"Marico Limited Q1 FY13 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Marico Limited Q1FY13 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Harit Kapoor. Thank you and over to you, Sir.

Harit Kapoor Thank you Myron. On behalf of IDFC Securities we welcome one and all to the Q1FY13 Earnings Call of Marico Limited. We have the Senior Management of Marico with us and we like to transfer the call to them. Over to you, Sir.

Milind Sarwate Thank you Harit. This is Milind Sarwate. I am the Group CFO of the Marico group. I have with me my colleague Saugata Gupta who is the CEO of the Consumer Product business; Vijay Subramaniam who is the CEO of the International Business Group; Ajay Pahwa who is the CEO of the Kaya Business, Chaitanya Deshpande who heads our Investor Relation function and Anubhav who is in his team. We also have Vivek Karve who heads Corporate Finance.

I formally welcome all of you to the earnings call. I hope you have got all the information that we have disseminated on the internet and some of you might have seen some of us on the television. So it may not be necessary to get into actual data right at the beginning of the call unless anyone of you has a query.

This has been a strong performance quarter for us. We had an overall sales value growth of 22% and net profit growth of 46%. This was supported by a very robust 14% volume growth across the group led by the consumer product business which had a stellar quarter with 16% volume growth. The gross margins expanded significantly during the quarter driven largely by an input cost scenario that was very favorable. We were able to shave off about 660 basis points from the material cost out of which we have ploughed back about 300 basis points into advertising and sales promotion, still leaving a significant increase in our operating margins.

We also integrated the Halite acquisition during this quarter but the numbers included in this quarter are not really very significant. Only about Rs. 10 crores of sales relating to the newly acquired brands, Set Wet, Zatak, Livon etc have been included in this quarter performance. So all in all it was a strong quarter led by the India story.

The performance of the International business and Kaya on the whole was good but some of the territories did very well and some of the territories did not do as well as we had anticipated. We have clarified in our information update as also elsewhere wherever we had the opportunity that this is a very strong performance at the beginning of the year but it is not a necessarily a predictor of how the year will pan out. We believe it is a bit of an outlier because of the peculiar favorable situation we were in this quarter.

As the year unfolds we are more likely to revert to our mean growth rate displayed over the past 4 -5 years on a consistent basis. We have some macro reasons for that and some micro ones. The macro ones relate to the economy. Monsoon has been officially declared to be below normal. We clearly see a pressure on disposable income of the consumers and on conversion of unbranded to branded consumers. So purely from a demand perspective it may not be the best scenario to be in as far as the future is concerned.

Secondly from the country's economic growth angle a dampener on the GDP growth might affect our foreign exchange scenario. That also is not necessarily good news for us because some of our materials are imported and many of our businesses have to deal with foreign currency.

As far as the company is concerned we have seen a very favorable copra situation that may not continue. On the other hand the safflower and the rice bran oil markets have already been seeing inflation. In addition we have the possibility of petrol price related inflation. So, on the raw material or the cost sheet side there might be some pressure which may not leave great scope for us to improve our margins.

On the demand side as I already mentioned the volume growth seen has been significantly high, for example in Parachute rigid we have an unprecedented 18% volume growth. You will agree that these numbers are very difficult to replicate if at all. So as we look into the year ahead we feel happy that we have had a very good beginning. We expect that as the year unfolds we will continue to do well but not as well as we have done in the first quarter. Now with these opening words I open the conference for your questions. Thank you.

Moderator Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy Sir my first question is how has CSD sales done this quarter? And you pointed that the discretionary spends there will be pressure so in Kaya the SSG growth has come down from double digit to single digit in India.

Saugata Gupta As far as the first quarter is concerned the total India business has grown by value growth of 22% CSD has grown by around 10% to 11%. So the CSD growth rate has seen pressure and we foresee that in the coming months also there will be some pressure on the CSD front.

Abneesh Roy Sir that growth is in fact better than CSD growth of other companies. Initially the expectation from CSD this year is flat to a decline of 10%. You have reported plus 10%?

Saugata Gupta This number is only for a quarter and will include an inflation component. We believe that in the coming quarters the CSD growth will continue to be muted.

Abneesh Roy Coming to Bangladesh you see that some of the other companies have seen good growth in Bangladesh. You have pointed in the second half of this financial year growth should be better. So what will change? Will it be the new products which will drive growth or are you banking on some distribution expansion?

Vijay Subramaniam You would recollect in the last quarter (Q4FY12), we had mentioned that Bangladesh as a country is facing some degree of slowdown. While it is too early to predict, we are seeing some gradual signs of revival. Macro indicators such as inward remittances into the country seem to augur well.

Coming specifically to Marico Bangladesh the reasons for a small decline in the revenues is essentially due to high base effect. Q1FY12 had experienced a very high growth in Parachute Coconut Oil. We had also introduced a slew of new products. Having said that, the brand fundamentals are strong. The market share is intact. Parachute has been voted the No. 1 brand across 5,000 brands in the country recently. Our new products foray into Value added Hair oil sector continues to do well. We have registered handsome share gains. Meanwhile hair dye continues to do well and this gives us the confidence that we will get into a positive growth trajectory as the year unfolds. So I would suggest you not to read too much into one quarter which is essentially because of the base effect.

Abneesh Roy Sir coming back to Kaya you have said that you will be testing this new retail format of 500 sq.ft, so, how different are the margins in that? And have you done some pilot phase of that to give an indication of the kind of per store you can get from there?

Ajay Pahwa Abneesh, the entire assumption is that it is a product heavy model. As such the overall cost structure of that business and the operating costs go down. As a result the IRR as well as the profitability is better. As we said these are assumptions. We expect to open the first of these stores towards the last quarter of this year and we are looking for proof of concept to prove our assumptions. Those assumptions seem to be playing out in many other parts of the world. So I think the jury is still out. It is probably 6 to 9 months after commencing that we will be able to respond to you with some data.

On your earlier question Abneesh regarding single digit growth in Kaya I think one is a previous year base issue. We had a very strong customer promotion in April of Q1FY12 which we didn't have this year because we are changing our mix on how many promotions we want to do. Coupled with that the bandh at the end of May had a potential impact of 2% to 3% on that month's revenue. So if I have to summarize I would say we are very conscious of pressure on discretionary spent. We are keeping a close eye on it but I would not conclude or put this entire blame on the external environment.

Abneesh Roy Sir last question is on Paras Rs.10 crores you have done in one month. On a run-rate basis that looks obviously like seasonality impact, an initial lag effect etc. but now since you have done the business for one month what is the initial scene you are getting. Is it as good as it was before actually taking over and what's the long term potential on Paras?

Saugata Gupta Let me first clarify that we started selling products only on 22nd of June. So this number is actually for 10 days. As part of the agreement with sellers, Reckitt Benckiser, this time was provided for transition. July will be the first full month of sales in the Marico fold. The underlying acquisition assumptions are in intact and there may be certain upsides. You will appreciate that we are now integrating the entire Halite portfolio into our sales system. It is progressing smoothly. There could be certain settling time but as far as distribution is concerned it is giving us a lot of synergies. It gives access for some of our other categories into certain channels like chemists and cosmetics which will help our internal portfolio.

Abneesh Roy And have you started advertising heavily for these brands because I don't seem too many ads?

Saugata Gupta Yes some advertising has started for certain brands and it will be a part of the advertising plans that will pan out for the rest of the year.

Moderator Thank you. The next question is from the line of Suruchi Jain from Morning Star. Please go ahead.

Suruchi Jain I had one main question. With the acquisition of Halite and your entry into personal products is the company aiming for higher operating margins, say closer to or 14% that other personal products of the firm enjoy?

Milind Sarwate **the o**bvious answer is yes but the question is how soon and what our plans are. We have maintained that considering the long-term Indian growth story when it comes to choosing growth over margins we will 100% do so. So we will look at first broadening and deepening our consumer franchise and then look at targeting any particular number for operating margins. In fact this quarter our margins have crossed 14% but again this is an outlier.

Suruchi Jain Okay. And how long do you see getting higher than these 11% number that we are trailing at, say in the next one year, two years or three years out, just to get a sense of how long do the acquisition synergies will take to play out?

Milind Sarwate 11% has never been our operating margins in the recent times, at least not in the past 5 - 6 years. Our typical margins have been around 13% so we expect that we will stay close to that number.

Moderator Thank you. The next question is from the line of Shariq Merchant from Ambit Capital. Please go ahead.

Shariq Merchant Sir I just wanted to understand since we have seen such high gross margins this time. Have we seen the entry of more unorganized players into this space because this will eventually put pressure on new consumers entering if there is a huge price difference between Parachute and the lower priced products?

Saugata Gupta If we really look at it two things have happened. One of the reasons there has been a significant amount of growth of 18% in Parachute has been the fact that the competitive intensity was low because of the volatility in the market. This was coupled with our distribution thrust in the rural markets in the last one year which is paying dividends as of now. The copra prices actually started correcting only at the end of May and June as a result as we stand now there would be a certain pricing difference. We have taken some temporary price reduction promotions in our recruiter packs which we initiated sometime between July and now, we believe these will ensure that parity is restored and that we continue to have good growth. Having said that, we have always given guidance that 8% to 9% growth in Parachute is something which we will be happy about.

Shariq Merchant Sir the second question is on the inventory levels. So to capitalize on the lower copra prices have we taken measures to either stock up inventory or lock in contracts for copra prices at certain levels?

Saugata Gupta We have a strategic policy as far as position building is concerned and we would have done it accordingly.

Moderator Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah Sir my question is on the Coconut oil volume growth this quarter. Obviously which is driven by certain extent by conversion from loose to brand but also very interesting this time that you have gained market share from what I would believe is largely regional players. Now you again made it very clear that 18% volume is obviously not sustainable going forward. But with the rural growth and with the share gains why not believe that volumes would be higher than your historic averages.

Saugata Gupta Our historic averages have around 8% to 10%. We have to have a nice balance between maintaining a certain threshold level of margins, driving a certain volume growth and gaining market share. During inflationary times we become more competitive and during deflationary times we are less competitive. We have a pricing model in place to ensure that we continue to have a certain volume growth. According to us a volume growth of around 9% to 10% is good with a threshold of between 7% to 8%. So having said that yes there are certain changes that are taking place in the country. With unified media, rising disposable income in upcountry markets and rural areas there is an aspiration to use brands. We expect to see a long term secular trend towards consolidation amongst organized players and big players who invest behind brands, innovation and build brand equity. This will lead to the share of regional players in a lot of FMCG categories going down.

Nillai Shah Sir and just a follow up of on that. There are numerous brands at this point in time which are actually showing very strong growth. I am sure even you are being surprised by the kind of growth that even for example value added Hair oil is showing in your segment. So are you willing to give this a chance saying that there could be a trend which is very secure right now and we need not cut prices at this point in time or would you just say that at the difference between the branded and the loose has now gone up to X level. We think it is too high and it basically requires a price cut.

Saugata Gupta Let me just clarify we haven't taken any price cuts. We are running some temporary price reduction and promotions in certain packs. We are just testing the waters to see what happens. The results in the coming 2 to 3 months will give a much firmer view on the pricing strategy.

Nillai Shah The last question is if the volume growth continues let's say between 8% and 10% then chances of these price cuts or promotions are lower?

Saugata Gupta Again it is a hypothetical situation. We are waiting and watching and we will be able to give a much better picture may be 3 to 4 months later.

Moderator Thank you. The next question is from the line of Prakash Kapadia from I alpha Enterprises. Please go ahead.

Prakash Kapadia Pertaining to the edible oil business I had two questions and one on the tax rate. We see rice bran and sunflower prices are up almost 30% over the last year or so. Are we seeing our existing customer moving from say jars to pouches or lower packs? That is the first question.

And secondly sir on the edible oil business our selling price is not increased in proportion to the RM increase. So is this in the context of competition getting more aggressive? Sweekar has been relaunched by Cargill containing sunflower seed, higher MUFA. We have seen Dhara launching rice bran oil. So if you could give some sense on that?

And lastly on the tax rate, we have seen consolidated tax rate at 24.2% versus 19.6% Q1 last year and I think in the presentation the reason has been given the growth in the coconut oil franchise. But if I look at the stand-alone tax rate it is just around 20.2% so shouldn't stand-alone be higher rather than consolidated?

Saugata Gupta First let me take the question on the refined edible oil. We did take a price increase in Saffola oil sometime in February-March of this calendar year which was around 8% to 9%. We like to operate with a threshold level of margins while maximizing the volume growth.

Also secondly our consumption cost and market cost are not necessarily always similar. It depends on the kind of strategic position one has. So yes I think given the fact that there has been an unprecedented inflation and with the softening of economy and other factors one of the reasons could be that Saffola volumes haven't grown to the level of 15% which we expect normally. So although we have not seen a down trading I think we are extremely cautious in terms of ensuring that we maintain a certain basic volume growth rate of 10% - 12% because the price premium today on Saffola is slightly uncomfortable.

Vivek Karve Overall effective tax rate has increased mainly on account of larger share of profits from coconut oil which is manufactured in factories which no longer enjoy tax benefits. This is also a function of an outlier growth of 18% that we have reported in Parachute rigids. However we expect our annual effective tax rate for the Group to be around 22%.

Prakash Kapadia And sir any impact of Saffola sales due to some of these launches or competition getting more aggressive or do you think it is not really a concern over medium to long-term?

Saugata Gupta I think Saffola is in a tail wind category. It's a very strong brand with a very strong equity. So over the long-term we expect the Saffola volume growth to be at 12% to 15%. But yes I think in the current situation as you know Saffola is also over indexed towards modern trade and CSD and there are factors in terms of the price premium. So that's the reason why growth in this quarter was at the lower end of the band. We expect this pressure to remain for one or two quarters and therefore during the balance of the year Saffola sales may be around 12%.Over the medium term we expect it to be closer to 15%.

Moderator Thank you. The next question is from the line of Harsh Mehta from Emkay. Please go ahead.

Harsh Mehta My first question is on advertisement spending. If you look at the ad spend in the past 3 quarters it has been higher than the average that Marico has been the maintaining. Now going ahead in the next quarter with promotional activities on and launch of newer products for Paras portfolio where do you see the expense going?

Saugata Gupta The reason ad spent had gone up little is a combination of investment behind brands in India and in international markets. We will continue to maintain A&P at around 11% to 12% in the coming quarters.

Harsh Mehta The next question that I have is on international business. Sir if you look at the international business contribution to EBITDA levels international business and Kaya contribution has basically reduced from 22 crores in the last quarter to 12 crores over the higher revenue base. So can you give some color on this and when would the profitability revive in this?

Vijay Subramaniam Let me address the question on international business first. You are right. The Q1 EBITDA is about 8.5%. However we should not look at the EBITDA margins on a quarter-on-quarter basis because there are lots of investments, new launches etc. So you are possibly seeing is the effect of some up fronting of spends and certain mix between countries which are resulting in 8.5%. We should not read too much into that. We expect that as at the end of the year the EBITDA margins should get into an 11% to 12% band.

Moderator Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra Just coming back to the point on coconut oil. In copra we have now seen 2 – 3 legs of reduction in price. It was first from 6,500 to 5,500 then to 4.500 so we have actually seen a protracted period where the price has probably come down. In that context what is the kind of situation you are seeing on the ground given that it is actually been quite a long time since the prices have been coming off?

Saugata Gupta If you look at historical data the second half is always higher than the first half. And of course in today's day of volatility and uncertainty it is very difficult to take any call on raw material. But we believe that we have discovered the lowest end of copra for the year and that the second half will be slightly higher than what it has been in the first half of the year.

Arnab Mitra And just coming back on the question on 18% volume growth, could you let me know in terms of what is the total volume growth in coconut oil including the recruiter packs, Nihar and everything put together.

Saugata Gupta 12% is the total coconut oil growth rate.

Arnab Mitra And now that you have moved into the September quarter and which the price differentials would have further raised. Are you actually seeing normalization in this growth or is it more that you have seen that given the macro this will ultimately slow down to sub-10% kind of levels?

Saugata Gupta It is very difficult to give a monthly or a quarterly projection but over the long-term a 9% to 10% is a fair number. And there are two headwinds one is the price differential and the second is in case the drought leads to food inflation the could affect consumption. So for the balance of the year we would be happy with a volume growth of around 10%.

Moderator Thank you. The next question is from the line of Sanjana Jogani from HDFC Securities. Please go ahead.

Sanjana Jogani My question is interest cost has increased quarter-on-quarter of 50% and YOY of 76%. Could you please give the reason for that?

Vivek Karve The interest expense line is the gross interest which I agree with you has gone up. But you should also look at the other income line which includes the interest and dividend income on our surplus investment. On a net basis the interest cost has gone up partly because we have used our internal accruals towards part funding the Halite acquisition and as you would know we have bought a new office premises for which there has been some borrowing from the market.

Moderator Thank you. The next question is from the line of Mihir Shah from Daiwa. Please go ahead.

Mihir Shah My question was on the gross margins. Despite copra prices seeing a decline this quarter our gross margins have been lower when compared on a sequential basis versus Q4FY12. Can you throw some light on this?

Saugata Gupta Yeah actually two things. I think one is you have to look at the sales mix numbers. Secondly if you owing to certain positions in raw material you don't get the impact of the entire cost reduction or increase in a particular quarter.

Moderator Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari Sir first thing on the growth, September last year when you had issued a release saying that the market expectations are higher, you did touch upon the demand at that time although the focus perhaps was cost. Since then quarter after quarter your growth rates have been pretty smart and these you have maintained and in fact between fourth quarter and first quarter these have actually accelerated. Any specific reason why are you so cautious, I mean between September and now the only delta is perhaps monsoon, everything else you are concerned at that point of time holds even today. So are you just being too cautious or there is really something that you have seen either in the exit numbers of June or perhaps July so far which makes you so cautious?

Saugata Gupta If we really look at September when we gave that note I think what we talked about was the unprecedented inflation, an input cost which could have a dent in our bottom-line. I don't think we talked about pressure on volume growth. Since then there has been an upsurge in volume growth. What we are saying is that there are two factors. One that 18% volume growth in Parachute rigids or a 16% volume growth in the business might not be sustainable quarter after quarter. Having said that we have been talking about a long-term volume growth which is a double digit volume growth, in the India business along with say 8% to 9% in coconut oil, 14% to 15% in Saffola and 16% to 18% is hair oil. This is something we will continue to achieve. I don't think there is a reduction in that. I think there is a recalibration which has been called for because of the base or the number which we have delivered specifically for this quarter. We are not saying we would deliver lower than our secular trend over the past 3 – 4 quarters. **Milind Sarwate** I think the reason why we have gone out of the way to spell out the outlier nature is to caution against multiplying it by some four to arrive at the annual. 46% net profit growth is probably a 40 quarter high for us. So that's clearly the outlier. That's all what we wanted to highlight.

Vivek Maheshwari When you say you have been running some promotions in case of Parachute, is this on that 100 ml, Rs. 2 off, is that the one?

Saugata Gupta Yes that's right.

Vivek Maheshwari And that's the only one, right?

Saugata Gupta We have just initiated a Rs. 2 off on the 50 ml also this week.

Vivek Maheshwari I don't know if you have an answer to this question directly. But do you think the elasticity of volume off takes is very high to price cut. Basically the genesis of asking this question is when you always say that volume growth is something which is a priority for you. Do you think if you take down prices a little more the volume growth can actually continue at this pace or forever?

Saugata Gupta Whenever there is a loose-to-branded conversion happening think we have to make the price difference a little comfortable for that person to climb. We ensure that the price difference is maintained in such a way that the consumer feels comfortable in moving from a loose-to-branded and having switched does not go back. We now have 7 to 8 years of pricing volume data to arrive at that conclusion.

Vivek Maheshwari In case of Paras you mentioned about the top-line, anything on the cost front? I would imagine that there will be some initial cost that this quarter would be capturing so anything notable over there?

Saugata Gupta I think the business is as usual. There have been no significant negative surprises on the business so far. Obviously there would be some gaps in distribution which we have to fill and that is progressing smoothly. I think we are comfortable about meeting our acquisition assumptions.

Vivek Maheshwari And lastly on the body lotion again I saw your market shares have inched up to 8% so any reaction from the market leader?

Saugata Gupta You have to ask the market leader.

Moderator Thank you. The next question is from the line of Aashish Upganlawar from Spark Capital. Please go ahead.

Aashish Upganlawar Sir just wanted your comments on the performance of MENA and South Africa business and overall international business how do you see it panning out throughout the year because this quarter's performance across geographies that I read from your note seems to be a bit dull.

Vijay Subramaniam That's true the overall growth has been about 17%. The business growth was only about 3% with another 14% coming through exchange rate changes. I spoke earlier in the call about Bangladesh and our outlook on Bangladesh. So I will not cover that geography. From amongst others South East Asia has done rather well. South East Asia has recorded a growth of almost 28%. We are quiet excited about our Vietnam journey and the share gains and strides we are making in that market. That's on track. In Middle East and North Africa regions the good news was elections in Egypt have taken place and were relatively peaceful. Now the reason Middle East-North Africa has clocked only a 5% growth is basically because of a couple of things. We are in the midst of a pack transition and that calls for new listings and so and so forth. So there has been some delay. Moreover since we source Middle East products ex-Egypt we wanted to be sure that we don't get caught by surprise in case there are some large scale disruptions in Egypt in view of the elections and had consciously up-stocked last year. This up-stocking has got corrected. That's the reason for the slow start. As the note says by the end of the year our business growth which in constant currency was 3% this quarter should clearly be in double digits and we should get back to our normal EBITDA margins.

Aashish Upganlawar So you see it somewhere between 15% to 20% in our organic business to be the average for the year that is the fair assumption?

Vijay Subramaniam We can definitely say the growth in constant currency basis will be in healthy double digits but it will be difficult to comment on an exact percentage.

Aashish Upganlawar Secondly you touched upon the inventory of copra in some earlier questions. So if you could clarify, are we aggressively buying at these prices of copra? Is it something like that is happening?

Saugata Gupta We are not in a position to share the exact status on this but we can go up to maintaining stock holding of 90 days in case of key inputs.

Aashish Upganlawar Sir in Saffola there was some price increase earlier. But is it sufficient to cover for the raw material cost increase, I guess not so. Are there other price increases in the offing for that brand now?

Saugata Gupta We took a price increase in February-March. We are waiting and watching but I think given the current situation of the economy and perhaps some slowdown in terms of consumption I don't think it is prudent to take or consider any price increases at this point in time.

Moderator Thank you. The next question is from the line of Richard Liu from JM Financials. Please go ahead.

Richard Liu Actually if you can help us understand the pricing strategy on Saffola brand. What I can see that you are facing a lot of input cost pressures there but at the same time we have been keeping the price on hold. Is it correct to actually connect this to your comment on this discretionary spending coming down or is there any other reason that you have been given in the overall margin and Parachute doing well or you don't mind cost subsidizing for the time being.

Saugata Gupta If you really look at it there has been a surge in edible oil or input prices only in the last 45 days or so. When we took the price increase sometime in February-March we had covered most of the input cost push and as you know that there is obviously an inventory of raw material that is there. So at this point in time we have not seen any significant dip in our margins of Saffola. However, we have been cautious simply because of the fact that the current economic factors are in a situation where price increases might upset volume growth and we have certain threshold margins for every brand. We haven't gone below that threshold. So as of now we are comfortable. We are waiting and watching the situation.

Moderator Thank you. The next question is from the line of Subramaniam PS from Sundaram Mutual Fund. Please go ahead.

PS Subramaniam just wanted to understand on the international business. What are the long-term margins that you see in this business and even the capital intensity of this business seems to be pretty high given the gap between where your EBITDA is and where your EBIT is? Throw some light on what is the nature of the international business operations and if the competitive intensity very different from what you see in the domestic business.

Vijay Subramaniam Let me address the question of EBITDA margins first. We have said in the past also that we are in early stages of evolution in certain markets which calls for investments so our EBITDA margins will move from the current 9% to 10% to about 14% kind of margin over the period of next 3 – 4 years. This year we should see EBITDA margins around 12% or so which is an indication that we are moving in the right direction. Fundamentally we are in the phase where we are building consumer franchise and establishing these brands and we believe the margins will follow. Specific to the capital intensity it is because we have chosen acquisitions as one of the avenues for growth and you would realize typically any acquisition takes a certain number of years to pay back. That accounts for the higher capital intensity. Since we are we are investing in our brands EBITDA is moving up in the phased manner.

Moderator	Thank you. We have the next question from the line of Naveen Trivedi from Karvy. Please go ahead.
Naveen Trivedi	My question is just if you can share the SKU wise Parachute sales during the quarter?
Saugata Gupta	We will not be in a position to share the SKU wise sales, please.
Naveen Trivedi	But, Any specific SKU where you find that the consumer acceptance have improved substantially?
Saugata Gupta	It has been fairly consistent across all SKU. It is not skewed heavily. Having said that we have a certain rural thrust in the last two to three years where our rural contribution continues to increase and therefore in the last two to three years the smaller packs have recorded a slightly higher growth than the other packs.
Naveen Trivedi	Any specific territory where you found that volume growth has substantially improved in the last couple of quarters?
Saugata Gupta	There will obviously be some territories that are performing better but I am not in a position to share individual territory wise details.
Naveen Trivedi	Definitely 18% growth is a way ahead of the expectations so any specific reason where you found if you cannot name those at least North, South or West, in general if you can just highlight the thing?
Milind Sarwate	Some of these pieces of information are crucial from a competitive angle. I believe that if you are giving broad information it should be possible for you to make your own guesses. Sorry we can't give information at this level of granularity cannot end up sharing our business plan. We request you for your understanding on this.
Moderator	Thank you. We have the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.
Abneesh Roy	Sir, oats slight dip in market share quarter-on-quarter, any reason to worry?
Saugata Gupta	No, oats stayed around the same 12% kind of a mark. You must realize that again we consider us to be only present in the South. As far as savory oats is concerned we have limited presence in other markets. We will now be in a position to evaluate and scale up very soon.
Abneesh Roy	Sir how has cooling oil done and when do you take it to other geographies? Any timelines in that?
Saugata Gupta	As we have said unless we get critical mass in the south we will not expand in India. We are still not happy in terms of meeting the action standards so we will wait and watch.
Abneesh Roy	Sir some bookkeeping questions. The interest income has shot up both in quarter-on-quarter and Y-O-Y extremely high. So if 17 crores the run rate for balance three quarters and similarly other income had also gone up. So should we net off other income and interest?
Milind Sarwate	You answered yourself. You should net it off.
Moderator	Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari Could you explain the goodwill bit you have mentioned in your press release for 120 crores in another 616 crores?

Vivek Karve As our note mentioned, we consummated the Halite acquisition through a newly formed subsidiary, Marico Consumer Care Limited. So Marico Consumer Care Limited has bought the shares of Halite **from Reckitt Benckiser**, the erstwhile owner. Now the Halite balance sheet has a goodwill which is the stand-alone goodwill but what MCCL has paid to the owner is higher than goodwill standing on the balance sheet of Halite. The difference between the two is nothing but goodwill on consolidation which will appear in the consolidated books but as notes to the accounts clarifies the total goodwill is 120 crores plus 616 crores which is in the stand-alone balance sheet of Halite.

Vivek Maheshwari So totally it will be around 730 – 740.

Vivek Karve You are right.

Vivek Maheshwari Okay and the tax rate for the full year the number that you have given between 21% and 22% that will be after considering Paras as well, right? Paras I am sure would be manufacturing some offshore locations only, right?

Vivek Karve You are right. It should remain in this ballpark.

Moderator Thank you. As there are no further questions I would like to hand the conference over to Mr. Harit Kapoor.

Harit Kapoor Just had a couple of questions from my end. Firstly on Kaya, I mean, you know on the fact that we are coming up with this new retail identity that you have spoken about, is it more driven by making more product focused model and if so what is the share of the product revenue we expect may be in the next 2 to 3 years in the Kaya mix and also whether the existing stores will now be brought into this new format and shrunk to the 500 sq.ft.

Ajay Pahwa They are actually two separate things going on here. One is retail identity and one is the new retail format. So the retail identity is basically a periodic change that you would take as to how your stores look and how the consumers interact with your store. That will be consistent and they will be phased out in the new retail identity over all our stores in the coming 3 to 4 years. That is with the existing stores. Now coming to the new retail format and the product questions, Kaya has witnessed significant growth on its product business. From about 13% in FY11 we exited FY12 and we are currently running at about 21% to 22%. The new format will be product heavy. We obviously have some assumptions right now and we will allow them to play out as we prototype it. I don't have any meaningful information for you until that store is up and running for at least 6 months.

Harit Kapoor And this will be under the Kaya brand name itself, right?

Ajay Pahwa Yes it will be a sub-brand of Kaya. It will definitely use the name Kaya within that. I think the overall assumption is directionally that we will see products play even greater role within the Kaya's Total Skin Solutions.

Harit Kapoor And one question on Saffola as a whole, I mean, in your press release you indicated that you would like to increase the share of foods in the overall Saffola mix. Just wanted to understand what are the categories that are finding big in this space? If you could just talk a little bit more about how oats and rice has gone and where do you see this share going in the next 2 to 3 years?

Saugata Gupta If you recollect we had said that by 2015 we should be able to increase share of the non-oil part of the Saffola brand to 25%. That has been our aspiration. We are reasonably on track on it. As far as this year end is concerned I can give you a broad number between oats and rice we should be able to do anything between Rs 60 Cr to Rs 70 Cr this year.

Harit Kapoor Sir this is a book keeping question. The Paras business would not be Paras standalone entity, right? It would be in the different subsidiary.

Milind Sarwate The brands are being housed in a separate subsidiary but the business results will be reflected in the consolidated results

Harit Kapoor Alright. I think with this I would like to conclude the call. A big thank you to the Senior Management of Marico for sparing their valuable time and taking time out to do this call and a thank you to all the participants. Sir would you like to make any closing remark.

Milind Sarwate Nothing really other than thanking all the participants and offering to continue this dialog offline through one-on-one meetings. So wherever there are more detailed questions which were not answered at this forum we could always have a separate dialogue to share the details. We have put a lot of information on our website and that could be accessed. It was a pleasure fielding questions for the entire Marico team. Thanks and I look forward to being with you again after 3 months. Thank you and have a good day.

Moderator Thank you very much sir. On behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.