Marico Limited
Q2 FY20 Earnings Conference Call

October 25, 2019

MANAGEMENT:	**MR. SAUGATA GUPTA - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – MARICO LIMITED** **MR. VIVEK KARVE - CHIEF FINANCIAL OFFICER - MARICO LIMITED**
ANALYST:	**MR. GAURAV JOGANI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Marico Limited Q2 FY2020 Investor Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Jogani from Axis Capital. Thank you, and over to you Sir!

Gaurav Jogani: Good evening everyone. On behalf of Axis Capital, I would like to welcome you all. From the management team today, we have with us Mr. Saugata Gupta, MD and CEO and Mr. Vivek Karve, CFO.

Before we get started, I would like to remind you that the Q&A session is only for institutional investors and analysts and therefore, if there is anybody else who is not an institutional investor or analyst, but would like to ask questions please directly reach out to Marico's Investor Relations team.

With that, I would like to hand the call over to the management for their opening comments.

Saugata Gupta: Very good evening to all those who have joined the call. We would like to start with a quick commentary on the Q2 performance and our outlook for the balance year. Our performance in Q2 was a mixed bag, disappointing in terms of domestic volume growth, while being satisfactory on the margins and market share front as well as, to an extent, the international business. There was a significant slowdown this quarter versus both MAT and Q1 in both the coconut oil and the VAHO category growth. This slowdown was far significant in rural and a similar trend has been witnessed in some of the other large categories in FMCG this quarter. A large part of it was due to consumption slowdown especially in rural and also because of channel liquidity issues especially in wholesale, further aggravated by stress in urban GT systems, owing to lower demand and pressure from newer channels. Offtakes for us grew ahead of primary and secondary growth, which indicates a lower stockholding in trade especially in wholesale and rural. While we have gained share in both of these categories, because of the trends in category growth, especially in rural, which has been slightly negative, we have reasons to believe that there is a certain slowdown in upgradation from unorganized

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

to organized. In certain cases, there could have been cases of downgradation from branded to loose in some of our core categories.

In line with the overall FMCG trends, the food business bucked the trend in terms of growth while premium personal care and business exhibited slow growth. Overall for H1, our volume growth is 4% while being lower than our medium-term aspiration, this growth is broadly in line with average sector volume growth in HPC and offtakes. We continue to invest behind A&P. Spends increased 12% and we will stay on course on our strategy for the balance year other than some pricing intervention to boost growth, which we will talk about later.

In the International business, Bangladesh continues to exhibit robust growth while the rest of the businesses was flattish. The diversification of portfolio and capability driven growth will continue in Bangladesh. While there are some demand issues in MENA and South Africa, we need to bring Southeast Asia business back into growth for H2. All this should ensure a steady profitable growth for the International business for the balance year.

Let me now get into some details on the India business. We started this quarter with an in-line growth in July and that was the time we spoke to you some time in the first week of August in the call post the previous Board meeting. In the first week of August, we experienced significant disruption due to floods in our high-contribution markets of Maharashtra in South, which further accelerated the slowdown. So, we had a decline in August. During July, we also had the lowest copra prices, which accelerated some of the downgradations or slowing of the upgradation because we had not taken any pricing correction. We had a slight recovery in September in the overall volumes and the trend continues in October.

While Parachute declined 1% this quarter, H1 volumes are in line at 5%. We are in the process of looking at some focused pricing calls to make the conversion packs more attractive amongst heavy consumers to encourage a switch back in some of our core markets, which we should be able to implement in the next couple of weeks. This should get us back slowly into our medium-term growth numbers for this quarter and the next quarter.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

The slowdown especially in rural along with our tepid performance in some of our premium brands have slowed down our growth in value-added hair oils. The silver lining is the share gain and our performance in Amla, Aloe Vera, and the initial encouraging signs in our Almond Plus Walnut oil, which we call as dry fruit oil. We are expecting some recovery in H2 and there is some work we have to do in some of our premium brand equity.

Saffola continues to be an issue. Saffola operates in the premium niche of the refined edible oil that has got further impacted due to being slightly discretionary given its price premium. At the same time we have had better mix during the quarter, which led to a value growth of 5% as opposed to volume growth of 1%. We are in the process of sorting out assortment strategy across channels and we are also simultaneously planning a significant distribution drive in our 1-litre packs to get back some incremental volume growth in H2.

Male Grooming got impacted especially in the LUP packs, as you know the category is discretionary and most of the LUP packs are sold in semi-urban and rural towns. We are therefore focusing on premiumization with wax and male serums in H2, which should lead it back to growth.

However, Foods and Premium Hair Nourishment did well considering they are more urban and alternate channel-driven categories. We have started three large initiatives in our go-to-market by redeployment of resources. First, improving partner profitability in GT especially urban, secondly converting non-performing trade schemes into consumer advantaged pricing to drive offtakes instead of channel loading because, as you know, channel liquidity is a problem, and thirdly, driving differentiated assortments across channels to reduce channel conflict and drive incremental sales in alternate channel instead of cannibalistic sales. All these initiatives along with our continued focus on new channels will help in improving our performance in urban.

We are also expanding our rural infrastructure of distributors and stockists and we will continue to invest behind rural distribution efficiency and once the consumer sentiment improves we should be able to leverage this for rural growth.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

In our International business, we are confident of maintaining the momentum in Bangladesh while getting SEA back into decent growth in the second half. We expect very moderate growth in the balance markets. While margins continue to be healthy our constant currency growth of high single digits to 10% plus is possible in the second half.

While immediate consumer sentiment continues to be weak along with liquidity crunch and the fact that while the monsoon has been good, some of the late rains might have had some impact on some of the crops. We expect to stay invested in both innovation and GTM. We will obviously redeploy some of our spends into pricing at the bottom of pyramid and in our core brands to get them back into growth. We also expect at least three new products, mainly Dry Fruit Oil, the new Foods, which is FITTIFY and Coco Soul and Kaya Youth to reach critical mass by year-end. We hope to get back into mid-single-digit growth in H2 in India if the consumption situation improves and clock at least 8-10% constant currency growth in the International business. We will continue to invest behind A&P and the A&P is expected to grow. The input cost situation is comfortable and hence a 19% plus margin appears achievable. Thank you for your patient listening and we are happy to take questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: My first question is on the overall segments and if I look at all the three key segments in India, broadly if I look at Parachute in the last three years you have delivered the intended volume numbers. Similarly in Saffola, while there has been problem, but it has been clearly called out. What kind of something which I am not able to understand is VAHO, which clearly has struggled in the last three years and there has been different reasons but versus what we expect and what has been your guidance even for the medium term has not been achieved in the last three years, just wanted to understand has there been a significant change in the segment dynamics or the competitive intensity in the segment, which is leading to lower growth compared to what is the guidance in the sustained period of time?

Saugata Gupta: You are absolutely right. The last two years have been average growth of 4- 5% in VAHO and which has fallen short of our aspiration. Now while not getting into specific reasons, both in 2017 and 2018, we had one significantly bad quarter, first with demonetization and secondly with GST, and then there was obviously competitive action at the bottom of pyramid, which led us to a certain growth pattern, which was lower than our guidance of double digits. The second thing, which happened, as I said, is some of the premium brands did not fire, which is basically other than Aloe, like some of the things in hair fall and premium brands like Hair & Care, which did not do well. If you look at the last three years, we have not lost market share, but unlike the broad based growth driven by 3 or 4 brands earlier, keeping aside the quarters of GST and demonetization, the growths have been 7% instead of 12-13% or higher. This is because a significant portion of the growth has been only led by Amla and to an extent by Aloe, which versus 2011 to 2017, Amla had a significant growth and you had three other bands growing at nearly double digits. So I think, that is the issue, which has got further compounded by the fact that VAHO growth especially in rural, has been affected. As you know, Value Added Hair Oils has a rural skew and if you look at the recent numbers of the categories and FMCG growth, the most affected in rural has been the North and East, which has been also our VAHO stronghold. Having said that, we have a task to do with respect to some of our internal issues in one or two brands, which is lack of participation in hair fall in other parts of the country than South and one or two other brands, which have not been doing well. They are essentially not just external issues, but some of the equity issues, which we are going to solve. Having said that, we know what to solve and most of the answers to solve for it. We obviously need some tailwinds in market growth because just to give you a perspective of the VAHO market category growth, MAT growth of the category was 8%. In terms of the April-June quarter, the category growth was 5%. The July-September category growth has been 0% and actually in rural it has been -1%. So, some of the factors are external and we have to do certain things, which are internal, so that should lead us back into some growth. Yes, in terms of the medium-term guidance, in the last two years, we have failed to deliver on it, but I would think that, if the category growth gets back into 6-7%, there is no reason for us to not start growing ahead of the category because we have been growing share and secondly now we are participating in both bottom of pyramid and also the top end in Aloe and some of the initial signs in Dry Fruit Oil, which is the Walnut Plus Almond oil, being reasonably satisfactory.

Amit Sinha: Okay Sir thanks a lot and second question is on the overall growth and basically just wanted to understand that even Nielsen has called out a number, which is close to around 6%, 7% for the market and broadly some of the other companies are broadly around that kind of a number, just wanted to understand is it a very, very quarter-specific issue wherein our growth rate or the categories wherein obviously you have gained market share, so there is no market share issue, but the category growth rates where we operate in, they have grown significantly slower compared to the market so just wanted to understand, is it a quarter-specific issue because the pipeline thinning, which you kind of indicated in the opening remarks, I think has it been more for you guys compared to the market overall, some color on this will be very, very helpful?

Saugata Gupta: So, I am talking about volume growth and not value growth and these are the Nielsen numbers. The HPC volume growth rate for the July, August, September quarter has been 2% and the rural growth is even lower. Now if you have to look at it from an overall H1 point of view, our volume growth is still in the region of 4%. In Q2, our offtake growths are higher than the category growths I mentioned. I can broadly tell you we are in the region of 3-4%. Secondly, perhaps in our case one of the things we have to do better and we have started doing is our urban GT has been affected significantly because of which we are sorting out our channel assortment strategy. Unlike some of the other companies, we do not have such a strong premiumization portfolio, but our alternate channel contribution has been significant and therefore in the absence of significant inflation-led growth, the urban GT has been significantly challenged, and there have been some infrastructure imbalances and issues in urban GT. So as a result, while rural has reduced significantly versus Q1 where we had a significant rural contribution, the urban GT has declined 11%. I think that has been a difference versus other organizations and we are looking at some alternate models of distribution in terms of supply chain and we are taking some time. But that has been a single discriminatory number, which is perhaps significant.

Amit Sinha: Got it Sir. I think before GST implementation also I think there was some higher kind of channel pipeline thinning for Marico compared to rest of the industry probably. That answers my question. Thanks a lot.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is on Parachute pricing. Copra price has fallen quite a lot and we are enjoying huge gross margin benefits here and our volume has actually declined by about 2%. The decline is actually a little more sharper than what we have seen in VAHO, which is flat, but on the other hand VAHO, which does not have such a big decline in the input cost market has seen a 6% pricing decline this quarter Y-o-Y, and Parachute had seen only about a 3% decline Y-o-Y. So my question is, in this context, was not you have been better off passing on some more pricings in Parachute Coconut Oil to the consumer and getting a better volume growth there?

Saugata Gupta: Yes. You are absolutely right. First, let me just explain about the Value Added Hair Oil. The Value Added Hair Oils value decline is because of the fact that last year this quarter we have taken a price increase, which was on the anticipation of crude going up and then we took a price drop in June of around 5% and that is the reason that there is a difference of minus 6%, more of anniversarization not happening so it was a price drop of the last quarter and a price increase that was taken in Q2 of last year. You are right on Parachute. I think, we took that call because we said in our post-GST scenario, local players are disadvantaged, and they did not have liquidity. We did enjoy very significant growth rates of 9% in Q1 and therefore that is the reason still the H1 growth is 5% in line with medium-term growth aspirations. We also had this situation, as I talked about, of around 40 days in this quarter in which the copra prices had gone further down, it was sometime in June second week to around August first week, in which we were priced at a disadvantage in some of these markets. Thirdly, if you look at the pattern of floods, which led to supply chain and other disruption, a significant portion in Parachute-strong markets of Maharashtra, South Maharashtra, Pune belt, Karnataka, Kerala, etc. Had we taken a pricing action we would have got back volumes. We are taking some selective actions, which are basically not for loyalty packs but for heavy consumer upgradation packs so we would be taking some action in the next couple of weeks and as per current trends also we think we should get back Parachute volumes into this medium term trend this quarter.

Percy Panthaki: Okay and just to clarify on the VAHO part, so I understand the dynamics of the last year price increase and the recent price cut and all that, but just to confirm all that put together how it plays out is that if you currently keep the prices unchanged, that is unchanged from today for the next three, four months then in the December quarter also on a Y-o-Y basis, the VAHO pricing would be negative by about 5%?

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: Yes, so there will be a 5% negative unless we drastically increase the mix. Out of which the extra 1% is because we are now pushing a little bit of bottom of pyramid packs while we have not really succeeded so much in our premiumization.

Percy Panthaki: Understood and can you give us an update in this kind of slow market environment, you had several initiatives both in foods as well as in skincare, hair care; you have the Kaya skin care range, which you are planning or have rolled out outside Kaya stores as well, then you have True Roots and then you have all the food initiatives so how are all these things performing?

Saugata Gupta: So, Aloe continues to do well. We believe that we will get critical mass on the new foods, which is FITTIFY and Coco Soul, and also Dry Fruit Oil and Kaya Youth by March exit. In Male Grooming, since styling is discretionary during slowdown, the LUP packs which are being sold in rural were impacted. We will use waxes, which is a category that is growing and we will be pushing that. The rest, which is True Roots and Crème Oil, we have been prototyping but we don't believe that we have met action standards in terms of getting the right mix to extend it so as far. So, in these three we are good to go and waxes in terms of Male Grooming, while the rest is still in WIP. Also, despite the increasing trend in A&P spends, even if we take some pricing action, we will be able to maintain that 19% plus margin.

Percy Panthaki: Right Sir and any comments on what strategy you are going to adopt for the Kaya skin care range?

Saugata Gupta: So it is just available in the modern trade in one or two cities because we are prototyping this along with our new-age GTM channel, which is a dedicated channel of chemists and cosmetics. This is being done in few cities right now. It is limited GT, and we are slowly trying to expand it, so as I said that it will have some critical mass this year. The other capability, two things, which we are building, which we do not have, one is the top-end premium skin-care visual merchandising and beauty adviser/promoter based selling and these are the capabilities we are driving. It takes time to develop these capabilities so therefore I believe over the next six months we will develop this capability. Independent of that, I do not think we need to reduce our investments. Also, one of the things we have done in terms of redeployment of investment, which will partially fund the Parachute price decrease is that when there is a liquidity crunch and wholesale channel stocking is low, doing disproportionate trade schemes to drive stocking of trade is something we do not want to do and therefore we will work towards consumer advantaged pricing.

Percy Panthaki: Understood and this 11% decline in GT, which you mentioned that is across all product categories?

Saugata Gupta: No. This is urban GT and that is because of two reasons we are looking to address. We are now taking steps to protect partner ROIs in cities where we have significant E-com and Modern Trade growth and there has been no volume growth. So, partner ROIs have been impacted. The other is that we are experimenting with alternate supply chain models for delivery to retail outlets because that is a significant cost our partners take and in that model, we are trying with professional supply chain firms in Mumbai and Delhi to start with. The process is also taking time to stabilize so one is the change management and the other is partner ROI instability, which is also leading them to lower stocking. So, as I said, we are taking steps from the next month onwards to ensure that we improve partner profitability and viability of urban GT.

Percy Panthaki: Right so this 11% is a primary number, right?

Saugata Gupta: That is right.

Percy Panthaki: So the corresponding secondary number urban GT, but on a secondary basis how much would that be?

Vivek Karve: Percy, we report primary numbers, so I think, beyond this we may not be able to share.

Percy Panthaki: Sure. That is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan S: This is regarding the working capital. Now, I understand that there are problems with GT, but how do we look at the structure definitely in the debtors Y-o-Y there has been problems on the GT front, but on a steady state basis is this likely to keep on increasing given that most of

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

your new launches are urban and premium and also the alternate channels are likely to grow faster and if so then how do you mitigate that at the net working capital level?

Vivek Karve: Yes so you are right because if the Modern Trade and E-commerce business keeps growing, typically the receivable number of days would be higher. So we are looking at some increase in the overall receivable days, but having said that, what we are also trying to do is can we mitigate this impact through some innovative supply chain financing solutions, which is what we have been doing over the last two or three quarters, which has a compensating impact on the overall working capital of the business.

Krishnan S: Okay. We just got what you pointed out has led to the increase in the trade payable days?

Vivek Karve: You are right.

Krishnan S: And anything on the inventory front that you could do?

Vivek Karve: On inventory, we keep some strategic positions on some of the commodities that we buy and that philosophy will continue even in the future, but quite separately the quest to reduce inventory on all other items is a continuous one and we will keep at it.

Saugata Gupta: And just to add, we are also looking at, especially in the post-GST scenario, opportunities for network optimization and different ways of supply chain. You do not need to stock all the small SKUs and all the 26 nodes we have and so we are simultaneously working on it. Having said that, as far as other channel partners are concerned in traditional trade, our job is to make their ROI improve without just managing credit as there are other ways to improve their ROI.

Krishnan S: Okay and Saugata, the other question is regarding rural, you had outlined a year-and-a-half ago of targeting 40% of sales from rural from about 30% then. I know there has been a slowdown in rural, but in terms of infrastructure building, how are we progressed on the front?

Saugata Gupta: Yes, we are continuing to target in some of the markets. In the north, we are still under-indexed, our strength in rural still continues to be in the South and West, so therefore that investment we are not cutting down. See we believe that this is temporary and not a cyclical or a structural slowdown in the sector. Therefore if you continue to invest behind the efficiency of distributions and direct reach, in fact, you will continue to gain market share and tomorrow these will be a source of competitive advantage, but the one channel, which we are worried about long term is actually wholesale and therefore in that process we have added 1500 plus stockists this year especially in the North and East where as I said we are under-indexed. Given our urban decline of 11%, the wholesale decline would have been slightly higher. So this is one channel, which actually has been impacted because of both the combination of demand and liquidity situation.

Krishnan S: Okay that is very helpful. Thanks.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir, just seeking a broader sense from your read of the ground reality on rural slowdown so usually we associate rural slowdown with deficit rainfall scenario, but this year that is not the issue so we understand liquidity crunch at trade level, but why is rural consumer so much under consuming?

Saugata Gupta: In terms of money in the hands of both consumer and trade, it has not grown much. If you look at the CAGR in terms of rural income or agriculture income, that is the issue. Second one, while we have a good monsoon in terms of volume, in terms of spread and especially the fact that there were some unseasonal rains which actually can have an impact on some of the crops especially in MP, Gujarat, etc. So, I think it is real wage growth, real money in the hands of the consumer and trade. I think, as the government is taking steps in terms of direct benefit transfer and MSP prices, you see the first signs of some inflation coming in. Some part will be food inflation, which will be MSP-led, so we hope there will be some kind of a gradual recovery.

Vivek Karve: Also Tejas, it appears that the rural slowdown is far more broad-based across FMCG and HPC sector, so it is just not our categories.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: The only thing is that in the case of coconut oil category there is an always alternative of a 35% loose pool in a slowdown for a person to downgrade to. In some of the other categories, in the case of VAHO in the North there could be a downgradation to mustard, so that opportunity is there, which might not be there in other categories.

Tejas Shah: Does this mean that the channels are also carrying lesser inventory than the optimum level or as our liquidity scenario improves, we will have both the deltas coming that consumption also picks up and channel will also start stocking it up?

Saugata Gupta: Okay. Let me give you a perspective. We had channel destocking during demonetization and during GST, so whether we recover 100%, the answer is no. We do not recover 100% and it is fine because this is one of the things forcing us to change the way we do business because a lot of investment in FMCG happens in trade spends, and therefore that gives us a push to actually check that. I think some of the companies have already done that is the percentage you spend between trade spends and pricing. So can we keep on increasing that component towards pricing and direct consumer advantage and building infrastructure rather than trade spends? Because if your offtake does not increase in other than price point packs, which are very distribution led, if you invest behind direct distribution, it is okay even if wholesale has lower stocking.

Tejas Shah: And Sir, you mentioned in your investor update that your Modern Trade and E-commerce now contributes to 15% and 5%, respectively of domestic business. What would be the same number for your urban revenue, the same contribution?

Saugata Gupta: So it will be mostly urban, while it is difficult to say. Since some of the B2B Modern Trade and some of B2B and B2C E-com could be going to rural, it is very difficult to say, but you can take that a significant portion is urban.

Tejas Shah: So Sir, in that context, do you think that the problem in urban GT is now structural because if MT and E-com are now lion share of your urban revenue and that is where the value migration is happening also from consumer perspective. So the intervention, which we are planning to revive GT in urban is kind of loss cause from a structural perspective?

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Saugata Gupta: Not really, because, the question is of two things. One is, as I said that, as you premiumize what kind of assortment you are selling into alternate channels versus GT. Number two, what has also happened is that all the new products launched, are disproportionately selling through alternate channels. We are now investing behind creating a chemist, cosmetic and specialty food, GT urban infrastructure, where we are completely under-indexed because there is actually a groceries and wholesale bias in our current GT.

Tejas Shah: And Sir, lastly, on looking at copra prices sequential movement do you see any risk to your annual guidance on margins coming from copra movement?

Saugata Gupta: So two things: One is, we have strategic position building. Number two, even our current forecast does not indicate, subject to no natural calamities, any significant inflationary situation over the next six months at least, which gives us comfort to take some pricing action to get back volume growth in Parachute without compromising on margin. We will continue to have a significant efficiency drive on trade spends, which will start funding some of these pricing calls.

Tejas Shah: That is all from my side. Once again Happy Diwali to the whole team there.

Moderator: Thank you. The next question is from the line of Bhakti Thacker from Investec. Please go ahead.

Harit Kapoor: Just two questions, firstly you spoke about price interventions in Parachute, which will be selective, any other pricing interventions we expect on the balance hair oil portfolio as well?

Saugata Gupta: In hair oils, we have taken a pricing intervention during Q1. We do not see any further pricing intervention. We might selectively take some in Parachute.

Harit Kapoor: Okay so apart from Parachute there is nothing. The second question was because there was a period of time where copra came off quite sharply and then it has moved up back again a little bit do you believe that this significant say price reductions or whatever promotions or low pricing is happening at the unorganized or loose level or even at the regional level that could

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

kind of turnaround very quickly as the price has kind of moved up to a slightly more sustainable base so do you see some of these issues kind of settling down on their own itself?

Saugata Gupta: Yes you are right. In July-August, two things happened. One was a flood in most of our Parachute-strong markets and the other was a lowering of prices in the market. So, now that we have visibility in October, we can say some of the problems have sorted out by itself. Having said that, we need to accelerate growth and since we do not have any stress on margins and ability to take pricing. It will be important that we actually use it to drive back growth because our first point of call is to do two things, one is get back Parachute growth. It is actually 5% still H1, Q2 is perhaps a little bit of an aberration. Second is getting back VAHO growth. The next is the focus on alternate channels for premiumization and getting critical mass in some of the new products besides Aloe, in like DFO, Foods and Kaya Youth by exit March.

Harit Kapoor: Perfect. Last question very quickly was on the new product portfolio. You spoke about the critical mass very clearly, so do we see at least for the second half of this year a lot of the brand investments to go behind these new brands that you have put out and probably not too much more, which could come in because you have done quite a few things in the space of the last say 12 months or so is that the right way to look at it?

Saugata Gupta: Yes, I think we have enough on our plate. It is important that we get success in what we have and, having said that, as I mentioned, you will continue to see quarter-on-quarter increase in A&P spends. So that is something which we are not sacrificing.

Harit Kapoor: That is it from me. Wish you all the best.

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

Kaustubh Pawaskar: Sir, my question is on the International market. We have seen Bangladesh is consistently performing well for you and some of the other markets are yet to recover. Those Southeast Asia did well for you, but now again in Q2, we have seen muted kind of a growth and in your

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

initial comment you mentioned that you are looking at recovering the growth in the Southeast Asia market, so what exactly you are planning to do in this market?

Saugata Gupta: So if you look at even Southeast Asia, H1 growth is at 5- 6%. There is nothing wrong in the market. In Southeast Asia, significant portion comes from Vietnam, where the GDP growth is good. I think there were some issues in some of the categories in this quarter but we should be getting it back on growth. For Q1, growth had been 8%, so I would say this quarter was a slight aberration, and we are reasonably confident that we will get back some of the growth.

Kaustubh Pawaskar: Right and Sir some of the other markets like MENA and South Africa?

Saugata Gupta: As I said, the demand situation is not that encouraging in these markets and therefore the growth will be low in these markets, but having said that, Bangladesh and Southeast Asia are around 70% of the business, and if you add another 6% of the new country development, which is also growing, 76-77% of the business should be definitely in a good growth mode and that should lead us into a high single-digit, at least 8%. If you can get a little more out of Southeast Asia it should inch back into a 10% growth in the International business in constant currency. As of now, certainly 8-9% is more or less in sight, but if Southeast Asia recovers a little more, we should get 10% in constant currency and without any dilution of operating margin. Therefore, International business continues to be robust and healthy.

Kaustubh Pawaskar: And Sir in your initial comment and answering to one of the earlier questions, you have emphasized on the point of efficiency in channel trade space, could you elaborate on that point?

Saugata Gupta: Yes. So, if there is a liquidity issue, it makes much more sense to give the consumer the advantage versus trying to stock up trade because ultimately stocking up trade does not necessarily lead to offtake. It makes perhaps more business sense to invest behind direct distribution and reduce channel spends in terms of trade spends and spend behind consumer advantage. I think that is what we are talking about and the second thing we are talking about is efficiencies in having differentiated assortment between alternate channels and existing channels.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Kaustubh Pawaskar: Okay thanks for that.

Moderator: Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: I just have a small thing on in case of Parachute the decline in realization if you see and when I look at the pricing action you have taken, you have given consumer offers in Parachute Rigids 100 ml free on 500 ml. So have you taken any price reductions because in your pricing the MRP that you shared, I am not really seeing anything there, which explains the decline so were there any promotional?

Saugata Gupta: No, it must be the quantum of promo versus last year and also a mix of small packs versus large packs. So it is a combination of both.

Abhijeet Kundu: Okay because the value growth is about minus 4%, against volume, so it is pretty large that way.

Saugata Gupta: No, it is a combination of promo and mix. The price point packs would have had more growth especially in a slowdown.

Abhijeet Kundu: And the other part was that, the issue in urban GT would have been there for some time because Modern Trade has been growing at a strong rate for quite some time on a very consistent basis while in this quarter itself that kind of decline was seen because did the initiatives by Marico start right before the quarter or by start of the quarter?

Saugata Gupta: No, there are 2 things. One is we must realize last year because of inflation, a lot of these distributors got value growth. We had around 8% inflation last year. We had 16% topline growth with 8% volume, so 8% inflation last year. So when the distribution system gets that inflation-based growth, the costs gets supported. Now here there was a situation in which their own liquidity is an issue. We are not getting value growth because one is volumes coming down and number two there is no inflation. I think it is a compounding effect of both and the Modern Trade plus E-Com contribution also growing. So it is a combination of these. We have started taking significant steps and some of them will start fructifying over the next

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

couple of months. Actually, if you specifically look at the quarter, in Q2 last year the inflationary value was actually 14%. Last year, in Q2, India had a volume growth of 6% and a value growth of 20%. So the system would have enjoyed that versus this year when there is a negative. So, that would have also impacted in terms of cost that would have increased with a liquidity problem with no commensurate increase in the rupee value of absolute money they were taking with the same margins.

Abhijeet Kundu: Okay and third question was on copra prices so getting into the second half, the copra prices have slightly firmed up, what is your general outlook on copra prices?

Saugata Gupta: In copra prices, we do not see any significant inflation in the near term right now.

Moderator: Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: Question is on the medium-term strategy for the company given that they say there was a slowdown in the hair oil category and some of the smaller players are facing issue and that is why we are also gaining some market share. Do you think there is a scope for consolidation in this category and making hair oil portfolio more diversified or do the strategy remains that we have enough of hair oil category we would rather focus on non-hair oil category?

Saugata Gupta: I think given the slowdown, our first job is to get back the core into growth. So what are we doing? Firstly, if there has been some deviation in the Parachute pricing in some packs, get it right, get Parachute back into growth. Second, as far as Value Added Hair Oils is concerned, there are opportunities in the bottom of pyramid, Shanti continues to do well and gain share. In some of the premium ones, while we do not participate in cooling, there are brands in the non-sticky hair oils, where we have not grown. So can we get participate and perhaps be aggressive in that part and grow share. I would say a significant portion of our investments and time will get into this. As far as the new categories are concerned, Aloe has already delivered, and next year it can become a INR 100 crore brand. I believe that Dry Fruit Oil also has potential to get critical mass. We have to participate maybe more aggressively in hair fall, which is something, which we have not done other than in the South. So I see that is happening. I do not see any new big initiatives coming. Whatever we have on our plate, I

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

think, we have to premiumize and succeed in driving them through the alternate channels and the new-age GT, which we are just about starting to invest in, which is chemists, cosmetics and foods, we are having a separate distribution channel in the urban GT. We have to get these three right. I think, in rural, our infrastructure and portfolio is right, and we believe the moment there is some tailwind, the growth will come back. We are not concerned either with infrastructure or the portfolio as far as rural is concerned.

Anubhav Sahu: Okay that was fair enough just a followup on that. Sometimes the sales like slowdown like this also source of some inorganic opportunity as such so would we be looking for those kind of opportunities and if so in which category?

Saugata Gupta: It is a hypothetical question. Inorganic is something we continue to evaluate. Having said that, our focus right now is to get back organic growth and as I said, that organized players in our category and bigger players have an opportunity to get disproportionate share, as the growth in the category comes back.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Thinking about this point you mentioned about you are reducing trade spends and putting that into consumer promos, just one thing, if this is the right time to do that because as you said there is a huge liquidity issue with the trade, you also mentioned that there is a issue with urban GT, and you are actually looking to improve your ROI. So in this kind of a scenario if you cut trade spend is not it going to be counterproductive?

Saugata Gupta: So, distributor ROI is different. When I talked about trade spends, this is basically the kind of spends you do on wholesale to do incremental secondaries. But there is a lack of liquidity, and also low offtake. The liquidity is not just a problem with the wholesale channels, the liquidity problem is also for a small retailer who comes to the wholesaler to buy. Now there is no point in stuffing the wholesale by investing behind it when there is an offtake and a throughput issue. That is what we are talking about. Instead, if I can give consumer advantage and the fact that we are anyway investing behind direct distribution, I would rather get more growth, because giving a trade load is just advancing sales.

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com

Percy Panthaki: I understand that part, that there is no use of stuffing inventory into the trade, but just as there is a issue with distributor ROI, there might be an issue with the wholesalers ROI also and if the trade loads are reduced, that directly has an impact on the wholesaler ROI. So while it is good not to stuff, but at least some amount of sales, which is happening because we found this product to be a good ROI product and if that ROI falls maybe some amount of sales through the wholesale channel might be lost. Do not you think so?

Saugata Gupta: If the brand equity pull is there, I would rather give a consumer advantage rather than just giving a trade advantage. There is empirical evidence to show that ultimately consumer advantage is far more effective than trade advantage. So, as I said, the first thing, can I invest behind Parachute pricing? Can I invest behind direct distribution? I think, it is a question of redeploying spends. I am not saying I am reducing these. There are trade spends, which work in giving ROI and there are trade spends, which do not. I think that leads to wastages. What I am trying to say is that given there is a slowdown and we have invested significantly in analytics capability, can I invest behind things that work versus invest behind things that do not work. So, just to answer your question, Percy, in fact I am not going to reduce and become less competitive. Whenever there is a wastage, let us put actually that behind the consumer.

Moderator: Thank you. Ladies and gentlemen that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Vivek Karve: I would like to thank all of you once again for joining today’s call. While our topline performance during Q2 was muted in India, International performed well. Our EBITDA performance was also satisfactory. We remain hopeful of H2 recovery given good monsoons and renewed thrust on spends by the government. I wish you all a very happy Diwali festival ahead and good night.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited to improve readability)

Regd. Off: 7th Floor, Grande Palladium, 175, CST Road, Kalina, Santa Cruz (East), Mumbai – 400098.

CIN: L15140MH1988PLC049208. Email: investor@marico.com