



**“Marico Limited Q2 FY 11 Earnings Conference Call  
hosted by Anand Rathi Share & Stock Brokers  
Limited”**

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**ANANDRATHI**



**SPEAKERS:**

**Mr. Aniruddha Joshi, Anand Rathi**

**Mr. Milind Sarwate, Chief-Finance, HR and  
Strategy, Marico Ltd**

**Mr. Saugata Gupta, CEO Consumer Products  
Business, Marico Ltd**

**Mr. Ajay Pahwa, CEO, Kaya Ltd**

**Mr. Vijay Subramaniam, CEO International  
Business Group, Marico Ltd**

**Mr. Chaitanya Deshpande, EVP and Head M&A  
and Investor Relations, Marico Ltd.**

**Mr. Shirish Pardeshi, Research Analyst, Anand  
Rathi**

**Moderator:**

Ladies and gentlemen, good evening and welcome to the Q2FY11 results conference call of Marico Limited, hosted by Anand Rathi Financial Services.

As a reminder for the duration of this conference, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, you may signal an operator by pressing "\*" followed by "0" on your touch-tone phone. Please note that this conference is being recorded.

At this time, I would like to hand the conference over to Mr. Aniruddha Joshi of Anand Rathi Financial Services. Thank you, and over to you, sir.

**Aniruddha Joshi:**

Thanks, William. On behalf of Anand Rathi Financial Services, we welcome you all to the second quarter FY11 results conference call of Marico. We have Mr. Milind Sarwate, Chief – Finance, HR & Strategy; and Mr. Saugata Gupta, CEO of Consumer Products with us. We also have Mr. Chaitanya Deshpande, EVP and Head of Investor Relations. Now, we also have Mr. Shirish Pardeshi joining from Anand Rathi Research.

Now, I'll hand over to Mr. Milind Sarwate for his quick comments on the results. Over to you, Mr. Sarwate

**Milind Sarwate:**

Thanks, Aniruddha. Good evening, welcome to the Marico conference call. I should also tell you that two of my colleagues, Vijay Subramaniam, who is the CEO of International Business; Ajay Pahwa, who is the CEO of the Kaya Business are on this call too.

Coming to the results for the quarter, they were this was a fairly satisfactory from several angles. Firstly, we had a healthy volume growth across the categories. Secondly, we held our market shares, and in fact grew them in many categories, and across territories.

In terms of profitability, while we did not score a major growth, we achieved it in the face of a significant cost push on account of raw material prices. Against an increase of about 250 basis points on account of the raw material cost push, we were able to contain the drop in the operating margin to only about 90 basis points.

Another feature of this quarter has been that the effort that we have taken on turning around Kaya seems to be moving on the right track. The signs so far have been quite good.

The results and the information update that we issue must have been with you for sometime although I'm sure you would have liked more time to peruse it. My colleagues and I would be glad to answer your queries.. Thanks.

**Moderator:**

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from HSBC. Please go ahead.

**Percy Panthaki:**

My question is on the cost of copra. I mean, what is the kind of outlook you have on the future in that? And apart from price increases, is there any other way you can sort of fight that?

- Saugata Gupta:** The total price increase in copra in the first half was about 15%. During the first quarter they were up 4% and during Q2 they increased by 26%. We have taken price increases in two tranches, the first price increases on a weighted average basis across various SKUs was 5%, and the second one is around 7% to 8%. This total increase of around 13% offsets most of the raw material cost push in coconut oil.
- Marico bases its price increases on an assessment of likely raw material movements over a six month period rather than a short term view. In our view September prices have reached the peak and we should see some easing of the prices particularly towards February next calendar year. Other influencing factors could however be the behavior of international prices of palm and palm kernel oil. For now we are comfortable as far as pricing is concerned. We will keep a watch on the threshold level of premium we charge over loose oil, particularly for our recruiter packs which are the low price point packs. Should the loose market experience a drastic fall however, similar to what we saw in FY09 over FY08, then we have to be more aggressive in our pricing to drive conversions from loose oil to branded.
- Percy Panthaki:** Okay. And can you tell me the exact timing of these price increases, 5% and 7 to 8%?
- Saugata Gupta:** The first one happened in August 2010. The second round is under implementation as we speak.
- Percy Panthaki:** Okay. And second point is, I might not have looked at your investor release in greater details. It might lie there but if you can just clarify. In spite of having a good volume growth in most of your segments, why is that the value growth is below expectations?
- Saugata Gupta:** The 5% price increases were affected only in August end, while the earlier months saw deflation. Similarly in the international business there was a value deflation on account of the appreciation of the Indian Rupee. I think one needs to look at the volume growth. Going forward we expect some inflation in the second half. If we maintain this volume growth, the top line will automatically go up.
- Chaitanya Deshpande:** Percy, if you recall the downward price changes we made in the recruiter packs for Parachute were during Q3 of last year around November or December of the last calendar year.
- Percy Panthaki:** Okay.
- Chaitanya Deshpande:** The first half this year thus has a higher base and that is why you are seeing this impact.
- Percy Panthaki:** Okay. So Chaitanya, what is the total sales growth for the Indian business?
- Chaitanya Deshpande:** It's between 9% and 10%.
- Percy Panthaki:** And would it be possible at a total India sales level to split it up between value and volume this 9 to 10%, how much of it would be value, and how much volume?
- Saugata Gupta:** It's around 11.5% volume growth and 1.5% to 2% is deflation

- Percy Panthaki:** Okay, okay, understood. And my last question is on the tax rate. I believe you have guided for a 16% for the full-year FY11, is that correct?
- Chaitanya Deshpande:** Yes.
- Percy Panthaki:** And just wanted to understand that because I was just looking at some of the other FMCG companies which also have a similar exposure to international business. But their tax rate guidance is about 19 to 20% kind of level. So just wanted to understand what's different?
- Saugata Gupta:** I think it's a function of the portfolio mix and the growth rates of products that are manufactured in the tax exempt zones.
- Percy Panthaki:** So this international business, you don't pay any tax on that at all?
- Milind Sarwate:** No, that's depending on which subsidiary it is. There are differential tax rates applicable.
- Percy Panthaki:** Okay. Now, I was wondering if the calculation is as simple as 19 to 20% on the Indian business and 0% on the international business, and that's how you're arriving at 16. Is that some what more or less correct?
- Milind Sarwate:** That is simplistic, Percy, because our Bangladesh business does pay tax.
- Percy Panthaki:** Correct. So then a bit unable to understand, because of the Indian business the MAT of 19-20% will be applicable, right?
- Vivek Karve:** We create a reserve for the MAT credit. So what you see as effective tax rate is actually the effective tax that we will eventually pay. So to the extent we are getting a carry forward of MAT, there is a cash flow impact, which is not dealt within the P&L account, it is dealt with separately.
- Percy Panthaki:** Okay. Maybe I'll take this offline to understand. But okay, thanks a lot.
- Moderator:** Thank you, Mr. Panthaki. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** I have a small question. Can you explain the flexi pouch part of the Parachute portfolio, which is not a focus part for you, but still 25% of the sales and which has been flat Y-o-Y. I thought these SKUs -- and did you take any price increases, what is it, who are the consumers for this, what has been the changing behavior which is resulting in sort of flat growth?
- Saugata Gupta:** Flexi, which is basically pouch packs is primarily sold in rural markets of South and West India under Parachute.. These are pouch packs of 50 and 100 ml. In the East we have a presence in flexi in Bihar. In these markets we compete with local brands too. Our approach is to maintain a certain premium over loose oil and a certain level of margin and not go for mere volume. And therefore, we are willing to make some sacrifices on the volume growth, but in the long term I think it will help us in the overall portfolio.

In the recent run up of copra costs in August and September the local players have not taken price increases in an attempt to chalk up volumes while we chose to pass part of the price increase on to consumers. This is the reason why in the flexi packs our volume growth has got impacted.

Going forward we believe we should regain some volume growth as loose oil prices have increased further and local players have implemented price increases. Now, going forward however, we believe that this decline is short term, because now the loose and the local players have taken these price increases. In the medium term we would endeavor to reduce the component of the flexi in our coconut oil portfolio. Instead we will grow the loose to branded through a rigid pack, which is far more profitable through our price point strategy.

**Amar Kalkundrikar:** What could be the prices of these flexi packs of 50 ml and 100? I think rigid is 10 and 21. Here what would it be?

**Saugata Gupta:** It is Rs 7 for 50 ml and Rs 14 for 100 ml.

**Amar Kalkundrikar:** Okay, so loose 30% more, okay. And this flexi used to be what proportion of our sales maybe five years back -- of Parachute sales?

**Saugata Gupta:** It has significantly reduced in by 8% to 10%. Over the last five years or so the weighted average growth rate of rigid packs has been 10% to 12% as compared to only 6% or 7% for flexi packs.

**Amar Kalkundrikar:** Okay. And you also have mentioned in earlier conference calls as well as this information update that you're focusing with renewed, we were on the rural market. Now there probably these products would have been more suitable though they are probably not as profitable. So now here you would -- are you confident that you would be able to drive conversion from loose to bottles with higher-price points given the fact that with a slight price hike actually we lost some sort of volume in flexis.

**Saugata Gupta:** I think there are two sets of consumers. There is a set of flexi consumer who doesn't necessarily upgrade to rigid. But there is a set of rigid consumers that buys local packs and upgrades to rigid branded packs. A strategy of converting this second set in rigid is a far more sustainable and profitable strategy in the long run. Moreover the outlay in terms of Rs. 10 and Rs. 20 is not significant compared to some other categories. So, that is not a cause for concern for us. There's enough market in the rigid within rural for us to grow.

**Amar Kalkundrikar:** All right. .

**Moderator:** The next question is from the line of Pritesh Chadda from Emkay Global. Please go ahead.

**Pritesh Chedda:** Just one clarification first, you gave the copra price increased by 15%. Is that right and broken up in quarter one as 4% and quarter two as 26% or these figures are different?

**Saugata Gupta:** That's right.

- Pritesh Chedda:** That's right, okay. Second in the press release, you mentioned about some cost inflation in rice bran and the Kardi oil separately and talked about price increases taken on edible oil portfolios. Could you tell us the price increase taken, the quantum and when was that taken?
- Saugata Gupta:** In terms of refined edible oil, we have taken one set of price increases and we are looking at perhaps another set of price increases.
- Speaker:** Yes.
- Saugata Gupta:** In rice bran oil there has been some increase. In Kardi, actually there has been a decline. So, we have taken a price increase, of around 4 to 5% in refined edible oils, which is sufficient as of now to take care of the weighted average input cost increases.
- Pritesh Chedda:** When was this 4 to 5% taken?
- Saugata Gupta:** In two tranches again. For some SKUs we took it in September and in others we were in the process of implementing them. So, it is in the last 4 weeks - September end and October end.
- Pritesh Chedda:** Okay. Second, the Africa business if you could dwell some time there in terms of strategy, the acquisition, the size of business and obviously some information on the new acquisition that we have done in Ingwe brand. And what is the size and how do you see the business going forward?
- Vijay Subramaniam:** We entered South Africa in October 2007 through an acquisition from Enaleni. That business has been progressing well as you can see from the update. Growth in the last quarter, has been around 30% to 33%. That's fundamentally come about through investments on our core brands. We have three brands there - Caivil, Black Chic and Hercules. So it's come through restage of those brands, some efforts in distribution etc and we have also introduced some innovations under each of these flagships. They continue to do well and give us traction.
- Ingwe is really a bolt-on acquisition because we realize that we need a slightly higher critical mass in that market to get some efficiencies of scale, whether it is distribution or back-end. It was with that view that we acquired Ingwe a couple of months back. It is a healthcare brand that nicely compliments Hercules our other OTC brand. The brands have synergies in terms of distribution. Ingwe should do an annualized business of about Rs 17- 18 crores and put together, I think that will give us critical mass for this business going forward. So the journey has been good. What we have done in our first phase is obviously to stabilize the acquisition. We are now making inroads into certain neighboring geographies in Sub-Saharan Africa and over time that should help us bulk up in that region.
- Pritesh Chedda:** Okay. What should be the total size of Africa business year-end including Ingwe?
- Vijay Subramaniam:** This year because of partial consolidation, it should be in the region of about Rs 80 crores. Next year, we should look at something like a three figure mark.
- Pritesh Chedda:** Okay. And what do these product categories -- at what run rate do they grow there?

- Vijay Subramaniam:** . The growth is going at about 30%. If you look at last year also the business has been growing at 20% plus and we expect to maintain that kind of a growth rate.
- Pritesh Chedda:** Margins are similar to the main company margins or the Indian businesses or are they completely different?
- Vijay Subramaniam:** Margins are different because these three brands straddle different segments of the portfolio. We are also consciously on a journey of brand investment in order to generate traction. Steady state margins should however be comparable.
- Pritesh Chedda:** Okay. Many thanks to you and all the best to you, sir.
- Vijay Subramaniam:** Thank you.
- Moderator:** The next question is from the line of Hemant Patel from Enam. Please go ahead.
- Hemant Patel:** Hi, everyone. One question on the price increases that have been happening in the 170 ml packs of Parachute versus you have been maintaining the price of the recruiter packs at the same level. Just a question that will you see amount of down trading happening in what you call towards your recruiter pack, given the fact as the pricing differential is increasing quite substantially going ahead?
- Saugata Gupta:** Given the steep rise in copra prices this time, we are taking some price increases even in our recruiter pack. So price increase has been taken across all packs. So the premium across SKUs hasn't significantly changed.
- Hemant Patel:** Okay and what's the growth rate been, the large packs versus recruiter packs in general for the last two quarters?
- Saugata Gupta:** The recruiter packs have grown around 13%.
- Hemant Patel:** Okay, and the large packs?
- Saugata Gupta:** Large packs have grown at 8.5% to 9%.
- Hemant Patel:** Okay, the other question was -- I mean, I don't know whether I have heard it wrong but you just mentioned that the domestic sales figure has been growing at around 10 to 11%, is that right because the way I look at it is I just put in the quarterly numbers for your standalone entity and it just revealed that you grew on value terms at around 4% for this last quarter? Is that because of some exports, which have declined or can you clarify where I'm wrong out here?
- Vijay Subramaniam:** We have made a change in our sourcing fro the GCC region. Supplies that were made from India earlier are being sourced out of our Greenfield factory in Egypt. That accounts for the apparently low growth in the standalone numbers. Had we not changed this export sourcing, the standalone growth would have been 9% to 10%.
- Hemant Patel:** Okay.
- Hemant Patel:** The other one on Kaya, and it's heartening to see that post Derma Rx acquisition, it's actually showing up EBIT level profit, and the domestic business is actually

showing a little bit of traction in terms of same-store clinic sales growth. Where do we stand -- I mean where can we see this in terms of same-store clinic growth in the second half, and are we expecting profitability or at least losses to become break-even in the second half, for Kaya?

**Ajay Pahwa:**

Just to give you a perspective you've seen that the overall same-store sales has improved from minus 13 in Q4 to minus 11 in Q1, and now minus 6 in Q2. The outlook is that, in H2, we will have positive same-store sales growth. That said, on the overall profitability, as you've seen has also improved in Q2 over Q1. So the general outlook at this moment is that we will continue to make progress on it. However, I'll be able to give you a firm point of view when we are little bit more progressed in H2.

**Hemant Patel:**

Any plans to scale up Derma Rx?

**Milind Sarwate:**

No, at this moment, our opportunity is to continue to grow the business from its existing clinics.

**Hemant Patel:**

All right. Thanks a lot.

**Moderator:**

The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

**Kaustubh Pawaskar:**

Sir, advertisement cost as a percentage to sales came down from 13.4% in previous year quarter to 12.2%. So can you throw some light on it? And is this a sustainable kind of advertisement expense?

**Saugata Gupta:**

I think it's a combination of two things. You would recall last year this time, there would have been a significant reduction in input costs and therefore to grow volumes without taking pricing correction, we had done some price-offs and increased our promotional campaigns. That has gone down this quarter. And this year, as far as the pure advertising ATL is concerned, there has been no significant change. Moreover Kaya has also moved its ASP spends from mass media to digital and other media.

This combination has led to the change in the advertising to sales ratio. But going forward, we would maintain this kind of a band. However, it also depends on our innovation agenda for a particular quarter. So it's critical to see it from an annualized point of view rather than from a quarterly point of view.

**Kaustubh Pawaskar:**

Right, so my second question is what was your volume growth in Saffola? You've done a volume growth of around 18%?

**Saugata Gupta:**

Yes 18%.

**Kaustubh Pawaskar:**

20% volume growth. Okay. Thanks a lot.

**Moderator:**

The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



- Abneesh Roy:** My question is on the cooling oil segment. You have mentioned that Andhra has been successful, 8% market share being expanded to the other states. Could you also talk about the Bihar market share and what's the plan for North India?
- Saugata Gupta:** As of now, in Bihar market share is around 4% and therefore we are not extending the Bihar prototype. The differentiated proposition has found greater acceptance in the South where it has met action standards and we have currently extended this to TN. We will see as it goes we will take a call during the coming season, which is February and March.
- Abneesh Roy:** Any plans to tweak Bihar brand also to Parachute from Bihar?
- Saugata Gupta:** Not right now. We are waiting for the next season. But as of now, we are not going to extend it and see what happens during the next season and then take a call.
- Abneesh Roy:** Could you talk about Nihar Almond because I hear that your price point is very aggressive - Rs 27 versus the market leader 42. What exactly is the game plan out there?
- Saugata Gupta:** I think our entire strategy is to continue to provide value to the consumer. So therefore to give a product, which is superior, at a "value pricing", because at the end of the day, biggest source of business for this category is people upgrading from other oils. So in the case of North, it could be Amla. In the case of West, it could be coconut oil. So I think we believe that this is a right price point to encourage people to upgrade. And at this price point also we do make a comfortable margin. So we have to wait and see how it pans out because it's too early. We have launched this product only around three to four weeks ago.
- Abneesh Roy:** And in Q2 there are some distribution issues in Jammu Kashmir and Northeast. So was there any impact on your sales in hair oils also?
- Saugata Gupta:** -In the North East, we haven't had any impact. Yes, in J&K, we have had, but our contribution from J&K to total business is very insignificant to have any impact to the total all India sales.
- Abneesh Roy:** Sure. And my last question is on the Oats. We have a very strong player Pepsi and then we have got Indian players like Bagrry. So I wanted to get the comfort that in the past you have launched Saffola Zest and then kind of scaled it back. How different is the strategy this time from the product, in terms of marketing and how confident are we in terms of Oats? Is it going to be the next segment or we going to take it in terms of mass product?
- Saugata Gupta:** Oats part of the breakfast segment, is growing at around 25 to 30%. The current market size that is about Rs 130 to 140 crores. We believe that Saffola -- given the positioning and given the brand equity has a natural right to play in this category. I think it is a core to Saffola as opposed to snacking which was slightly distant from what Saffola wanted to be. In fact in snacking, taste to indulgence plays a far bigger role than health, while in a category like Oats health is a bigger thing. The initial response to the modern trade prototype has been very encouraging and that has led us to move the prototype to the next stage where we're trying to launch in selected markets in the South.
- Abneesh Roy:** So till now it's only in Bombay?

- Saugata Gupta:** No, no. It has been prototyped in modern trade in South, West and Delhi, NCR.
- Abneesh Roy:** Okay, sir. All the best. I'll come back if I have more questions.
- Moderator:** The next question is from the line of Nilay Shah from Morgan Stanley. Please go ahead.
- Nilay Shah:** Thank you. I have a question on Parachute, the overall brand. A growth of 6% for the quarter, would that be the lowest we had in 12 to 16 quarters for the company?
- Saugata Gupta:** Parachute growth in rigid packs is around 10%. If you combine flexi with this the total growth rates comes down to 6%. This has however not been the lowest. Flexi growth rates have been lower than this in the past.
- Nilay Shah:** Okay. Got it. The other question was on the international business. Overall volume growth of 18%, which would include an element of the transfer of sales from India to the Middle East, right? Would that come to the top line first of all?
- Milind Sarwate:** No. That would be Intra group sales.
- Nilay Shah:** Yeah, I do understand that but will that show up in the top line for...
- Speaker:** It won't at the Marico Group consolidated level.
- Nilay Shah:** It will not?
- Milind Sarwate:** And nor is it in the separate international business when we talk about the 18% growth. That is without this intercompany turnover.
- Nilay Shah:** Okay. Without that turnover and profit. I want to know that only.
- Milind Sarwate:** What you are seeing is business growth.
- Nilay Shah:** Okay, perfect. And the other question was on rural sales, in the back, you have mentioned rural sales are up 13%. So would it mean that the urban sales would be just about low single digits?
- Chaitanya Deshpande:** It's not low single digit, but it will be around 7% or so.
- Nilay Shah:** Seven or so. Okay, and just one clarification on Kaya, you said that basically the same store is down about 3% and yet we are up about 2% Y-o-Y, with six clinic shutdown, I couldn't quite understand the matter of this.
- Ajay Pahwa:** Let me shed some light on that. There is 6 clinic shutdown in India, while at the same time, we've expanded internationally. So we opened one new clinic in Bangladesh and three more in the Middle East..
- Nilay Shah:** Perfect. That makes sense. Thank you so much.
- Moderator:** The next question is from the line of Varun Kejriwal from IDFC Securities. Please go ahead.

**Varun Kejriwal:**

A couple of things, one was just looking into Kaya model, is there a need to recheck the model if at all from your own given skill sets on whatever learnings you've done over the last three to four years in Kaya. Does the focus need to incrementally change from the product sale with I think has the complete dominant to service offerings and can we extend the offering in Kaya, be it in India or abroad?

**Ajay Pahwa:**

Right. Let me take that, you're right. That there is a need to redefine the Kaya model, but let me also correct some assumptions. That Kaya predominantly is a service-led market. So actually products -- let's say at the beginning of the year only 13% of our revenue where Kaya wants to be in a unique position where it's a skin care solutions provider and solutions being a combination of products and services. So with Derma Rx, our recent Singapore based acquisition, what we are seeing is -- our strategy is to add a broader range of products coming in from Derma Rx. So we are already seeing our product revenue now scaled up to 17% of sales. So that's, in summary, the real focus where I've talked about in the media release where Kaya from its expertise, where it's seen as a skin cure expert, Kaya has a much broader proposition of not only being a skin cure expert, but also as skin care expert. So our everyday services have been added and products have been added. Essentially, that is what we are doing with Kaya.

**Varun Kejriwal:**

So is there a need according to you to change the perception also towards Skin Care as you move forward, given that I would presume that there has been lot of competitive elements in that segment, which has started to offer -- not differentiated, but similar product lines, but at least the communication is for more clearer, because you can't obviously offer products unless your services are being accepted by when more and more customers walking in, which apparently is not happening right now?

**Ajay Pahwa:**

No, no. Actually -- to put this on record, Kaya services are very, very well accepted. You know, over the last seven years, Kaya has had 700,000 customers -- a vast majority of that is for services. I think the big shift that we've been trying to address is to ensure that consumers see that Kaya is an affordable brand rather than have a huge price perception barrier. So essentially if you look at in Q2, one of the reasons that Kaya India had a 10% sequential growth was on the back of introduction of everyday care skin services as well as products. That is fundamentally helping us. While these are early days, we want to sustain the strategy and be able to continue to drive sequential growth in H2 as well.

**Varun Kejriwal:**

Okay. The second part was on -- historically we've stayed away for fair reasons into markets which were dominated by or at least led by some of the global majors and so on. Is that likely to change in terms of our product offering because we yet have to make our material dent into newer categories or NPD like rice and oats and so on? So is there a change in thought or how should one really visualize this business 2-3 years after?

**Saugata Gupta:**

First, let me comment on rice and oats even though it is early to do so. We scaled up Rice only in the month of February and oats is still under prototype. Our entire strategy has been to continue to get into categories where we have a differentiated offering.. And therefore it's not the question of competitive intensity, it's the question of whether we have a differentiated offering and consequently a sustainable model for the future.

Having said that, we have internally redefined the size of the opportunities that we will pursue. Action standards are set to such that we have a sizeable business when we scale up in three to five years. There could be differences from segment to segment, but in general you are likely to see larger sized NPDs from us. We are fairly confident that you will see a significant shift in NPD contribution to sales as we go forward.

**Varun Kejriwal:**

Sorry, just a clarification. You said the NPD scale up that business opportunity will be larger than what we are looking at typically?

**Saugata Gupta:**

We will go for fewer but slightly larger opportunities as opposed to going into multiple niches. That will be the slight shift in the strategy.

**Moderator:**

The next question is from the line of Naveen Trivedi from Pinc Research. Please go ahead.

**Naveen Trivedi:**

Yes, good evening, sir. Maybe I missed something that -- what are the timing for the next price hikes for the Parachute thing?

**Saugata Gupta:**

There are some which are under consideration right now. The first round happened in August. The others towards the end of that quarter and a few are taking place now.

**Naveen Trivedi:**

So any timeline for that?

**Saugata Gupta:**

It depends on when it hits the market. Typically an increase that we initiate in the factory, could take between four to six weeks to hit the market.

**Naveen Trivedi:**

Okay, okay, I understand. But one more thing I want to know about the international business. I want to know what would be the sustainable growth for our international business assuming that there is no further acquisition in the international market. What is the sustainable growth rate from the current acquisition, whatever we have done?

**Vijay Subramaniam:**

On a like-to-like organic business as we call it, if you look at this year first half, business has been growing at over 20%. And I think this kind of growth rate is sustainable on a like-to-like basis. Obviously if there are some acquisitions which happen that will be on top of this.

**Naveen Trivedi:**

Okay, great. Can you just share us the international EBITDA margins?

**Vijay Subramaniam:**

The international business EBITDA margins are obviously lower than the company average. It's in the range of about 11 to 12%.

**Naveen Trivedi:**

11, 12%.

**Vijay Subramaniam:**

As we grow the top line, we are also in a journey of improving the operating margins.

**Naveen Trivedi:**

Okay. One more question on the effective tax rate, what is the guidance for the FY12 effective?

- Milind Sarwate:** Our current estimate is it might be around 20%.
- Naveen Trivedi:** 20%.
- Milind Sarwate:** Yes.
- Naveen Trivedi:** Yes. Thank you so much.
- Moderator:** The next question is from the line of Nikhil Kumar from MOS. Please go ahead.
- Nikhil Kumar:** Just two questions from my end. One, if I have to try and join a couple of dots, which you've strung earlier, you mentioned that you take a longer term view on copra prices and since you mentioned that probably prices are likely to be favorable in second half. The entire point, which you made that you will be taking another round of price increase is slightly against that particular thing, right?
- Saugata Gupta:** Okay, let me clarify. What I said is that we don't take price increases based on the spot prices of copra, we take a six- to seven-month view.
- Nikhil Kumar:** Sure.
- Saugata Gupta:** What I said is that the price has peaked. Now, obviously the price increase is not in line with the peak price but rather in line with the average estimated price in the second half.
- Nikhil Kumar:** Okay. And one question, not pertaining to the quarterly numbers, but more on the longer-term phenomenon, just wanted to understand, you've mentioned a lot on the shift from loose oil to branded coconut oil, could you dwell a bit on the shift from pure coconut oil to value-added oils in general?
- Saugata Gupta:** If you really look at it, I think the value-added oils have been growing at a slightly higher rate than the coconut oil.
- Nikhil Kumar:** Okay.
- Saugata Gupta:** However, the most of the growth if you see from the three- or four-year period has been through cooling. The reason is cooling provides a solution to a specific new need of the consumer. And similarly, we believe that specific functionality like hair fall will drive growth.
- Nikhil Kumar:** Right. So especially what you are trying to say is that consumers are moving directly to value-added alone, not just upgrading from coconut oil to value-added hair oil. Is that the right statement to make?
- Saugata Gupta:** It is a mixture of both. Actually, it depends on the market. People who are using Parachute Advansed might move to a Jasmine or alternatively they can move to say Almond oil. Similarly in the north, an Amla user can move to Hair & Care and Amla user can move to an Almond. For them there are no sub segments, but brand preferences. Brands therefore need to straddle both nourishment and sensorial in the value-added space.

- Nikhil Kumar:** Okay. Just last one from my end. We looked at market share in premium edible oil, the one which you mentioned in your information update. So I couldn't understand, are you tracking some number wherein you are looking at share of organized edible oil versus the non-branded edible oil?
- Saugata Gupta:** What we track is the growth rate of Saffola versus the premium ROCP segment. The brand's source of business is refined edible oil brands retailing well over Rs 70 per liter and not brands around say Rs 50.
- Nikhil Kumar:** Right.
- Saugata Gupta:** What is tracking favorably is that the growth rate of Saffola is higher than that of the premium segment. And therefore that's where our growth is coming from as people are becoming increasingly health conscious, they are making a conscious choice for brand Saffola.
- Nikhil Kumar:** Okay. That's it from my side.
- Moderator:** The next question is from the line of Ajay Thakkur from Alchemy Shares. Please go ahead.
- Ajay Thakkur:** Thank you for taking my questions and congrats on the good set of numbers. My question was pertaining to the new products pipeline, what kind of the new product can we expect going forward? And also can you throw some light on our strategy of extending Saffola brand to the food segment and how far have we made inroads in that aspect?
- Saugata Gupta:** Okay. Let me first address your second question. As far as Saffola is concerned, we have introduced rice and oats this year. The packaged rice segment is growing at an attractive rate of around 25%. It's around 400 crores and also organized retail is helping the growth of this category. We have an offering, which is differentiated and I think tailor-made for people who are again health-conscious. Our current performance of rice has been satisfactory and we intend to grow this segment. Oats is also encouraging, so therefore we believe that going forward, we would see more from the Saffola segment. These are likely to be. What you can see over the long-term is that the food contribution or the non-edible oil contribution from the Saffola master brand over a three to four year period should be in the range of 20 to 25%. That's the kind of an aspiration which we have. Regarding the NPD, can you repeat the question, the first question please?
- Ajay Thakkur:** I just wanted to know the new product pipeline that we could expect?
- Saugata Gupta:** Right now, we have two-three prototypes, one or two on the verge of scale up. I think if we have a decent strike rate here we can have quite a satisfactory contribution from NPD next year.
- Ajay Thakkur:** Okay. Going in to the Oats and the Rice segment, can you just throw some light on their run rate currently or what kind of run rate they are doing?
- Saugata Gupta:** What I can tell you is, in terms of exit because oats is still a prototype. Next year we plan to do a turnover of Rs 40 to 45 crores between the two.

- Ajay Thakkur:** Okay. You have just launched edible oil in the Bangladesh market. Can we know the market size of the edible oil in the Bangladesh segment? And is it Saffola that has been launched over there or you are launching it in the mass segment?
- Vijay Subramaniam:** We have launched Saffola just a quarter back. So currently it's in prototype stage and it's tracking to action standards. The edible oil market in Bangladesh is roughly about 500 odd crores INR but that's the total market. If you look at that where we play which it is really the upper end, very similar to what we do here. That market would be about the top 5 to top 10%, that's the segment. Again we are on a journey, we'll have to upgrade consumers and build our sustainable value proposition going forward. The initial indications are good.
- Ajay Thakkur:** Okay and since you have tasted success in your Hair Colour out in the Bangladesh market, any chance of that being extended to the Indian market?
- Saugata Gupta:** We do not have such a plan in the short turn.
- Ajay Thakkur:** Okay. And my last question actually, I had been just looking at your strategies in both Almond Oil and also in the other Shanti Amla Hair Oil, there you have, you know, taken the price point as the major differentiator. Is this strategy going to be adopted for maybe you know other segment is also like new cooling oil going forward?
- Saugata Gupta:** In Cooling oil our pricing is at parity with the market leader and we have a differentiated offering. In the case of almond oil and amla oil categories, our pricing rationale has been based on the fact that people upgrade into this category. Therefore we wanted the price point, which could deliver value to the consumer and therefore switch brand preference and gain market share. I think the strategies is different when it comes to cooling.
- Ajay Thakkur:** Okay. Thanks.
- Moderator:** The next question is from the line of Arnab Mitra from IIFL. Please go ahead.
- Arnab Mitra:** My first question is regarding with the hair oil segment. Now recently one of your competitors on the call said that value-added hair oils growth has sharply come off as reported by Nielsen. You're obviously growing ahead of market, because you're gaining share, but on the ground have you seen any signs of a slowdown in terms of growth in the segment which has otherwise grown very fast in the past two years?
- Saugata Gupta:** We have not seen any significant drop either in off-takes or secondary as far as the total category is concerned. So there could be switches between brands, but as far as category is concerned there has been no significant dip at all.
- Arnab Mitra:** Okay, and on the raw material front for value-added hair oils, how has the price trend been for liquid paraffin and packaging and some of your competitors have obviously taken price hike? So have you also taken price hikes in hair oils and what quantum would it be?
- Saugata Gupta:** We have taken some minor price hikes, but the input cost pressure has not been significant, it would be around 8 to 10%.

- Arnab Mitra:** Okay, so it will be on our blended raw material basis only 8 to 10% in the value-added?
- Saugata Gupta:** On the total cost basis, not just for raw material.
- Arnab Mitra:** Right.
- Saugata Gupta:** We have taken some price increases which is around 7 to 8%. Some are in the process, some have been taken.
- Arnab Mitra:** And this would have also been taken very recently in August, September, in that period?
- Saugata Gupta:** It's mostly September, October.
- Arnab Mitra:** Okay, September, October. And also you mentioned in the press release that you have the festive sales happens especially in value-added hair oils. And that would have had some impact on the volume growth this quarter. It would have otherwise been higher. So what kind of postponement of sales could have happened, just to get a very ballpark figure?
- Saugata Gupta:** Another 2, 3%.
- Arnab Mitra:** Okay. And just lastly you have mentioned about the Ayurvedic oil that you've launched, so you've said it's a 235 crore category. So firstly is there a separate sub segment for Ayurvedic and who is the key competition here? What are the main geographies?
- Saugata Gupta:** The Hair fall category is around 235 crores. There are some local players like Sita and Aswini and we have Parachute Advanced Therapies. And we believe that this category has potential if you have an efficacious product, which we do. And like cooling as I said that it fulfills a certain specific need, a higher order need other than generic nourishment. So we believe that this category has higher potential for growth over the long term.
- Arnab Mitra:** So there is no other national right in this category?
- Saugata Gupta:** Not really. There are regional players but no national ones.
- Arnab Mitra:** Okay. Thanks so much.
- Moderator:** The next question is from the line of Harit Kapoor from B&K Securities. Please go ahead.
- Harit Kapoor:** Yeah, good evening everyone. Just two questions, firstly on Derma Rx, so I just wanted to understand that in your update, you've mentioned that you are in the process now of launching the Derma Rx into India. So if you could just give us an idea as to what kind of products are these and how different are the price point from the Kaya portfolio products?
- Ajay Pahwa:** In phase I, basically we've launched five Derma Rx products under the name of Kaya.



- Harit Kapoor:** Okay.
- Ajay Pahwa:** These products essentially are going to redefine and augment our solutions for acne and pigmentation. In terms of pricing, the pricing of these products is some very, very affordable from about Rs 790 and we also have some highly specialized products, which could go up to about Rs four and half thousand.
- Harit Kapoor:** Okay, this has been launched in October exactly?
- Ajay Pahwa:** Correct. They are already now retailing in our clinics, all across India.
- Harit Kapoor:** All right. Secondly on Derma, I mean I was just doing the maths. You gave a PBT number for the overall Kaya business in the 3.5 crore loss, so just wanted to understand that would translate into close to 4.3 to 4.4 crores of PBT number coming only from Derma, if I am not mistaken, right?
- Ajay Pahwa:** That's absolutely right. 4.4 is the right number.
- Harit Kapoor:** 4.4, which means you are close to a PAT margin of 20 to 25%. Is that the stable number for the Derma portfolio?
- Ajay Pahwa:** Yes, I think the business is a very, very stable business, experiencing sustained moderate growth. So I have no doubt that we will be able to sustain. We are experiencing the right level of revenue growth as well and highly controlled cost structure. So every reason to believe that these margins will be sustained in the years to come.
- Harit Kapoor:** Sure. My second question is on the hair oil portfolio on Shanti Amla. I think maybe in the last quarter you have mentioned that for volume growth was up towards the 90%. And I just wanted to know what has been the trend in volumes and when do we see a shift in strategy that we're going to move up the price point to closer to be market leader. Is it going to happen soon or are we looking to stay at this price point for the time being?
- Saugata Gupta:** We grew around 30% in Q2. Total first half, I think the growth has been around 60%.
- Harit Kapoor:** Okay.
- Saugata Gupta:** And we have also significantly gained shares. We believe that this business model is reasonably sustainable because it is providing value to the consumers and we will take a call on how it goes. I will not be able to comment on our future pricing strategy.
- Harit Kapoor:** Sure. Are the margins on the Amla brand significantly lower than our overall hair oil portfolio?
- Saugata Gupta:** Not significantly lower. Slightly lower than the weighted average but in fact almost nearly the same. The gross margins of other players is high.
- Harit Kapoor:** Agreed.

- Saugata Gupta:** So it's relative to that.
- Harit Kapoor:** Agreed. Okay, that's about it from me, sir. So thanks a lot. All the best.
- Moderator:** The next question is from the line of Manoj Menon from Kotak. Please go ahead.
- Manoj Menon:** Sir, just couple of questions. One on the overall oil market you know. I'm not referring to hair oil per se because you know -- is there an opportunity? One was you mentioned about the differentiated products for hair fall et cetera in hair oil, but I do find in some of these regional places like say Kerala, Tamil Nadu et cetera, you know there are oil which are their branded oils for applications like body, reducing weight et cetera. I mean are these two niches too small? You know anything happening like something like you know what happened to cooling let's say in the last three to five years. When one company took it and made it a point to extend it pan India, is there a hidden opportunity lying there? Any thoughts on this?
- Chaitanya Deshpande:** We've been looking at this and looking at various parts in the market. So the obvious one was to start with cooling, which is a very large portion of the market, where we were not participating. So the first step was to try and get in there. You've seen the next one too. We've just talked about this Parachute Advanced Ayurvedic oil which is the hair fall solution the market size for which is about and that growing by 19 or 20%
- Manoj Menon:** Sure.
- Chaitanya Deshpande:** It would make more sense for us to actually look at these larger parts in the market first than something like in oil for body applications to reduce weight and what have you. There are two considerations. One is, we need to determine size of the opportunity. It might be very small, maybe in one state. Secondly for us to get in there one has to first figure out efficacy of these kinds of products. We don't want to rush into making any of these claims without actually having tested them scientifically.
- Manoj Menon:** Which would mean that these are all relatively nascent categories, right then?
- Chaitanya Deshpande:** Yes, I would think so.. However for some the market need not be small. The issue is that the claims are not backed by product efficacy. We would be hesitant to enter such categories.
- Manoj Menon:** Sure, understood. Secondly, in terms of the two key brands within hair oil, Parachute and Nihar, is there any thought process in terms of positioning. Let's say Parachute as premium and Nihar as something like mid-to-mass or some sort of stuff -- I mean the context was that in terms of there is a Nihar almond launched recently et cetera in terms of you know -- Am I thinking in the right direction?
- Chaitanya Deshpande:** We are looking at these two brands to move forward separately and parallelly. So Parachute has much stronger equities in certain parts of country, that is in West and South whereas Nihar is a much stronger brand in the Eastern part and certain parts of Uttar Pradesh. We will invest behind the Nihar brand in both coconut oil and value added hair oils in this region in the country.
- Manoj Menon:** Sure.

- Chaitanya Deshpande:** . So essentially it is a strategy where we're saying Nihar has very strong equity in certain parts of the country and we'll build an equity under that. And then Parachute, yes it has all India equity but it's much stronger in these parts of the country.
- Manoj Menon:** Okay, thanks, all the best.
- Moderator:** We have a follow-on question from the line of Pritesh Chedda from Emkay Global. Please go ahead.
- Pritesh Chedda:** Okay, I just want to get an idea on the MENA business, the size of the MENA business by the year end. Just how you gave us the Africa business of 80 crores
- Vijay Subramaniam:** Yes, the MENA business this year roughly contribute about 35% of our total international business revenue.
- Pritesh Chedda:** Okay. Thank you, sir.
- Moderator:** There is a follow-on question from the line of Percy Panthaki from HSBC. Please go ahead
- Percy Panthaki:** Hi, sir again this confusion on the tax rate. Just about a quarter back we were under the impression that it would be about 20% for this year. Now you are saying 16% for this year but then again 20% for FY12. What is actually causing all these gyrations? Just if you can give some clarity as to what changed your assumption from 20 to 16 for FY11 and then what will result in the 400 basis points increase in FY12?
- Vivek Karve:** In the first quarter of the current year, we had made a provision for reversal of certain max credit pertaining to earlier year. However later we have taken a legal opinion and we are now confident that the MAT credit can be extended beyond FY10-11 and hence the provision that we had made in Q1 we have reversed in Q2. And as regards to your second question as to why should it move up from 16% in the current year to about 18 to 20% next year, that's because some of our plants which are currently enjoying fiscal benefits under the tax exempt zones, they are likely to go out of the zones next year because of which the exempted profit in the current year would get taxed next year
- Percy Panthaki:** Okay, thanks sir.
- Shirish Pardeshi:** I just had one question for Saugata. See in the press release, we have mentioned that this cooling oil category which forms about 18% of the hair oil in market in volume terms, would you be able to comment in last two to three odd quarters how the growth factor has moved in this category and what exactly is driving the volume growth?
- Saugata Gupta:** I think the growth in this category has been around 13, 14%, Obviously, in the earlier year, let's just say 2004 to 2008, the growth rates were slightly higher. I think the reason that is driving it is that the benefits has moved from just pure cooling to actually you know to stress relief and sleep. So there are multiple benefits which the market leader has been able to drive and therefore it's just unlike other hair oils which are used for nourishment. This one is giving multiple benefits, which is beyond just hair nourishment. We believe that this category has penetrated

quite well in the North and some parts of the West and East. There is potential to grow in other parts of the country and also I think the rural growth as the rural consumers want to adopt the newer brands and newer benefit. So I think there is enough leg for this category to grow.

**Shirish Pardeshi:**

The other question which I would like to understand is that all the cooling oils, which are there in fact our premium to the base coconut oil, is that the growth which is shifting from the coconut to value add to cooling oil or is there a disconnect?

**Saugata Gupta:**

Cooling oil provides a differentiated benefit, which is an add on to, other hair oils. This incremental benefit justifies a certain premium for people. This benefit is different from the benefit provided by other hair oils and thus commands a premium. Number two, a significant portion of our cooling oil is in sachet, which is single use also. So this may not be regular use, but a single use.

**Shirish Pardeshi:**

So they may not be substitutable for each other?

**Saugata Gupta:**

Quite incremental, in fact.

**Shirish Pardeshi:**

We have seen in last five odd years we have done possible sub-segmentation in terms of cooling, value-add, coconut, hot oil, champi. Where can we see further differentiation in terms of Parachute offering because recently we have seen that we have launched some oil Ayurvedic oil in TN.

**Milind Sarwate:**

Fundamentally, there are do-good oils and there are feel-good oils. So between sensorials and efficiency, there can be very many combinations possible. There can also be some layered additional benefits like stress relief, which can be important. Some time ago in the same conference call we had spoken about oils which enable weight loss, now subject to verificational efficacy even that would enter the same stream. I feel that just as the soap market has evolved into many, many niches and each niche has grown to a reasonable size. Even though oil market whether hair oil or body oil together can also grow to a different size. Now from our perspective, it is not necessary that we should always leverage Parachute as the brand whereas Parachute stands for certain things and we have in our portfolio several properties, which we can use for this purpose. So I would just say that it's an evolving market and contrary to what people feel oiling as a habit is very strongly prevalent in the subcontinent. And I think it would continue to be leveraged by marketers.

**Shirish Pardeshi:**

Milind thanks for that answer, but my bigger question through my marketing experience is that in a family is there a multiple usage of multiple oils happening now?

**Milind Sarwate:**

I'm sure there is.

**Shirish Pardeshi:**

That's good news then.

**Milind Sarwate:**

But isn't it apparent, because I can't believe that the family where somebody is using cooling oil, no other oil is used by that family. Obviously, there will be other oils. It's exactly like soaps.

**Shirish Pardeshi:**

Okay. That's it. That's the good news.

- Moderator:** We have one question from the line of Saurabh Arya from Bajaj Allianz. Please go ahead.
- Saurabh Arya:** Yes. I want to know is company open to any more acquisitions in future maybe some domestic or foreign acquisitions, are we thinking about those?
- Milind Sarwate:** Of course, we are thinking about those. But you will also appreciate that just thinking doesn't make a difference.
- Saurabh Arya:** True. Okay. So if something comes up company might go for that also in future?
- Milind Sarwate:** Yes.
- Saurabh Arya:** Okay, thanks then. I got what I wanted to know. Thanks.
- Moderator:** Thank you, Mr. Arya.
- Aniruddha Joshi:** Okay. On behalf of Anand Rathi Financial Services, we thank all participants for being on the con call. We thank the management team of Marico for being on the con call line and updating us about the results. Now I hand over to Mr. Milind Sarwate for the closing comments. Over to you, sir.
- Milind Sarwate:** I wish to thank all those who participated in this conference call and also those who silently listened to the various analytical queries. From all of us in the Marico management team, it was a pleasure. Although many of them were focused on the quarter, there were some which brought out insights to what the company's strategy is. We always feel that while every quarter we face the market and we declare our results, it is really the long terms strategy of the company, which should drive value. So I hope that the people who logged on to this call have got a fair idea of what we mean in the long run. Thanks once again and all the best.
- Aniruddha Joshi:** Thank you.
- Milind Sarwate:** Thanks.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Anand Rathi Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.