Marico Limited

Conference Call

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Moderators

Mr Saugata Gupta – CEO – Consumer Products Business
Mr Ajay Pahwa – CEO Kaya Limited
Mr Vivek Karve – EVP and Head – Corporate Finance
Mr Chaitanya Desphande – EVP & Head Investor Relations & M&A
Mr Ajay Thakur – Alchemy Shares and Stock Brokers Private Limited

Operator : Ladies and gentlemen, good evening and welcome to the Q1FY11 results conference call of Marico Limited hosted by Alchemy Shares and Stock Brokers Private Limited. All participants 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. If you should need any assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ajay Thakur of Alchemy. Thank you and over to you sir.

Ajay Thakur: Thank you Marina. Good evening ladies and gentlemen, on behalf of Alchemy Shares and Stock Brokers, I welcome you all to the first quarter earnings conference call of Marico. To discuss the results we have with us Mr Saugata Gupta, CEO of Consumer Products Business, Mr. Ajay Pahwa, CEO of Kaya Business and Mr. Chaitanya Deshpande Executive Vice President of Investor Relations and Merger and Acquisitions. To begin with the proceedings I shall request Mr. Chaitanya Deshpande for his initial remark and then we can open the floor for Q&A session. Over to you sir.

Chaitanya Deshpande: Thank you very much Ajay. Good evening ladies and gentlemen and welcome to Marico's conference call, following the announcement of our financial results for Q1FY11. Along with us we also have Vivek Karve who is the EVP and Head of our Corporate Finance function. We have sent out the information update like we always do upon the results being intimated to the stock exchanges and a little before the call.

Some of you would perhaps have had an opportunity to read it while others may not have been able take a look in great detail as there was another call prior to this one. So I think I will take a minute to share the performance highlights of the quarter and then we can go into questions.

The Marico group achieved a turnover of 790 Crore for the quarter - a growth of 13.4% over the same quarter in the previous year. However, the volume growth was 16%, and volume growth is what the company would like to focus on to try and improve its overall consumer franchise. So we are happy with this kind of growth during the quarter. We have seen 16% volume growth in the FMCG business within India. We have also seen about 17% volume growth for our international business and Kaya has also shown growth over the same quarter in the previous year. We have also witnessed a sequential growth in Kaya India. Though these numbers are small what we are glad about is that after a couple of quarters of decline, we have started seeing growth once again in the Kaya business. Of course, we made the Derma Rx acquisition during the course of this quarter. We have added about Rupees 5 Crores of turnover from Derma Rx and now the plan is to try and work on getting some of those products from the Derma Rx portfolio into Kaya in India as well as in the Middle East. Overall in terms of margins we achieved an EBITDA margin of 13.3% during this quarter as against 13.8% for the first quarter in the previous year. However, in the last year we made a provision for excise duty only from 03 June till the end of the quarter whereas for this quarter the provision was made for the quarter as a whole. So if one were to ignore for a moment the impact of Excise duty on Coconut oil in packs sizes upto 200 ml, the EBITDA margins are comparable. EBITDA margin is 14.4% in this quarter versus 14.5% in the first quarter of the last year.

Overall looking forward we think, we have set a good momentum during the first quarter and a fairly robust growth should be achievable over the next few quarters. With that I would like to throw open the floor to questions. We will try and answer them to the best of our ability. In the event that we are not to able to provide all the details right away we can always mail you post this call. We can start taking the questions now.

Moderator : Thank you very much Sir. We will now begin with the question and answer session. First question is from Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir congratulations on a good set of numbers. My first question is on the new product, which has been introduced in the Saffola brand, basically Saffola Oats and prior to that Saffola Rice. Could you talk what is the game plan here and how is the Saffola Rice, in particular, doing because now there is some sufficient time to really evaluate the initial launch at least?

Saugata Gupta: As far as Saffola Rice is concerned, we are now in month five. It has settled down and broadly we expect to do between Rs 20 and Rs 25 Crores annualized for this year. The market for this super premium package rice is Rs 400 Crores plus it is growing very well especially in modern trade and given our brand affinity and the fact that we now have a solid base of users who are doing a repeat purchase we believe we are well placed to take it to the next level. Over a three of period we believe that this should hit a number of around 60-70 Crores at least going by how things stand as of now.

Abneesh Roy: You mentioned modern trade is Rs 400 Crores, so are we focusing essentially on modern trade distribution?

Saugata Gupta: The market is Rs 400 crore. However it is dominated by modern trade. We are focusing on modern trade and top end outlets in the top metros. Saffola as a brand has high traction in modern trade and current users of Saffola oils are also our first port of call for Saffola Arise. As far as oats is concerned the market is Rs 120-Rs 130 Crores. Neilson will report a lower number as their modern trade pick up is low. This number is from our internal estimates and is hence approximate. The market is growing at around 30-40%. Consumption of oats is however growing as a habit in which we intend to participate. The initial results are encouraging although this is the very initial stage. We have placed products in the market for barely three to four weeks. We believe that between rice and oats we should exit the year with an annualised revenue of anything between 30-35 Crore.

Abneesh Roy: In the first five months are you happy with how Saffola Rice has done in the context of how Saffola zest performed?

Saugata Gupta: Saffola Rice is meeting our action standards. The new marketing mix under which we began rolling it out is doing even better than the prototype and we are reasonably in line for annualised action standards.

Abneesh Roy: Could you comment on how the Thanda oil is doing in the two key states of Bihar and AP?

Saugata Gupta: As far as AP is concerned, it has exceeded action standards. To give you a perspective of the number, on an annualised basis in just one state in AP, we should be clocking Rs 5 Crore in turnover. Now AP contributes to around 7-8% of the market. Hoowever, we may not scale it up nationally right now, as you know that it is a seasonal product. . In terms of market shares, it has already hit 7.5% in three months but as you know new product offtake pick ups take a little time by market share monitoring agencies. In our estimate the market share should be in comfortable double-digits.

Abneesh Roy: What about Bihar?

Saugata Gupta: Bihar it is just about meeting action standards. Our performance in AP is far superior. We have to wait and see for Bihar. So we are checking out different marketing mixes as far as Bihar and AP is concerned and therefore we will see what happens as the season progresses.

Abneesh Roy: So one question on the AP who have you taken market shares from as 7.5% is pretty large for a new product? One last question is on the A&P spend what is the guidance?

Saugata Gupta: We would hover around 11.5-12.0%. We do not see A&P spends increasing drastically; however, it could vary from quarter-to-quarter. A higher A&P spend could however result from progress on our innovation pipeline and new product agenda.

Abneesh Roy: But is the addition firming because your sales growth is only 13%, so is the media inflation happening and you are then cutting to an extent?

Saugata Gupta A&P expenses are spread over our three businesses. The India FMCG business comprises about 70% of the Marico group turnover. In the India FMCG business our A&P expenses roughly comprise 70% ATL and 30% BTL. It is this 70% that is impacted by media inflation. In the international FMCG business we are not faced with similar media inflation. In Kaya, our focus is not necessarily on mass television advertising.

Abneesh Roy: Is that very high because ATL to BTL ratio is around 70-30 or is that the norm?

Saugata Gupta: We consciously want to spend more on ATL rather than BTL.

Abneesh Roy: I found 70 is very low in that?

Saugata Gupta: No that includes the promotional cost also.

Abneesh Roy: Okay, Sir that is also my side. Thanks a lot.

Operator: Thank you. Next question is from Pritesh Chedda from MK Global. Please go ahead.

Pritesh Chedda: Hi everybody. Congratulations for a good set of numbers. I could not go through the press release but sequentially if you see the gross-margins have come down significantly, is my numbers right or there is something else in it?

Chaitanya Deshpande: What you have got there is correct.

Pritesh Chedda: If you could give the reason because the series of calls I just could not go through the press release or the numbers properly?

Chaitanya Deshpande: Just a couple of things During Q4 last year the quantum of promotions was lower while it is a little higher in Q1 this year. The promotional offer comprises extra product being given without changing the retail price. Consequently the material consumed is higher. There is a switch between A&P and material cost leading to a slightly lower gross margin. The other reason is, of course, we have not changed any pricing in Parachute since Q3 of last year where we had taken a small price cut in some of the recruiter packs. For instance we reduced the price points of Rs 6, 12 and 21 to Rs 5, 10 and 20 respectively. These have been maintained during this quarter. So on a quarter-on-quarter basis , there is a slightly lower net realisation, while there has been some up trend in the material prices.

Pritesh Chedda: If you could tell us the status of the material prices, say on a QOQ basis, the uptick on the YOY basis if you could compare with the base of 100 on YOY?

Chaitanya Deshpande: In the case of copra on a YOY basis they are up during this quarter by about 4%. In the case of Safflower in fact it is down by about 12%. The other major raw material for us is rice bran oil which is almost flat on a YOY basis..

Pritesh Chedda: Any outlook here?

Chaitanya Deshpande: I say this on each call. It is a difficult to forecast raw material. But having said that at least for copra we might end up 7-10% higher than last year for the year as the whole. Copra comprises about 40% of our raw material consumption.

Pritesh Chedda: On the A&P spends, it is quite contrary to what other calls and companies which we have heard on the A&P spends, in your case on a YOY basis in terms of a percentage sales that is far lower one. Is it to do at where the competitive activity in this line of business is slightly lower versus other or is there some other reasons for that?

Saugata Gupta: No I think as Chaitanya said earlier that most of our promotional spends has been either same price for extra product which gets absorbed in the gross contribution. So if you really look at, it may be that is around 1.0-1.5% higher. So in reality if you had added that promotional cost to A&P it would have gone by 1.0-1.5%.

Pritesh Chedda: Okay. Last time the tax rate; what could be the tax rate for this year because this quarter at least tax rate is lower?

Chaitanya Deshpande: It is lower. During the quarter it is about 17. 8% Our estimate for the rest of the year too is a rate below 20%. Anywhere between 18 and 20 is what we except, and this is also likely to be the case going forward into the next year.

Pritesh Chedda: Would you like to give an outlook on the blended volume growth for the company for this year after looking at posting 16% volume growth for this quarter?

Saugata Gupta: I think we should be able to maintain, at least going forward in Q2, around 14-15% volume growth. As far as a board breakup is concerned, we expect Parachute rigid growth around 10% plus, Saffola around 15% and hair oils around 20% . In international business we expect a growth of 20-25% excluding the effects of foreign exchange fluctuations.

Pritesh Chedda: What was Saffola 15%?

Chaitanya Deshpande: Yes 15%.

Pritesh Chedda: Many thanks to you and all the best to you Sir.

Moderator: Thank you. Next question is from Aditya Somen from Goldman Sachs**.** Please go ahead.

Aditya Somen: Good evening everybody. In terms of margins this quarter, I mean is there any impact on your gross margins because of increasing international business does it to an extent, sort of offset the risk of domestic inflation for you?

Chaitanya Deshpande: Not really. At gross margin levels the difference is not significant.

Aditya Somen: And that is because you source other material from India or if inflation would increase in the international market?

Chaitanya Deshpande: No, only in the case of coconut oil are we sourcing most of our material from India. For markets such as Egypt for hair creams and hair gels all materials are sourced locally. Similarly our South African portfolio does not depend upon materials sourced from India to any significant extent.

Aditya Somen: My question was that if the inflation in the increasing at a very high rate in India general inflation, would the international business not offset this to an extent given that global inflation lower?

Chaitanya Deshpande: If you look at some of the products in the overseas market - creams and gels for instance the component of crude oil related derivatives whether for raw materials or for packing materials is high. Crude oil related inflation is the same whether for India or for the global markets.

Aditya Somen: Thank you.

Moderator : Sir, do you have any further question? Mr. Somen do you have any further questions?

Aditya Somen: No.

Moderator: Thank you. Next question is from the Nilesh Shah from Morgan Stanley. Please go head.

Nilesh Shah: Thank you. Could you please comment a little bit on the price hike that you have taken and 7-10% increase guidance in term of copra prices would be significant? So how do you plan to counter that?

Chaitanya Deshpande: We will take a call on this as the year progresses. Typically a 10% increase in copra prices will warrant approximately a 5% increase in retail prices for us. So it would be possible but to pass this on by increasing prices by a Rupee or so.

Saugata Gupta: If you really look at the pricing we had taken price increase of Parachute 200 ml from Rs.39 to Rs.40 in February. As we speak we are contemplating an increase of 4% to 5% in some of the larger packs which will offset the price increase. As a strategy we intend to keep the prices of the smaller recruiter packs untouched. They are showing good growth at these prices.

Nilesh Shah: 5% possible price increase is on the larger packs?

Saugata Gupta: That is right.

Nilesh Shah: Second question is in terms of the underlying volume growth in Saffola, what exactly will be the underlying volume growth?

Saugata Gupta: The Saffola volume growth is 17.5%. Let me also preempt another question on this promotional volumes for both Saffola and Parachute. In both the brands the promotional components were lower than in the same quarter last year. Thus the growth rate in the non-Consumer Offer component is higher.

Nilesh Shah: How much?

Saugata Gupta: Non-CO growth on Saffola will be around 20%.

Nilesh Shah: How do you manage to do that, in terms of actually reduced the amount of extra oil that you are giving?

Saugata Gupta: The mix of volume with promotion and volume without promotion is varied.

Nilesh Shah: Last question is can you give some indication of the gross margins in the international business?

Saugata Gupta: The EBITDA margins in the international business are around 12%, Gross margins may be about 44%.

Nilesh Shah: Thanks

Moderator : Thank you. Next question is from Kunal Bhatia from Dalal and Broacha. Please go ahead.

Kunal Bhatia: Thanks for my questions. Just wanted to ask regarding your new acquisition, what kind of opportunities do you see going forward and if you could just tell us what kind of a business your looking from there?

Chaitanya Deshpande: In terms of overall M&A there are few things that we can talk about essentially. In terms of the geographies we are looking at. India as the market number one but as you know there are very few sellers in India and its difficult to do a deal here. Moreover if there are any, then you have all competitors landing at the target's doorstep and it can take the prices up. Other than India in the international markets we are looking at Africa and Asia as the primary markets to be in. We believe we want to be in places where we will be able to add value essentially in branding and distribution. So we have excluded the first world from the markets that we are targeting. Apart from this of course, the first world is not growing as fast as the developing world is. We would also focus on hair care and skin care businesses when we are looking at acquisitions overseas. In India, we could also look at something in the foods area. Other than that we also try and figure out if the target that we are looking at has the potential of becoming a number one or number two players over a reasonable period of time. Having put these filters, we would be open to look at any acquisition. For the moment, we have not set any limits in terms of the size of the acquisition. You have seen that we have done fairly small ones also. For instance Code-10 gives us a foothold in the Southeast Asian region and that is why we went ahead and did that and we are open to doing ones that are larger than the Nihar as well.

Kunal Bhatia: Thank you so much Sir. Thank you.

Moderator : Thank you. Next question is from Anand from India Bull Securities. Please go head.

Anand: Good evening Sir. Couple of observations from the result; one our gross margin on the standalone side center of this margin is corrected while on the consol numbers we see about 50 basis point decline, does that mean that the gross margin in international business has corrected? If so is it like higher raw material inflation or is it…?

Chaitanya Deshpande: Can we get back to you on this later in the call?.

Anand: Okay Sir and second in terms of standalone operating profit I mean this would be after a couple of years that we have seen or for the quarter we have saying YoY decline, marginal decline of 1% on the standalone. Just a clarification and understanding on that is we have been conservative in terms of our price increases?

Saugata Gupta: For the standalone numbers as Chaitanya explained a while ago, the excise charge was only for the part of the quarter last year at about Rs 4.8 Crores. This quarter the charge is at Rs 8.8 Crores. So it has had its impact on the overall profits for the quarter. Moreover there is a higher depreciation charge this quarter after capitalisation of the two main major plants - at Baddi and at Paonta Sahib.

Anand: Thanks for taking my questions.

Moderator : Thank you. Next question is from Sushil Manoj from Mangal Keshav Securities. Please go ahead.

Sushil Manoj: Thanks for taking my question. The question is for Ajay if you could highlight something that he has observed over the last few months on some strategic change that

Kaya requires and is that driven by opportunity that you could have identified or a problem area that you have identified or something?

Ajay Pahwa: Sure I think the two or three big strategic shift that we are trying to bring around is one really to take Kaya, where it is seen as skin cure to Kaya which is seen for skin care. So the relationship with the customer rather than being one-time is one off long term. And where our skin care dermatologist in particular are just not seen as experts but they are also seen as ongoing skin care advisers. We have such a large base of customers and we are trying to bring them back to the system a lot more often that we do right now. Similarly if Kaya is not seen only as skin cure but as skin care it also makes the brand relevant to a growing population with a high degree of awareness and of course greater consumer spending. So I think those two big shifts should be able to secure Kaya's future. I think some of those changes are reflecting in the very small and modest changes that we have seen in sequential growth.

Sushil Manoj: Just the thing there if you could break-up, if you could give me the total same-store sales in number and break-up it into Middle-East and India probably I will have a better appreciation of the same strategy?

Ajay Pahwa: Well Middle-East continues to be our star business so on our same-store levels our Middle-East business posted a 8% growth. Our India business, while it is posted sequential growth we had a fairly strong first quarter last year, so the same-store business in India posted 11% decline. So while sequentially it is up on a last year comparison it is on a negative double-digit decline.

Sushil Manoj: Some comments on how the year could close?

Ajay Pahwa: I think, I would say right now Kaya with all the changes and interventions we are putting in, we are taking more of a quarter-on-quarter kind of a look. As we have see a modest growth we are targeting another 3-4 % sequential growth in the next quarter but with the products on Derma Rx and all these changes coming together we are really hoping that by the fourth quarter we are able see our bigger shift and close the year on a positive same-store basis.

Sushil Manoj: Any comments on profitability point?

Ajay Pahwa: Well at this moment I would tell you I think profitability would follow. You have seen that in the first quarter. We posted a loss of 4.7 Crores, a lot really depends on how quickly we are able to bring these changes that I just referred to but I believe in October we will be able to give you a much better handle on what the year is going to look like.

Sushil Manoj: Great. My second question was on new products. If Saugata could throw some light on what is there in pipeline and obviously I mean some of the initiatives like cooling oil are already in the market; however, if you could throw a little macro picture on the total contribution, outlook and some of the sense is that while there are lots of prototypes being done over the last five, seven, eight years has not seen for longer than 10 years, you know the sense is that very few have really made a significant contribution in the longer context to Marico's overall picture, may be I am wrong, but if you could throw some light as to what is happening there?

Saugata Gupta: See I think we had indicated in the last call and in our conversation with some of you over the last couple of months is that we have taken a shift in terms of our NPD strategy to concentrating on fewer but bigger initiatives. There have been learnings but yes in the last year or two there have not been significant contributions to the topline from new products. I indicated sometime back that with the scale up of the current new products rice and oats we expect an exit annualized turnover Rs 30-35 Crores. In cooling oil we have hit Rs 5 crore in one state. We have some more ideas in the pipeline. In terms of a shift you could expect to see slightly bigger initiatives and us persisting with them. We will also put more resources behind these fewer initiatives. We are quite serious about foods and also in the case of personal care you will see some as the quarters go. As things stand now the contribution of NPD is expected to increase to the total turnover by at least 2% -2.5% this year.

Sushil Manoj: Something on Enaleni, I mean how does that fit into picture and any update on the performance there?

Chaitanya Deshpande: Overall the South Africa business has done reasonably well, we have seen more than 20% growth. Last year, South Africa was impacted the most in terms of the downturn as the overall economy impacted quite badly. Nevertheless we achieved double digit growth last year. That has grown to about 20 odd percent this year. Couple of initiatives were taken. A small product innovation such as adding flavours to castor oil, a change nobody thought of despite a long habit of consuming castor oil. In retrospect it seems a small idea but that has actually added to sales for us. Our Caivil Scalp Protector that provides protection against chemicals used in the process of hair neutralization and straightening has also received a reasonably good response. Next would be to try and take the products to neighboring countries. We have done some work in terms of the smaller markets, Botswana, Angola etc., Over the next three to four years we should be able to tap the larger part of sub-Saharan Africa. so I think overall things are on track in SA. The business admittedly is a little small to be in a new geography and therefore we are also looking at the possibilities of a bolt on acquisition there. If that happens that will help us in the overall business.

Moderator : The next question is from Percy Panthaki from HSBC, please go ahead.

Percy Panthaki: I would just like to take this opportunity to dive a bit deeper into the two main categories that you have, that is the coconut oils and other hair oils, for the coconut oils first can you give me an idea of what percentage of coconut oils is consumed in loose form and what was that figure five years back?

Chaitanya Deshpande: This is a little difficult to estimate but our estimate as of now is around 40% will be in loose, 60% will be in packed. My guess is about 5 years ago the ratio would have been 50:50 and another five years back 60% loose and 40% packed..

Percy Panthaki: Okay, so in five years it has changed by about 10 percentage points which is a reasonable shift on average each year., so I am just thinking if this continues, you probably will reach a high percentage in the next five years or so slowing down further shifts. So this 10% volume growth, 10-11% that we are getting do you think that trajectory will substantially shift five years down the line?

Saugata Gupta: See I think we have indicated that over the long-term, we expect more of 7-8% growth in Parachute Rigid. Having said that you must also appreciate that within the total branded space our market share is more in 53%-54% so there are lot of locals and lot of other players. In the balance 47% So it is not just loose to branded but also there is a share gain and with our rural distribution thrust over the next four years there is also a share gain component that can happen. That is why we have said that long-term number is more of a 7-8%.

Percy Panthaki: Can we do the same exercise for other hair oils, as in today what percentage of the other hair oils are sort of unbranded products like let us say loose mustard or something like that?

Saugata Gupta: That data is not available, but I think the way to look at hair oils is not about just market expansion.As you know that we are around 22.5-23.0% in market share. We do not participate in one big category that contributes to 18-20% which is cooling and therefore I think the way we look at it is not only participate in the hair oil market growth, but more also of share gain, and we would like to aggressively gain share in the hair oils market and perhaps add 2-3% points every year from now on.

Percy Panthaki: Just as you said that the long-term growth potential for coconut is 7-8% what will you peg the long-term growth potential for other hair oils?

Saugata Gupta: I would say it is between 12-15% for Marico.

Moderator : The next question is from Hemant Patel from Enam. Please go ahead.

Hemant Patel: Couple of questions, one in your investor update you mentioned that your rural growth rates have been better off than the urban growth rates, wanted to check as to what is the kind of distribution reach that has changed from the last two years and what are targets that you have for the next four years that you just mentioned?

Saugata Gupta: In the last five years we have added at least 50,000 to 60,000 outlets but more than distribution I think we are focusing on states were our infra is good and with our pricing strategy for recruiter packs being able to drive growth. However having said that I do not think we have a complete portfolio as far as rural is concerned. We intend to do rejig our offering strategy in the rural market over the next one year and you will see some changes. This should give us the next set of growth drivers in rural. Right now the rural growth is faster than urban growth and given the good monsoons and a bumper crop inflation is expected to cool down. We thus expect that the rural story will be intact.

Hemant Patel: But does this mean that you are talking about re-engineering your current product portfolio to a larger extent and giving a low-price point offering with a little bit of a different value proposition or are you talking about really introducing new products for the rural markets per se?

Saugata Gupta: It could be a mixture of both.

Hemant Patel: Okay but initial thrust which we are talking about as of now and the reason why we are getting a 15% growth is driven by what?

Saugata Gupta: It is driven by distribution and pricing.

Hemant Patel: The other question which I had was in terms of your Kaya itself I just noticed that the loss in Kaya this particular quarter was even higher than what it was in the June quarter of last year, correct me if I am wrong over there but the fact is that a lot of categories have started showing a same-store sales growth and in terms of consumer off take but yet we see a lag in terms of the footfalls which are occurring in Kaya, so what is the sense of that and can you give us at least a guidance as to whether we are likely to see the same level of losses for the full year of FY 2011 as compared to 2010?

Ajay Pahwa: Let me respond to it. The fact is that Kaya has seen a modest growth but the footfalls in same-store basis are still lagging the market trend and that consequently with rising fixed overhead structures has led to obviously a higher loss. But what I anticipate is that actually the losses are going to sharply decline, not increase in the subsequent three quarters. The reason for that obviously we are expecting sequential growth to take place as well as the same time we are keeping the cost structure at the same level or drive cost out. So I have every confidence that we will see a sharp decline in the losses in the fourth quarter of the year.

Hemant Patel: Just wanted a view on the excise duty and I know this matter is sub-judice but could you give us a sense of what sort of a time line are we looking at, I know it is a difficult question and what probability is that this will come in our favor?

Chaitanya Deshpande: See as far as our legal advice is concerned, we do have a strong case which is borne out by all the tribunal decisions. But as the case is sub-judice pending in Supreme Court it could take a couple of years. Having said that we are taking a conservative approach and making that provision which we will continue to make.

Hemant Patel: This provision is to 75% of the total duty payable so what is the net unpaid duty proportion?

Saugata Gupta: The balance 25%.

Hemant Patel: That would work out to in rupee term.

Saugata Gupta: This quarter it will be around Rs 3 Crores.

Hemant Patel: Okay, and last year would be approximately another Rs 12 to Rs 13 Crores.

Chaitanya Deshpande: About Rs 9.5 last year, so in all about Rs 12 to Rs 13 Crores.

Moderator : Next question is from Mr. Arnab Mitra from IIFL. Please go ahead.

Arnab Mitra: My first question is on the international business. I saw that the price component of growth is quite high this quarter so I wanted to understand does this price component of growth be there for the rest of the year or does it go away next quarter or some time in the middle?

Chaitanya Deshpande: About 6% should continue because some of these have been done in the middle of the year.

Arnab Mitra: Okay and just on Kaya, see the last quarter, you said that there were about 2 Crores of closure charges, so are there any such charges in this quarter or this PBT loss of 4.7 is purely on operational basis.

Chaitanya Deshpande: Purely on an operational basis.

Arnab Mitra: Lastly on gross margins, see basically last year I think September quarter and December quarter copra prices were even lower than in June and therefore, going ahead since the price hike on the 200 ml has already been taken in June quarter, would there be a much steeper decline in gross margins at least in the next two quarters. Am I right in my reading?

Saugata Gupta: Okay, just to set the perspective right, last year in the Q3 October-December quarter we had already taken price drops, so potential margin expansion was passed on to the consumer. This year we are expecting some inflation and as I said we have already taken a price increase in 200 and we are contemplating increases for the larger packs in the coming weeks. This will to an extent neutralise the increase in raw materials. Finally we do not necessarily get fully impacted by market raw material movements as we also have our strategic positions on raw materials.

Arnab Mitra: Right Sir, what you are pointing to is that probably the promotional part might be lower this time and hence you might manage the margins from that on a YOY basis.

Saugata Gupta: Not just promotions we are taking about, what I am saying is that in Q2 as Chaitanya said earlier 9-10% increase in copra translates to actually 4-5% in our cost and in most of our larger packs we are taking that kind of an increase in the coming week.

Vivek Karve: Sometime back a question was asked on the gross margins of the standalone financial which we would just like to clarify. The standalone financials comprise three components, one is the CPB business, the exports from India and intragroup turnover on which Marico does not make superlative profits. The share of such turnover in Q1 last year was about 7% which has come down to about 3% in the Q1 this year. If you remove this part and the cost of goods sold associated with that part, the gross margins have actually dropped from 46.7 to 45.4, which is in line with the drop in the gross margins at consolidated level. It is primarily on account of increase in the packing material cost and the retail price reductions, which were effected in H2 last year.

Modertor : The next question is from Nilay Shah from Morgan Stanley. Please go ahead.

Nilay Shah: Can you help me reconcile the standalone business revenue growth given the fact that if Parachute has grown by 11% and Saffola is up about 17.5% in volume terms, can you help me reconcile the 7% growth in standalone business?

Vivek Karve: Just before you asked this question I was explaining about the gross margins in standalone, so in Q1 last year, the Intragroup sale from Marico to its associated subsidiary companies abroad was to the tune of almost Rs 40 Crores. That has dropped to almost Rs 20 Crores this quarter because of two things, one there are less copra sales to Bangladesh and because of the supply chain realignment that our International Business has gone through, the exports from Egypt to Gulf has begun. As a result of this, there is almost a 50% drop in sales of Intragroup from Marico to its subsidiary, if you adjust for this then I think you should be able to do better analysis of the standalone growth.

Nilay Shah: In terms of tax for the standalone business is extremely low so what is the contribution for that?

Saugata Gupta: That is because our new plants which have started operations in Baddi and Paonta Sahib. So a significant portion of that in tax free zones, the incremental part of that will contribute to the lowering of effective tax rate. And just to add to what Vivek just said, the India business value growth is 11% plus.

Moderator: Next question is from Asit Desai from B&K Securities. Please go ahead.

Asit Desai: For Kaya we closed down around 6 stores and relocated one I guess. Just want to know are we still re-looking at some other stores in the coming quarters or are we done with this shutdown and relocation?

Ajay Pahwa: In retail this has got to be a dynamic process but for the immediate quarter, there are no more plans to shut any stores, however, we will continue to find opportunities to relocate our stores to better locations just like we did, Juhu and Khan Market as an example. That is an ongoing exercise but closures I think pretty much for the next couple of quarters we are done with that.

Asit Desai: Sir, if you could share the growth rate for our acquisition Derma Rx for the quarter?

Ajay Pahwa: Yes the business for the full month of June and June last year has grown in high single-digits.

Asit Desai: Okay is that the growth rate that we can expect for the year?

Chaitanya Deshpande: Most of the business is from the Singapore market and there we think growth rates may be 4 or 5% from the existing business. During the second half of this year maybe towards the middle of the third quarter or end of the third quarter, we hope to able to start bringing in some of the products from the Derma Rx business into India and Middle-East. That would be incremental turnover.

Asit Desai: What is the timeframe that we are talking about to take our product revenues of Kaya Clinic from 13 to 20%?

Ajay Pahwa: Ideally we are looking at a two-year journey. So we start in Q3 this year and we should be able to realise that goal towards the end of FY13.

Asit Desai: Sir, if I see over the last few quarters, we have been doing a lot of things with Saffola extending the brand to lot of food categories. Have we looked at anything specific for leveraging the parachute brand also which is a much larger brand than Saffola, I mean the focus seems to be more on extending Saffola brand rather than Parachute to other categories.

Saugata Gupta: We are currently prototyping Parachute Advansed cooling oil in Andhra Pradesh. Last year we had scaled up Parachute Advansed Hot Oil. We would see some more products during the coming quarters.

Asit Desai: That would be largely in the hair oil category?

Saugata Gupta: Yes, it could be in the hair care space.

Moderator: Next question is from Shirish Pardeshi from Anand Rathi financial services. Please go ahead.

Shirish Pardeshi: Just couple of questions, very broadly, how many prototypes are we currently trying or maybe trying for next three quarters in this financial year?

Saugata Gupta: Currently, it is oats and cooling oil, these are the two prototypes that are going on, rice has scaled up.

Shirish Pardeshi: Oats we have tried in which cities?

Saugata Gupta: We have done a channel launch by focusing on modern trade. In three or four cities we have placed it in top-end outlets.

Shirish Pardeshi: In the earlier part of the conversation, I heard that cooling oil and AP has got about 7.5% market share, is that right?

Saugata Gupta: That is right.

Shirish Pardeshi: We have been trying to try some success out of this, what has worked this time in AP, is it the brand which has worked or is it the price point or is that sachet?

Saugata Gupta: I would not like to pinpoint any one item, but I think all the elements of the marketing mix have contributed to the success and I think yes, we did try a couple of times and I think there has been tremendous learning from those failures. This time we have persisted. Many people have felt that we do not persist with NPDs in India. This has been different and perhaps it has got right results now.

Shirish Pardeshi: My whole question is that strategy right or is the product right, which can take us to an all-India launch?

Saugata Gupta: I think the product is right, we have tinkered with the product, I do not think we have tinkered with pricing and it is the product and proposition. Our distribution was always strong.

Shirish Pardeshi: My experience is that whatever has worked right in AP, it is a good benchmark and then you can take the product nationally and if that is the case, when can we take the product nationally?

Saugata Gupta: See as you know, it is a seasonal product so therefore it is not the right time during monsoons perhaps to look at the scale up. We will take it as the time comes.

Shirish Pardeshi: My next question is on the A&P spends. I heard that we spent 70% in the advertising and 30% in promotional, just wanted to understand the 14% volume growth how much has come through this spend on 30% what you have spent, what you have mentioned in the in terms of A&P?

Saugata Gupta: See as I said that compared to last year, this year the promotional volumes were lower. The non-promotional growth will be higher than 14-15%.

Shirish Pardeshi: My next question is on the Kaya business, my observation is that recently in last four quarters, we have been aggressive in terms of opening the clinic, if I have to just take the number April 2009, assuming that we had some 60 to 63 clinics, is there any clinic out of that which is making loss or adding operating loss to us?

Ajay Pahwa: I think id we just stepped back, actually in all of last financial year we opened only 13 clinics in India. In the previous years, we did open at the rate of about 15 a year. Look it is typical in any retail format it takes about two to three years for a clinic to ramp up to its right level of revenue because you know it starts off with a small base of customers. So without any doubt in the first couple of years, Kaya new clinics would tend to report a loss even at the clinic level.

Shirish Pardeshi: So will you be able to tell us how many clinics at this point of time after closure of the 6 and 1 relocation, how many are at the operating loss, if I have to just quantify the number?

Ajay Pahwa: Well I would just give you a perspective, typically it takes about year 3 for a clinic to ramp up to the right revenue level and to hit financials which allow it to make an operating profit at the clinic level, so more or less if you look at it there are approximately 30 clinics which have been opened within the framework, from this quarter backwards three years so those would be the ones who are on the revenue ramp up that would be delivering and operating clinic level loss. That is expected, that is a business model that is not a surprise.

Shirish Pardeshi: Lastly, I heard that in the most likely context we would limit our A&P spends between 12 and 13, though we are the market leader, it does not mean that we are at the inflexion point that we can take the price increase or we can manage with a lesser A&P spend, is my understanding right?

Saugata Gupta: I would think that 12 to 13 is not a technically lower A&P spend**,** as I said some of the A&P spends which are there in the form of extra product or price drops get built in to the gross margin. So I do not think the spends are drastically lower than last year. I think it will be in the same line as far as last year is concerned.

Moderator : Next question is from Yogesh Bhatt from ICICI Prudential. Please go ahead.

Yogesh Bhatt: Good evening Sir, thank you for taking my question. One question on the value added hair oil side, I would like to have some clarification on the light hair oil market. We have been seeing that Shanti Badam Amla which because of the price cuts have taken 92% volume jump, and the overall market share has come up to 21.6%. I just want to understand from the perspective of whether this gain which has been done is from the number 1 player or the private guy, number 2 player. And second question will be on the coconut side, if I remember correctly, in June 2010 number of volume share on the parachute side has been shown as 46% and in February 10, it was 42.9, whereas our overall market volume shares remains at 53.3% vis-à-vis 53, so is it that Nihar and Oil of Malabar has lost some share?

Saugata Gupta: Firstly, the hair oils, we did do a price disruption in Shanti Amla and there has been obviously share gain on that front. Now the share gain will be from a combination of players because it is not just that consumers operate within sub categories that is Amla to Amla. They operate in multiple categories and move from category to category, so the share gain has happened from not only the number 1 player but also it could have happened from other place, so that is as far as the hair oil is concerned.

Chaitanya Deshpande: In terms of the share on coconut oil please take the number that we have provided now, that is a little over 46% as the correct market share for parachute for the 12-month ended this quarter. The number you refer to of about 42.7 which was there in our last update, I have to apologize, that number is wrong. There has been a slight increase in the market share of Parachute but it is not to this extent.

Yogesh Bhatt: Net-net there is no big disruption in Nihar basically?

Saugata Gupta: Overall if you look at it in the Coconut oil market, there has been a slight increase in market share versus Q4, and mostly in Parachute.

Yogesh Bhatt: And one last question, Mr. Chaitanya, we have been meeting and last time also I asked the same question to you on the Kaya side, that is it taking little more than the expected turnaround time like still we are at EBIT loss of 4.7, so on a longer term basis though we have entered this and plans are definitely there to revive it but at the end of the day the decision should be taken whether we should continue this on a longer term basis or for a structural basis any thoughts on this?

Chaitanya Deshpande: There is no rethink in terms of what I might have discussed with you the last time. Clearly we see long-term potential in this business. Yet, it has taken a little longer for it to shows the return and make the profits that we anticipated earlier. We had given a signal of the business breaking even about two years earlier than today and even in this year, we are not likely to break even. But we believe that there is substantial opportunity in this kind of a business. It is quite a differentiated offering. We believe that people will spend money in trying to look good and avail themselves of services such as these ., It is a matter of time, in our judgment. Probably we were a little too optimistic earlier but there is definitely no call to look at this differently and we will continue to build this business.

Moderator : Next question is from Harit Kapoor from B&K Securities. Please go ahead.

Harit Kapoor: Sir good evening, just had a couple of questions. I did not get the domestic volume growth for the quarter numbers, if you could repeat the same?

Saugata Gupta: 16%

Harit Kapoor: That implies approximately 5% deflation.

Saugata Gupta: That is right.

Harit Kapoor: Secondly Sir just wanted to understand on the other hair oil business I mean they are seeing a very strong growth on account of Shanti Badam Amla as well but due to a lower base last year what kind of sustainable numbers can we see in this portfolio which includes cooling oil as well over the next two to three years?

Saugata Gupta: Our outlook for this year is 20% plus growth in volumes. Going forward I think it is too difficult to give but a 15% to 20% is a comfortable number in volume terms.

Harit Kapoor: Sir we spoke about neutralising the copra price impact by taking up prices in coconut oil but just wanted to know, I mean even packaging costs have gone up so are we looking at taking up prices in other hair oil portfolio as well in the subsequent quarters?

Saugata Gupta: In hair oils we see an opportunity for robust growth rates and share gain**.** Therefore we are not looking at price increases in hair oil as of now. The weighted average net increase in terms of cost structure, is around 5-6% in the input cost so we are not looking at something new in the immediate future.

Moderator : Thank you, as there are no further questions, at this time, I would like to hand over the conference to Mr. Ajay Thakur for closing comments.

Ajay Thakur: Thank you. I thank the management of Marico for their time and would also request Mr. Chaitanya Deshpande for his concluding remarks.

Chaitanya Deshpande: I would just like to say thanks for being on the call and taking the time to listen to what we had to say. Should you have any further feedback, please let us know and we look forward to talking to the group again next quarter. Thank you very much.

Moderator: Thank you Mr. Thakur. Thank you gentlemen of the management. On behalf of Alchemy Shares & Stock Brokers Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.