angle, I think the international business is poised for a good margin.

Hemant Patel:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Mr. Percy Panthaki from HSBC. Please go ahead.

Percy Panthaki:

Congratulations on the good set of numbers. First question is on the growth rate in the hair oil segment that is other hair oil versus coconut oil. Generally, we notice that the other hair oils segment grows faster than the coconut oil segment. But this quarter the entire thing has been reversed. What do you attribute this to and do you think this is a change in the trend or this is just a blip?

Saugata Gupta:

If you really look at normal growth rates, which we have been experiencing in the coconut oil segment are around 8-9% this year (in the rigid packs) and this quarter we have grown at 14%. In the hair oil segment cooling oils experience the highest growth because there is a shift in terms of preferences. We believe that 9-10% is the category growth and other than cooling. Our market share can drop in quarter 1 because the component of cooling oil has gone up. We usually lose market shares in the first quarter but we gain market shares in the second, third and the fourth quarter. So, 8-9%, we believe, is satisfactory enough and we expect the growth rate to actually go up in the second quarter. Also in terms of secondary sales has been 12.5-13%. We have done certain stock correction in the hair oils in terms of primary sales in this quarter.

Percy Panthaki:

On parachute, this 14% growth, there does not seem to be any impact on that 20% extra because just as someone was saying earlier that scheme was there even last year, is that correct?

- Saugata Gupta:** In April last year, we ran the promo on one pack which is on 500. This year in April, we ran on both 200 and 500. You can take a little bit out of it.
- Percy Panthaki:** That 200 is definitely more than 500. Secondly, could you tell me approximately how many months' inventory of copra are you sitting on currently?
- Saugata Gupta:** Not significant as you cannot store copra beyond a certain number of weeks.
- Percy Panthaki:** But can you lock in the price through some other mechanism apart from physical storage?
- Saugata Gupta:** No.
- Percy Panthaki:** If the prices go up from here, then you will have to pay that higher price?
- Saugata Gupta:** To the extent of the buying we do. You can always stock in finished goods also.
- Percy Panthaki:** In oil form?
- Saugata Gupta:** Yes.
- Percy Panthaki:** That is what I actually meant. Instead of copra, I should have asked oil. What is the total inventory between copra and oil in terms of months of consumption right now?
- Milind Sarwate:** Percy, I would just point out that we would end up being the largest buyer of copra in this segment. There are of course larger buyers of coconut oil for industrial purposes or for other purposes. But in this space of coconut oil in consumer packs, we are the largest buyers. So we have to watch carefully as to how the market views our steps and that is why even if we were having a specific number to our inventory, we may not share it on a public platform.
- Percy Panthaki:** Understood. Also, just wanted to ask whether in the Parachute pouch packs, what kind of volume growth or de-growth you are seeing and also have you taken any price changes on the pouch packs in parachute?
- Saugata Gupta:** The growth rate is slightly lower than 14%, but we have not taken any pricing intervention in Parachute pouch packs since last year, which was last July - August when we had taken some price hikes.
- Percy Panthaki:** So, there has been no price correction in the pouch pack that you have taken recently. For the international business, your blocking growth rate removing currency appreciation of about 30-40%, so just wanted to understand what is the slightly longer-term view on international business over three-four years? How long will you be able to carry on these high rates of growth and

can you give me some kind of roadmap in terms of how this would pan out and when it would normalize to maybe a 15%-20% level?

Milind Sarwate:

I may have some reservations about using the word normal for 15-20%, but that's apart. Let me take you through how the international business has grown over the years. We started years ago maybe 15-20 years ago by sending some small consignments largely to the Indian Diaspora the world over. Thereafter, we started catering to the local market over there and then eventually we have grown in countries by setting up local operations. In some countries like Bangladesh, we could go and set up our operation because we had a franchise over there, being closer to India etc. or even for that matter in the Middle East. But in countries like Egypt and South Africa, we have started completely in an inorganic manner. And then we are trying to layer our organic growth over there. I feel that this mix of growth strategies will continue. We may pick up a new country and grow inorganically over there and then layer organic growth over that. So, I personally feel that depending upon the opportunities that come to the table, we will be able to hold a decent growth rate of maybe 20-25% for the near future. As I said earlier, one of the factors which bothers us and which we may not be able to control significantly is, this currency translation. By the time the international business results hit our Indian accounts, they could get evaporated to the extent 10-15% on account of exchange fluctuations. That factor is fairly outside our control. But other than that in terms of growing through a structured mix of organic and inorganic growth those efforts are always on.

Percy Panthaki:

Thanks very much for answering my questions.

Moderator:

Thank you. The next question is from the line of Amar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar:

Thanks gentlemen. First question is on the subject of excise duty. Milind, you earlier mentioned that as a matter of caution and prudence we have provided for this excise duty. And you have also stated in the quarterly update that resolution of this issue from the court might take longer than what you had initially anticipated or imagined. Now I just want to know what kind of timeframe are you looking at because in the meanwhile we will continue to provide excise duty. At some stage will you take the decision that the court case is taking too long, so maybe either we will look at pricing or taking that main 200 ml SKU to maybe 201 or 202 ml SKU? Do you have a timeframe for that decision in mind?

Milind Sarwate:

As I mentioned earlier, I think, we need to segregate the decision making into these three clear buckets - Judicial, business and accounting. What you are seeing is an accounting decision. On conservatism and prudence basis we have made a provision. The judicial part is completely independent as compared to the accounting decision. By making a provision we have not admitted that excise is payable. So, we will continue to fight that battle. But the judicial stand will definitely have an impact on the business. Because

having argued that this item is not excisable in the manner in which the CBEC is trying to tax it, we would not levy excise on coconut oil of our own volition at all because we do not believe it is excisable. So, the question of passing on to the consumer does not arise because we can pass on only what we are forced to bear. So, that is not going to be the case. When it comes to issues like pricing, it will be a business call, like we have been taking pricing calls on Parachute over the past many years. So, we will continue taking those calls. But those calls may not be with reference to the impending excise or the threat of excise. You have also brought out a very smart option of making a 201 or 202 ml pack. We do not have that on the cards because that would be very cheeky. And we do not want to get into that kind of business strategy.

Amar Kalkundrikar: The second question is on corporate tax rate. Before budget we have generally been talking about 22% as likely corporate tax rate at consolidated level. Chaitanya, does this remain same or now with MAT, does it change a bit?

Chaitanya Deshpande: No, Amar, I do not see that changing for a year as a whole. We still expect a rate of 22-23%. In fact, if you remove the onetime items for this quarter, the current tax actually works out to about 24 which is similar to last year. For the year as a whole we are still looking at a total tax of about 22 or 23.

Amar Kalkundrikar: All right. That's it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Divya Gangahar from Morgan Stanley. Please go ahead.

Divya Gangadhar: Just a couple of questions. One, if you can just break down the international revenue growth of about 40% for me from Bangladesh, Egypt and GCC?

Chaitanya Deshpande: We would not want to share the region wise growth rates, but I can tell you that Bangladesh has been higher than GCC definitely. Egypt, because its coming on the back of a depressed quarter in the last year, is also abnormally high this quarter. So, Bangladesh and Egypt growth is more or less at par and the other two have had more normal rates of growth.

Divya Gangahar: Actually it comes to my second question which is Egypt. Have you seen a turnaround in profitability as well as revenue growth? That was my subsequent question. This quarter of abnormally higher growth, is this trend going to be, going forward?

Milind Sarwate: In Egypt we have had some kind of aberration because of the various steps that converged in one year, change of distributor etc. So, I would not call it growth per se. We are resuming the path that we have originally envisaged when we acquired the brands in Egypt. So, I think that path is pretty straight and normal and we will continue growing at that rate. In short, the current growth in Egypt is not an indicator of how we will continue to grow over there. Let me also give you the country perspective. Egypt had almost a

runaway inflation last year, with inflation touching 27-28%. That has returned to some saner level of maybe 10%. So if the country stabilizes, then growing over there at these rates may perhaps be attempted. If you look at South Africa, the condition is different because the country GDP is almost sinking; forget growing over there. Despite the IPL, the economy is still not in a great shape. So, demand for our products would tend to suffer because of down trading. Despite that we have managed to carve out a growth in South Africa. That is also a smaller business. As I have mentioned earlier, if we are able to scale it up, we would be able to make it reach the growth rates in other countries.

Divya Gangahar: So, if you would just look at Egypt on a full year basis for FY10, there should be a significant profitability turnaround at least compared to FY09?

Chaitanya Deshpande: Logically so because there has been no change in the fixed overhead structure over there. We are selling more from the same setup and Egypt being a tax free zone most of it would straightaway translate to the bottom line. So, you are right that there would be a significant growth on that count from Egypt.

Divya Gangahar: Okay, fair enough. Okay just one thing that you have mentioned in the beginning of the presentation that the India revenue growth has been about 8%. If I see this standalone growth, it is at about 11% and you have mentioned that the volume growth was higher and there was some deflation component. Can you just explain that?

Milind Sarwate: Deflation has been significant in India as compared to the other countries because if you recollect last year that was a year when most companies including Marico took up the prices. Last year for example the revenue growth comprised of volume growth and price lead growth almost in equal proportions. This year, it has been the other way round because effectively in some packs we have taken the prices down through either a promotion or a scheme. So, deflation in India has been significant. It is almost to the tune of 6 or 7% in some categories, averaging to about 3%. That is how when you reach the 11% number, breakup would be somewhere very crudely 14% volume growth and 3% but these are the very crude numbers and you cannot always add apples and oranges. Directionally, deflation has been an issue, which I am also reckoning it as an issue for subsequent quarters because I think our top line growth in India is likely to be muted on this account.

Divya Gangahar: Chaitanya, just one thing on the Sundari loss that we have taken in this quarter, have you computed the tax shield; I mean have you got the tax shield on that loss when I am calculating my adjusted tax?

Chaitanya Deshpande: No. That part of 4 crores odd is basically a foreign currency translations issue. There is no tax shield available.

Divya Gangahar: Okay, fair enough. Thank you so much.

- Moderator:** Thank you. The next question is from the line of Mr. Prashant Kothari from ICICI Prudential. Please go ahead.
- Prashant Kothari:** Yeah, just wanted to understand your thoughts on the current environment for FMCG business, where we are seeing that the monsoon is not doing great, especially in North of India. And secondly, there is inflation on the food prices which could be impacting the income with the lower end of the consumer segment. So, just want to understand how the demand environment could evolve?
- Saugata Gupta:** As far as the monsoon is concerned, we believe that rainfall is likely to be deficient only in the North-West, which is certain sections of North and Punjab. In areas of South and certain areas of East, it is fairly okay. It is too early to say that whether that would lead to shrinkage of demand. But as far as the current trends are concerned, the rural growth story seems to be intact. There could be certain impact which could happen in the second half of the year. As far as inflation in food stuff is concerned, we think that again that could have certain impact which is going to be the second half of the year. But a significant portion of our markets where we are strong is in the West and South.
- Milind Sarwate:** Prashant, one more aspect of the overall buying sentiment, our economic downturn and related effects, it will definitely hurt businesses like Kaya, which are of a discretionary spending nature. So, in terms of future for the Kaya business, we are cautious in projecting the same rates at least in India. While the Kaya Gulf story is rolling out very fine, the Kaya India story would have some issues on same store growth as we go along.
- Prashant Kothari:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Amnish Agrawal from Motilal Oswal Securities. Please go ahead.
- Amnish Agrawal:** I have just one question, which is regarding the profitability of the international business. If you look at our standalone and consolidated numbers of first quarter this year vis-à-vis last year same quarter, at the operating profit level the profitability is lower from the businesses other than standalone. So, has there been some impact on the profitability of the international business or Kaya to that extent and what is the outlook on the profitability of the businesses excluding the standalone India operations?
- Milind Sarwate:** Amnish, the Kaya business has lost the money this quarter and on the skin business we have lost about 3.8 or 3.9 crores. That is largely on account of the new clinics that were opened during the quarter. Typically we would spread out the clinic opening across the year but in this year we have done as many as 12 clinics in the first quarter itself. So, recruitment cost for that, rents etc. have all got debited whereas it will take some time for the clinics revenues to kick in. So, definitely the margins and profits on Kaya this quarter are lower than in the comparable quarter in the previous year. As far

as the international business is concerned, actually there is an improvement over the similar period in the earlier year because you had Egypt coming back on track and the revenues going up there. Also in Bangladesh similar to the business in India, it also gets the advantages of the lower input cost that we have had in terms of copra. So, international business has in fact improved its margins during the quarter and the lower margins are on account of Kaya.

Amnish Agrawal:

But if I look at the gap in the standalone and consolidated EBITDA as per the published number, it was to the tune of say round about 12-13 crores last year and this year it is to the tune of say roughly around 7 crores. It means that excluding the standalone operations our contribution to EBITDA has been only 7 crores this year vis-à-vis 12-13 crores last year. So, does it actually indicate that the international business profitability has gone up?

Milind Sarwate:

The key reason for this is the higher advertising and Sales Promotion expenditure during the quarter. This is a matter of phasing during the year. As we mentioned, Kaya launched a new designer skin campaign and in the international business promotional inputs were higher in Bangladesh and in Egypt during the quarter. In addition front the new clinics in Kaya would have incurred expenditure on recruitment, training, rent etc while the revenues are yet to kick in.

Amnish Agrawal:

And the second part is that as we have already opened 12 Kaya clinics in the first quarter, does it have any impact on our full year guidance of around 15 clinics which we were having earlier?

Milind Sarwate:

No. Not really.

Amnish Agrawal:

So, it means that in the balance nine months, we could be looking at just 3-4 clinics being opened?

Milind Sarwate:

Yes.

Amnish Agrawal:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Mr. Pritesh Chhedda from Emkay Global. Please go ahead.

Pritesh Chhedda:

Question on the international business side, 63% Y-o-Y growth if you would help us segregating to volume, pricing and exchange changes if any. Specifically if you could help us, only give the volume growths in each of the four geographies indicating volume growths either maybe for the quarter or what you look for the year?

Chaitanya Deshpande:

Out of 63, about close to 20% is just on account of currency. So, we are left with 40, which is close to half and half in terms of volume and price increase.

- Pritesh Chhedda:** So, 40 is segregated as 20 pricing and 20 volume and another 20 has come from exchange.
- Chaitanya Deshpande:** That is right.
- Pritesh Chhedda:** How about the volume growths in the geographies?
- Chaitanya Deshpande:** The growths are higher in Bangladesh and Egypt like I mentioned earlier even in terms of volume. In the case of Bangladesh, there have been some additional inputs that we have put into the market during the first quarter. I would not want to extrapolate this 20% plus growth into the rest of the year. Every company chooses a quarter to push a little more. So, that has been done in the first quarter in the case of Bangladesh - we wanted to get fast of the blocks. In Egypt also the growth number will look similar but that it is on a lowered base. In the case of the other two markets, the growth is more in the 14-15% range.
- We believe for the year as a whole we would be looking at about 15-16% in the international business. This excludes the impact that currency may have because that number is difficult to predict.
- Pritesh Chhedda:** This is purely volume growth which one can look at about 15-16% in international businesses?
- Chaitanya Deshpande:** Actually what I meant was volume and value growth put together but we are not going to have a significant value growth in the next few quarters.
- Pritesh Chhedda:** Okay. Because, Milind, I think, pointed out about 25% growth in the next few years. That is the value growth minus, plus the exchange gain because that is always out of control.
- Chaitanya Deshpande:** That is correct.
- Pritesh Chhedda:** Okay. Second and the last question on the cost side that is especially the raw material cost side for the company in the local ops as a whole if 100 was the index in quarter one 09, how has the raw material basket index move from quarter one 09 to quarter four 09, and now in quarter one 10, if you could help us out and if it is possible?
- Saugata Gupta:** If you index last year to 100, we might have something like 80-85 for this quarter.
- Pritesh Chhedda:** 85 in quarter one 1 and slightly higher in quarter four 09 that means?
- Saugata Gupta:** Correct.
- Pritesh Chhedda:** Many thanks to you and all the best.

- Moderator:** Thank you. The next question is from the line of Mr. Kunal Bhatia from Dalal and Brocha. Please go ahead.
- Kunal Bhatia:** Congratulations on the good set of numbers. My question is in regards to the market size of parachute in Bangladesh?
- Chaitanya Deshpande:** We are about a little over 200 crore business and we have about 72% of the market if you work it backwards from there. There is also a loose oil market, which in Bangladesh it is difficult to predict the size of that market. It could be at least 30% of the branded market.
- Kunal Bhatia:** You had mentioned that you would be going to a new corporate office or something. So any plans on that at the moment?
- Milind Sarwate:** There are plans but considering the volatility in the real estate market, we have to shelf them from for a while. We are moving our R&D center to our own premises in Andheri but the corporate office will remain where it is for the time being. The expenditure for the corporate office will, always remain to be a contingent asset.
- Kunal Bhatia:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Mr. Harit Kapoor from B&K Securities. Please go ahead.
- Harit Kapoor:** Just a couple of questions, Firstly, I just wanted to know about the excise duty that we spoke about, the 4.8 crores that you have added and the provision that has been created, I just wanted to understand for what period have we taken that number?
- Chaitanya Deshpande:** It is from 3rd June, the date of the circular to 30th June, the end of the quarter.
- Harit Kapoor:** We can see subsequent provisions on a quarterly basis for these?
- Milind Sarwate:** Yes. But as we have mentioned in the update also, we have keep watching the developments in the judicial space. So our provisioning is an accounting phenomenon which is driven by what the developments are in the judicial space. Again, I just wanted to caution you because the way you asked the question, you cannot divide this provision by 28 days and work out the per day provision for the year.
- Harit Kapoor:** I get it. There was a 10% price cut in Saffola, within the domestic portfolio, if I would understand,, there has not been any other price cut which we have taken in the hair oil portfolio. If you could just correct me on that? On the hair oil portfolio, there wouldn't be any further price cut, right?
- Chaitanya Deshpande:** That is correct. We have not taken any price correction.

- Harit Kapoor:** Another thing, 11% kind of number adjusted for the consumer offer, I just wanted to know have you seen an uptake in terms of convergence from the loose to the branded hair oil over the last maybe 3-4 months or 6 months. Have you seen that or it is a normal trend that we are looking at?
- Chaitanya Deshpande:** This is normal actually. There is no significant change that we are seeing in terms of demand and that's led to this 11%. So we have been in the 8, 9 growth range. This quarter is higher and from 9 it has gone to 11% growth. I don't think you should look at this number to try and project what will happen in the rest of the year. It is unlikely that we will hit 13% for the year as a whole. 11% is also on the higher side actually.
- Harit Kapoor:** I just wanted to know that because the number even in spite of the 2-3% lower values, if you see, adjusted is quite good. Okay. That's about it from me. Thank you so much.
- Moderator:** There is a follow up question from the line of Pritesh Chhedda from Emkay Global. Please go ahead.
- Pritesh Chhedda:** On the functional food side, if you could just tell us what is the scale of business that it has achieved on a quarterly basis or on an annual basis? Whatever you are all comfortable with
- Chaitanya Deshpande:** At the moment, actually these are in prototypes. So the numbers are still going to be low. If you look at Saffola Zest, we are doing it only in the State of Maharashtra. Rice is being prototyped only in Bombay and Andhra. So, at the moment, the numbers in terms of Rupees, crores is nothing to write home about. It is a question of how the prototypes are progressing and whether they moving towards action standard which will take this to national launch. We believe that Zest may take a little longer because, like we discussed, we are doing some modifications to the product. In the case of rice, things are progressing well. There has been a good response to the prototype and over the next few months we are looking at the possibility of taking it national. But right now, if you look at the numbers they will be in single digit crores.
- Pritesh Chhedda:** How about your Atta mixes? Is it still there in the market?
- Chaitanya Deshpande:** Yes. They are in the market. They have remained small. It may not have taken off to the levels that we had hoped. But what it does is it adds to the portfolio of Saffola and adds to the overall imagery and taking Saffola into the space of becoming a lifestyle brand. What we had found earlier too was that when we were advertising those, we had a rub-off effect on the Saffola refined edible oil products. So we would definitely continue with the Atta mixes. It will be part of overall portfolio. Maybe each one in themselves may not be a very large chunk.
- Pritesh Chhedda:** Is Atta mix national now?

- Chaitanya Deshpande:** Yes, it is. When you say national for Saffola, it is Saffola strong markets. So, it does not end up in 200 cities in the country, it is largely in modern trade and you will find it maybe in the top 10 cities.
- Pritesh Chhedda:** I think it is about one and a half year that Atta mixes are there the market?
- Chaitanya Deshpande:** That is correct.
- Pritesh Chhedda:** And what is the size that Atta mix itself has reached?
- Chaitanya Deshpande:** That is also single digit crores. It is small. It has not become as big as we thought it may when we launched it.
- Pritesh Chhedda:** After this price cuts in the Saffola, what is the price differential between Saffola and the like-to-like product now, the premium that Saffola has?
- Chaitanya Deshpande:** It is around the 25-30% range now.
- Pritesh Chhedda:** Many thanks to you.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor back to Mr. Aniruddha Joshi for some closing comments.
- Aniruddha Joshi:** I have just 2-3 questions. In case of Kaya, how the revenues are accounted? Whether it is completely services or you account for services plus products? Because I assume on products, there is no service tax.
- Milind Sarwate:** There are two separate things. We have a product line, which we sell in our clinics. That is about 13% of the turnover. So, anyway that does not attract service tax. Regarding the services that we administer as the Kaya service, there may be some products which are used but it is not possible to segregate them and levy service tax only on the services part separately. So, I do not think this is an optimization issue for Kaya.
- Aniruddha Joshi:** Kaya still continues to be a separate company?
- Milind Sarwate:** Yes. It is a wholly owned subsidiary.
- Aniruddha Joshi:** There must be some tax credits available because Kaya is almost more than five six-year old company, I guess.
- Milind Sarwate:** Yes, there would be.
- Aniruddha Joshi:** Is there any plan to merge so that we can avail the tax credit which anyway may lapse maybe after eight years?
- Milind Sarwate:** No, two things. One is that it may not necessarily lapse after eight years because the depreciation which can be carried forward much longer.

Secondly, we expect Kaya itself to be profitable in the near run. So, we have not really looked at merger from the tax optimization angle. But yes, you are right that it is a kind of an unaccounted tax shield at this point in time. We have not put that tax shield into our deferred tax working

Aniruddha Joshi: Roughly if you can just probably estimate the tax shield we might be having?

Milind Sarwate: I can hazard a guess. The shield base may be about 25 odd crores. So, if you take one third of tax, maybe 8 crores, in terms of tax.

Aniruddha Joshi: That's it from my side. Faisal, are there any further questions?

Moderator: No, Sir. At this moment, there are no further questions.

Aniruddha Joshi: On behalf of Anand Rathi Securities, I thank the management team of Marico, Mr. Saugata Gupta, Mr. Milind Sarwate and Mr. Chaitanya Deshpande. Thanks for being on the Conference Call. I thank all participants for being on the Conference Call. Milind, you have any final remarks to make?

Milind Sarwate: Yes. I would only say that our focus over the years has been on sustainable, profitable growth. And to that extent, this quarter is yet another proof that the strategy is succeeding. I think beyond that I would just caution the analysts' community to not extrapolate numbers on this quarter to the subsequent quarters. We feel that as I mentioned a couple of times in the questions and answers that deflation could be a factor which will dampen the revenue growth in the coming quarters, especially in the second quarter. So, that is one factor which needs to be kept in mind. The underlying business story is quite robust. Numbers as they pan out from quarter to quarter in terms of top line and bottom line, they would vary. We have kept on churning out growth numbers every quarter. This has been, I think, the 39th quarter when we have had a profit growth Y-o-Y. So we hope to continue that so that the promise of sustainable, profitable growth remains. However, just to caution that we should not attach too much importance to the quarterly numbers from time to time. Thanks and have a good day.

Moderator: Thank you very much, Sir. On behalf of Anand Rathi Securities, that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.