Marico Limited
Conference Call

Event Date/Time : May 02, 2011, 6.00pm

FY11 Earnings Call

MODERATORS:

From Indiabulls	Mr. Anand Mour
From Marico Limited	Mr. Milind Sarwate, Group CFO & CHRO Mr . Saugata Gupta, CEO – Consumer Products Business Mr. Vijay Subramaniam, CEO – International Business Group MR. Ajay Pahwa, CEO – Kaya Mr. Chaitanya Deshpande, EVP and Head – M&A and Investor Relations Mr. Vivek Karve, EVP and Head – Corporate Finance

Moderator: Ladies and gentlemen, good day and welcome to the Marico Q4 FY'11 post results conference call hosted by Indiabulls 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 phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Anand Mour. Thank you and over to you Sir.

Anand Mour: Good Evening. On behalf of Indiabulls Securities, it is my pleasure to welcome the management of Marico and investors and analyst's fraternity on this conference call. I congratulate the management for posting strong domestic performance in the Quarter, which was marked by high inflation and raw material prices. Looking forward to an hour of insightful discussion. I hand over the proceedings to the management. Over to you Chaitanya.

Milind Sarwate: Good evening, this is Milind Sarwate. I work as Group CFO and CHRO of Marico. I have with me my colleagues Saugata Gupta who is CEO of Consumer Product Business in India. Vijay Subramanian who is the CEO of the International Business and Ajay Pahwa who is the CEO of the Kaya business. In addition Chaitanya Deshpande who heads the M&A and Investor Relations functions and Vivek Karve who heads Corporate Finance are with me. All of us would seek to answer all the queries that you would have.

You would have the details of the Q4 and FY'11 results that we declared in the afternoon with you by now. As Anand mentioned the environment has been rather tough this quarter for the Indian business as it was for the international business too because of the developments in the Middle East. Despite those we were able to put together a fairly satisfactory performance.

In terms of other parameters such as the various accounting adjustments that we have detailed out in our information update this quarter has been somewhat exceptional. We have given a lot of details in the information update to the point that it can become confusing. There may be just too many items to be understood with both quarter and annual implications.

At the fundamental level, I would say that most of the exceptional adjustments made by us have little bearing on the cash profit of the company. Moreover in terms of operations or the fundamental business model of the company there is no significant impact. Nevertheless, we would be glad to answer any queries that you would have in this regard. Since most of the data is already with you, I will not spend more time in explaining the results. So let us get into the question and answer session straight away.

Moderator: Thank you very much Sir. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, I wanted to understand the Parachute business more because in that we have seen the extraordinary quarter. The gross margins overall have been under tremendous pressure, so if we could take us through the Parachute business more and going forward where do you see the copra prices and would we need to pass on any price hike, which we have taken if the copra really corrects a lot?

Saugata Gupta: Parachute rigids volume growth rate,was around 5% this quarter. We have passed on a significant portion of the copra cost witnessed in the last seven to eight months, Ultimately over the long-term we are interested in maintaining consumer franchise and therefore should there be any softening of prices in the near medium term, we might pass some of this advantage back to the consumers to ensure the growth rates especially in the small packs where loose to branded conversion takes place.. So having said that while the second half of FY11 has grown slower than the first half going forward we believe that around the 6%-7% growth rate is possible on Parachute rigids.

Abneesh Roy: In the LUP where loose to branded happens unbranded would have also faced similar kind of a raw material pressure. In terms of the consumer behavior did you see market share gains against unbranded loose players?

Saugata Gupta: I think it is too early to give a comment on this. Nevertheless what happens to unbranded and loose is that they pass on everything to the consumer because they do not have a play in the terms of pricing. However, you must appreciate that given the fact that there have been unprecedented price hikes there could be certain cases where the absolute price point could be a barrier for upgradation. So we are waiting and watching. As I said earlier a 6%-7% growth rate in Parachute rigids is eminently possible - at least in the coming quarter.

Abneesh Roy: My second and last question on the new products which you have developed for example Saffola Rice then oats then also cooling oil. Where are we on these new products?

Saugata Gupta: Saffola Oats and Rice both are tracking reasonably well. As I had indicated on a previous call the annualized exit number in FY11 and the annualized number for FY12 between oats and Saffola Rice should be in the region of Rs 45-50 Crores . As far as cooling oil is concerned, we are proceeding cautiously we have taken a market share of 8%-9% in Andhra Pradesh and we want to concentrate only in the South. We have another variant called Parachute Advansed Ayurvedic Hair Fall Solution, which is also tracking well. Here we are also focusing only on the southern markets providing a certain benefit, to move the consumer to higher value added products.

Abneesh Roy: So why the focus on south only in both ayurvedic and cooling oil?

Saugata Gupta: In cooling we have a differentiated offering which is a coconut oil based format. Coconut is the oil of the land in the South. We believe we first need to win there. Once we succeed there perhaps we could consider going national but we want to proceed in a cautious manner.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Since the Q4 number is a bit confusing. In the press update you have not mentioned on the volume growth in each of these segments. If you could give Saffola's volume growth, the hair oil portfolio’s volume growth for the quarter, the international business volume growth?

Milind Sarwate: As far as the hair oil volume growth for the quarter is 21%, Saffola is 14%, and international is 19%.

Pritesh Chheda: Then there is this accounting treatment or adjustments on account of Kaya. If you could spend more time and does that Rs 31 Crores then straight away flows down to PBT? If it has been booked and why has the change been taken this time around in the quarter?

Milind Sarwate: You are referring to the Kaya revenue recognition. In Kaya, you would be aware that some part of Kaya's business comes from sales of packages to customer. Since the inception of Kaya, we have been selling packages with a nonrefundable payment in advance. Initially as we started rolling out the business, we used to account for it on the receipt because commercially the moment the package is booked the amount is paid and the revenue is realized because there is nothing to be refunded even if the customer does not use the services. Later on as we grew in scale, we started estimating the period for which the package is still outstanding in terms of services yet to be received and recognized revenue accordingly. That practice continued to date. As we have grown in scale and in complexity we realized the need for a more sophisticated software to tell us exactly what services are accruing for the quarter and what services are outstanding. Just to reiterate the amount of advance received or the amount received for the package continues to be nonrefundable. However now that we have a better tool to estimate the outstanding services to be rendered we have found it logical to account for those services as an outstanding and hence the revenue for those services would be accounted for in subsequent periods . So you are right in saying that the entire effect of this Rs 31 Crore will go to the bottom line simply because it just gets reduced from sales of FY 2010-11 and it will get accounted in FY 2011-12 as and when these services are rendered. Our experience has been that services get exhausted within a span of three to six months. So we do not expect this to fundamentally impact profitability of the business.

Pritesh Chheda: But this then should happen for one more quarter since the packages are three to six months you might follow the same till it evens out?

Milind Sarwate: Logically what would happen Pritesh is that at the beginning of every accounting period there would be some amount outstanding for packages yet to be utilized and at the end of that accounting period, there will be the fresh outstanding amount. We expect that as we roll on the business on a steady state basis the differential amount will only pertain to the growth of the business. FY11 being the first year when we have made such a highly sophisticated working and accounted for that there is a major impact. We should admit that there has been some element of conservatism in this because normally when you receive revenue in an nonrefundable manner one would account for that 100%. However since the accounting standard specifically advocates as much estimation as possible in terms of services rendered, we have gone ahead and done this.

Pritesh Chheda: So it would appear for one more quarter if I understand?

Milind Sarwate: **Yes** . One to two quarters.

Pritesh Chheda: **We took prices increase in** Q3/Q4, the margins are getting impacted as is it has not still flowed to the gross margin levels for the company and is that assessment fair and when do you see it flow?

Saugata Gupta: **As I mentioned** we have not passed on the entire cost increases to the consumer. Moreover Q4 does not have full impact of the prices increases as some of the price increases were taken in phased manner sometime in February. Therefore, we can expect to see the full impact from next quarter onwards. Depending on how input prices fare we may also decide to pass down the input cost benefit, if any, to consumers specially at LUP

Pritesh Chheda: Few questions in the depreciation do we have one off elements in the Q4 and what if it is so then what is the amount and second the interest expenditure if you could just tell us the cost of borrowings for you. Have you thought about the extent you want to leverage the balance sheet? We have not seen these levels of leverage in Marico for many years. Have we thought about where are we going to stop because it has started hitting your return ratio?

Vivek Karve: In the depreciation, there are two impacts in fact. One is accelerated depreciation of assets in Kaya Limited that is about Rs 3 Crores and there is amortization of intangibles, which are housed in the overseas subsidiary that is about Rs 9.5 Crores.

Pritesh Chheda: These are one time in the quarter?

Vivek Karve: These are one time in the quarter. However, the amortization impact, which was done for the first time in the Q4 pertains to the full year. This will continue in future quarters too. However the impact would be one-fourth of that on a quarterly basis.

Pritesh Chheda: **What about the** questions on interest cost and the internal thought processes on borrowing levels?

Vivek Karve: In the fourth quarter, as you must be aware we completed the acquisition of ICP in Vietnam. This resulted in a debit for interest cost in Q4 including an upfront arrangement fee paid to the lender. The second half of FY11 also saw higher interest rate levels. As of now we believe that the first half of the fiscal 2011-12 will continue to see an inflationary impact on the interest level. It is very difficult to predict what H2 will be like.

Pritesh Chheda: What is the blended cost for this?

Vivek Karve: It will be about between 5% to 5.5%, because it contains a significant portion, which is foreign currency. These figures are hedged costs as we also enjoy a natural hedge against our probable future exports.

Pritesh Chheda: Now what is the internal strategy because we have leveraged a lot and made couple of acquisitions?

Milind Sarwate: At a group level, our debt equity ratio stands atard 0.78: 1, not materially different from the one at the end of FY'10 which was 0.74. I feel that in terms of the cash flows that we generate and the proportion of the operating cash flow every to year to debt is comfortable. As of now we do not have acquisitions in the pipeline that need immediate funding. Should a situation like that arise, we will apply our mind and if it warrants any other mode of financing. Our experience has been that with the strong operating cash flow from our existing business it makes sense to exhaust the borrowing route first before we turn into any other mode of fundraising.

Pritesh Chheda: Last two questions I have, in fact of MENA operations, for a shutdown or whatever for five, six weeks if you could quantify and secondly after taking the price increase in both Parachute and Saffola any further price increase need to be taken considering the current material prices?

Vijay Subramaniam : The impact of the shutdown or disruption in MENA business in Q4 would be roughly in the region of Rs 20 Crores in terms of revenue.

Pritesh Chheda: Has the business now restored there to normalcy?

Vijay Subramaniam: Egypt is gradually coming back on track and manufacturing has started but as you are aware in some of the other smaller markets in the region there still is some degree of uncertainty.

Pritesh Chheda: My question, on the price increases?

Saugata Gupta: As regards Parachute we do not see any need for any further price increases. As regards the Saffola we do not anticipate a need for a price increase in the near term. We will have to keep a watch though as edible oils prices have some linkage to crude oil prices.

Pritesh Chheda: Many thanks to you and all the best.

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

Nillai Shah: Just wanted to know the focus on the international business Bangladesh, what would be the share of your branded oils in Bangladesh?

Vijay Subramaniam: Our share of branded coconut oil market in Bangladesh would be in the region of 75%-80%.

Nillai Shah: Branded market itself would be about 80% of the overall market out there?

Vijay Subramaniam: That is right

Nillai Shah: So would it be fair to say that going forward the growth out there would be in low single digits given that the market is in saturation?

Vijay Subramaniam: Well in the core business of CNO, you will obviously not see the kind of growth rates as in the past. Bearing this in mind we have entered certain new categories. You may recollect from some of our earlier updates that we entered the hair dye segment with the launch of Hair Code hair dye. That is doing well and our exit market share has reached about 28%-29% . We have also launched Saffola Gold in Bangladesh this year. We are also in the process of identifying new growth engines. So while on CNO growths may not be as high you have seen in the past, if some of the new offerings start showing traction, I think growth at a healthy pace is possible.

Nillai Shah: Over your international business do you still maintain your 20% organic revenue growth numbers, if not, then is there a gap that we will have to bridge through acquisitions?

Vijay Subramaniam: We believe 20% organic growth is possible now that we already have the Vietnam business in our fold**.** However you must keep in mind that the situation in the MENA region is uncertain. So let us see, which way that pans out.

Nillai Shah: The second is on the ad spends in the domestic business, we have seen that for most of the companies in the hair oil space the growths have been phenomenal over the last few quarters probably a part of it is to do with the fact that you know many companies have invested in terms of ad spends in this category. Is there a risk now with ad spends being cut this quarter that the growths may come of and is this cut in ad spends likely to be persistent over next two quarters, if the input cost remain where there are?

Saugata Gupta: Yes, Q4 saw a little bit of cut in the ad spends, but going forward with the full impact of the increased retail pricing coming in in Q1FY12 and a low probability of further escalation of copra prices, I expect that the ad spends will go back to the normal zone of 10%-11% for the Group as a whole. As far as the hair oil business is concerned category volume growth rates have been 13%-15% and we have been gaining share in the hair oil market. We have gained around 1.8% on an annualized bases. So I do not think that value added hair oil category growth has jumped up significantly. If you look at the two to three years CAGR it is in same zone, it is just that we have added share. Value growth of some companies will be high because of the price increases. For example our Q4 value growth was around 36%. But it is better to look at the volume growth because that denotes consumer franchise growth.

Nillai Shah: And that is about 12% to 13% for the year Sir?

Saugata Gupta: Full year hair oil growth for Marico is around 24%.

Nillai Shah: So for the category it would be approximately?

Saugata Gupta: Around 13%-14%. We have gained share.

Nillai Shah: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Ashit Desai from B&K Securities. Please go ahead.

Ashit Desai: Just one on your comments on ICP, you have mentioned you will see higher ASP spends for the next one year. Just want to know what kind of ASP spends and what margins you foresee for this business?

Vijay Subramaniam: Next year is a conscious strategy for us to invest in our core brand, X-Men and our spend would be in the region of about 14%-15% or so. With that we hope to realize the fruits in the subsequent year and there on.

Ashit Desai: For that level of ASP Sir, what are margins that we expect for this business?

Vijay Subramaniam: The operating margins should be in the region of about 13%-odd.

Ashit Desai: Sir for Q4 what would be the overall volume growth? You have mentioned some numbers in the annexure-1, but somehow they don't add up, because I see a Marico Group volume growth of 5%, but the numbers for hair oils and Saffola is quite high for Q4?

Vivek Karve: The volume growth for the Group appears lower at 5% if we include the one time revenue recognition hit in Kaya of Rs 31 crore. If it were not for this accounting entry, the volume growth for the Group in Q4FY11 stands at 10%. The volume growth in Q4 is lower than the 15% volume growth witnessed in Q3. This is mainly impacted by lower sales in Q4 in MENA due to the political unrest and the divestment of Sweekar in March 2011 which resulted in sales during March 2011 being lower.

Ashit Desai: Thanks a lot Sir.

Moderator: Thank you. The next question is form the line of Dhaval Gada from Edelweiss. Please go ahead.

Dhaval Gada: Last quarter you indicated that we were maintaining a very low inventory level of copra, so what is the situation now?

Saugata Gupta: We continue to maintain a low inventory level of copra. The season has just started and we have seen the first signs of the palm oil prices and palm kernel oil prices also softening. The production numbers in Malaysia and Indonesia also look good. So we will continue to maintain a low inventory in anticipation of prices falling.

Dhaval Gada: Sir what is the level of inventory that we generally maintain for copra?

Saugata Gupta: That depends on the situation, but as I said now when the prices are at its peak we maintain lower inventory.

Dhaval Gada: Thanks a lot Sir.

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

Vivek Maheshwari: My first question is on the change in policy for excise duty with respect to less than 200 ml packs. What has led to this change?

Milind Sarwate: **Let us** trace the history of how we provided for this amount, Initially in 2009 when we first made the provision there was a reasonable lack of clarity and we felt that we need to be very cautious and make the provisions since not much of data or trend was available in the environment. Thereafter there have been approaches made to the court by many companies like us. There has also been some counter arguments on this particular circular. We have been able to consult lawyers and get an idea of how this case is likely to proceed. Now last year we made a provision and we continue to attract a qualification by the auditors, simply based on the legal opinion received by us the provision is not warranted since the possibility of the circular hurting us in the eventual run would be less than likely. According to the accounting standards if any event is less than likely to happen it is not possible to provide for it without attracting an auditor's qualification. Last year when the situation was still not very clear we continued to attract the qualification and make the provision. It has now been two years since the circular came into being. We find that based on the legal advise that we consistently received and reiterated almost every quarter or six months if we continued to make the provision it would be extreme caution. Another driving factor has been that according to the new SEBI recommendation if you have qualified accounts we have to present our accounts in both the format in which we originally made them and also after removing the qualification. This would mean that we would have to present the accounts without provision in any case. Now considering all these factors we felt that instead of confusing the readers of our financial statement it would be better not to make the provision and instead disclose them as contingent liability and keep tracking the situation. If we find the slightest adverse development in this area then reconsider whether we should make a provision. In a way we realized that what we were trying to do with abundant caution was proving to be counter productive hence we have tried to set the matter right by reversing the provision.

Vivek Maheshwari: Okay understood. On the RM front how much would be the inflation in copra prices on YOY basis?

Milind Sarwate: Weighted average will be around 45%.

Vivek Maheshwari: Has there been any correction is the copra prices from Q3 to Q4?

Saugata Gupta: Not really, on a weighted average basis it is more are less flat, but as I said, we have taken the last of the pricing increases in February so with that we have now taken whatever price increases we had take. A full quarter's impact of the increase will be seen only in the April-June 11 quarter.

Vivek Maheshwari: Okay and if I recall correctly the last quarter concall you had mentioned of weighted average price increase till date of around 32%. So that is the number. Is the February increase included in the 32% ?

Saugata Gupta: We had taken prices up by about 24% until December 2010. The February increase of 8% took the cumulative increase to 32%. .

Vivek Maheshwari: As things stand today is the entire, on a YOY basis versus the Q1 will this Q1 FY'12 have the full impact of a price increase, which will offset the gross margin pressure or gross margin pressure will still remain?

Saugata Gupta: As I mentioned earlier we have not passed on the entire raw material price increase to the consumer. We believe that ultimately we want to build a strong consumer franchise. We have done what is the best possible. We believe have found a sweet spot between managing volumes and managing value and profit.

Vivek Maheshwari: Understood and what would be blended tax rate for the overall group in FY'12 roughly?

Milind Sarwate: 19%-20% for the Group as a whole.

Vivek Maheshwari: Lastly sir Kaya what would be the total operating profit or PBT or whatever the number that you would have given in the press release?

Ajay Pahwa: Total loss will be about Rs 2.3 Crores at Kaya level. This excludes all the adjustments that we have made.

Vivek Maheshwari: Okay and FY'12 how do you see for Kaya business?

Ajay Pahwa: In this coming year we are expecting to see a turnaround in our India business as well as growth in Middle East and Derma Rx. Not accounting for adjustments and on a like-to-like basis, we are hoping to see a 15 Crores shift in our profitability.

Vivek Maheshwari: What is 15 Crores, you are saying?

Ajay Pahwa: In terms of next year financial plans we expect that at least there would be a shift to the extent of around 15 Crores on the bottom line.

Vivek Maheshwari: Thank you very much

Moderator: The next question is form the line of Richard Liu from JM Financial. Please go ahead.

Richard: Taking into account this Rs 31 Crores of Kaya sales revenue recognition reversal, if I were to add that back to your net sales and assuming 100% flow through the profit would it be correct? Is my calculation correct that your operating margin adjusted for this is actually 14% for the quarter, which is almost at your FY10 high level? So 55% rise in copra prices, is it fair to therefore assume that the 32% price increase that you have taken is now more than sufficient at the current level of copra price to see you through in terms of operating at your near term high kind of a margin?

Milind Sarwate: I think we will have made one more adjustment to the extent of excise provision written back unless you have adjusted for that. It would be wrong to say that the impact of copra price cost-push is behind us. It is lingering and to be frank we would not even know to what extent the prices would soften in future. So I would say we should wait for the quarter before we conclude on that.

Richard: This 14% is almost let say the second highest in terms of quarterly margin that you witnessed in recent time?

Milind Sarwate: Without excise it is correct.

Richard: That is true. I take that point, which is also leading me to my second question. If you look at the other expenditure on a quarter-on-quarter basis, the earlier quarter you clocked something like in the range of around 140 Crores, which also includes this 8 Crore odd of provision of excise of small packs. Now this quarter obviously you did not have to make that provision, but your other expenditure did not really change much QOQ. In fact, they remained more less at the same level of about 140, 143 Crores, why is that?

Milind Sarwate: In the Q3, you did not have ICP financial in Q4 so there is some impact on that.

Richard: So like-to-like without ICP what would the other expenditure be would you be able to share that number?

Milind Sarwate: We need to get back on the exact number for that.

Richard: Thanks

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from Anand Rathi. Please go ahead.

Aniruddha Joshi: Our effective tax rate for all normal operation is around 19%?

Milind Sarwate: Correct.

Aniruddha Joshi: The very last question on Kaya, I guess after every two to three quarters we see some extraordinary expenditure I guess once we closed down some of the Kaya units then we have closed on Kaya Life business as well. So again this time we are seeing some extraordinary expenses on Kaya again. So anything you want to purely guide us on the eventual profitability, means, when can we see the business reporting stable ROC of 15% upwards?

Ajay Pahwa: The fact is that Kaya is still a nacent business, it is high end retail in personal care area. For that matter there is no readily available surrogate for the Kaya business in India or overseas. What we have been doing over the past few years and exactly as you spoke about, that as we experiment newer adjacencies for the Kaya business, we got into Kaya Life, we figured out fairly quickly that we are not going to succeed in that and if we are not going to win then we do not want to play that game. So we closed that business, naturally there would be some one-time adjustment that would come up. Similarly as we set up the business there would be equipment that we will deploy and we would have views on their effective life then we would keep on taking more and more conservative view on the life. Similarly most of the Kaya business is in leased properties and there would be shifts on that account. There would be shifts on account of the new impairment related accounting provision that we need to deploy, so to keep in mind that also the Kaya turnover is not very high at around Rs 237-239 Crores, it operates through 103 clinics and for the purpose of accounting each of these clinics is considered as a cash generating unit, so we have to take a view on each and every clinic. The view has to be not a commercial view, but an accounting view, which does not enable a businessman instinct to get into play. If you put all these things together you will find that the Kaya accounting plank is yet to evolve completely. So what we have tried to do is try and exhaust all the accounting adjustments in this quarter itself. However you could have a scenario where some clinics which have been impaired this year, do well next year and there would be a reverse of impairment and some amount may actually get added to the profit. So what I am afraid is that there will continue to be some accounting adjustments in a newer and spread out business like Kaya. Now your question about stable ROC of 15%, I would like to answer it not in terms of numbers but in terms of what we are doing to set the business on the right key. What we have done is we have over the past year cut down large part of the cost base of Kaya and we are now confident that we are able to run the business in a far more efficient manner than before. The other steps include increasing the footfalls to the clinic, launching services, getting or establishing the Kaya Retail identity very strongly, so we are confident that next year the India business would turnaround,.The Middle East business and the Derma Rx in Singapore have already turned around and they are earning operating margin of anywhere between 12% to 18%. So we feel that the future of the business is not bleak as one might want to read viewing the Q4 financial numbers. You will also find that every time we have made an accounting adjustment, it is towards moving to a more conservative accounting regime. So each of the adjustment is going to pull down the reported Kaya numbers, but the faith in the business is intact. If I have been able to answer your question, I am happy.

Aniruddha Joshi: Thank you.

Moderator: The next question is from the line of Sanjay Singh from Standard Chartered Securities. Please go ahead.

Sanjay Singh: Just wanted to ask in the excise issue, in the contingent liability created I understand that there was 12 other expenses and tax charges, but there is a contingent liability created and some of the figures do not match with the reversal and the tax charges. So can you just throw some light on this, how is it calculated the current contingent liability which has been created which is that Rs 121 Crores and Rs 89 Crores?

Vivek Karve: There are two parts to this. Number one is the provision that we created last year, and the provision that we created for the first three quarters of the current year. The moment we reversed this provision, it gets added to the contingent liability. Now this liability is in respect of dispatches after June 3, 2009. Now even in the past Marico and its subcontractor have been receiving showcase notices. To the extent they pertain to a period of one year prior to the date of its showcase notices, we are in normal course and they need to be accounted as contingent liability, which was not provided for in the books anyway so that contingent liability together with the provisional rework would add up to the total contingent liability of 209 Crores.

Sanjay Singh: But if you add up the total excise provision, which is close to something around 56 Crores only, so this means that the significant portion is prior to that?

Vivek Karve: It is not that way, even the 56 Crore is at 75% of the probable excise obligation, so you will have to first gross it up to make it 100% and then add to that provision the showcase notice is prior to the period June 03, 2009.

Sanjay Singh: **Rs** 56 Cr becomes Rs 89 Cr and then there is 121 which is prior to that?

Vivek Karve: Correct.

Sanjay Singh: Now just one thing, there is an impairment of goodwill in the Fiancée business, any particular reason for this?

Milind Sarwate: Again as I mentioned in case of Kaya, the rules for impairment as given in the accounting standards are very strict and they are strictly accounting. In case of Egypt, as you know we went and first acquired Fiancée and then we went and acquired a brand called Hair Code. Hair Code is the up-market brand while Fiancée is a was value for money brand. We have a combined market share of close to 55% to 60% With that kind of a large share we were able to run the market with a large degree of freedom and we used that freedom to promote the more profitable, up-market and modern youth oriented brand, Hair Code. So we have used Fiancée more as a flanking brand or as a brand, which takes care of the bottom of the pyramid as compared to Hair Code. As a result if we were to re-compute the Fiancée financial as of now, they would not be very attractive and exactly because of this reason when these financials get viewed by the auditors strictly from an accounting lens, there is not much of use in them and we have to suffer some degree of impairment on that kind. This is the accounting logic for impairing the Fiancée brand. From a commercial logic, if you were to put Fiancée and Hair Code together and then compare that with the overall cost of acquisition that we have incurred we would not have to make any impairment, but each brand is a separate cash generating unit and it has to suffer or receive impairment or opposite of impairment as the case may be. So I would not be surprised if after MENA fever settles down and if the Egyptian market picks up, you may see an income accruing on account of Fiancée brand, the opposite of impairment. Finally with the impairment provisions being applicable widely and in case of Marico since we have several cash generating units across the company I think these fluctuations would be similar with the foreign exchange fluctuations that one sees and it is not exactly possible to predict them, but over a period of time we expect that they will even out.

Sanjay Singh: Is there a court approval required for this?

Milind Sarwate: This impairment is purely an accounting phenomenon. We are not reducing any amounts from the reserves. Thank God, we do not have that complication in this quarter.

Sanjay Singh: Finally, Parachute I think, there was a talk about 5% volume growth in rigids, can you have the full volume growth for Parachute rather the full volume in the coconut oil segment including Nihar?

Saugata Gupta: Around 3% to 4%.

Sanjay Singh: This would include Nihar also?

Saugata Gupta: Yes.

Sanjay Singh: Can you just help me in understanding what will be the contribution from the ICP in this quarter?

Vijay Subramaniam: About Rs 15 Crores of topline.

Sanjay Singh: In terms of bottom line?

Vijay Subramaniam: Not much, as it is very early days after the investment and it would not a fair representation.

Sanjay Singh: Can you explain your strategy in terms of manning of human resources in international business.

Milind Sarwate: Which acquisition are you referring to?

Sanjay Singh: No generally in terms of a strategy how is the acquisition?

Milind Sarwate: Typically when we acquire a new business we try and not disturb things too much. For example few years ago, we acquired a business in South Africa. We did not change the management team at all including the CEO of the business, similarly when we had acquired ICP or Derma Rx we have not changed the leadership of the business units because we believe that we need to integrate the business first of all without disturbing the human resources as work. Over a period of time, we have deployed people from Marico India and over a period of time as required we may make changes, but the dominant objective is not to Mariconise the company quickly and put Maricoians over there. We find that this approach of almost treating it like an alliance and growing with the incumbent leadership team pays dividend because there is a huge continuity.The consumer is really not concerned whether Marico is the owner or some other person is the owner so we would like the consumer interface to remain intact.

Milind Sarwate: Thank you very much.

Moderator: The next question is from the line of Gaurang Kakkad from Religare Capital Markets. Please go ahead.

Gaurang Kakkad: My first question was on the interest expense. What is the extent of one off in this?

Vivek Karve: Around Rs 6 Crores.

Gaurang Kakkad: Secondly, I was seeing in the information update if I understand it correctly the exceptional item includes the excise reversal of last year as well as the nine month of this year, which is totally Rs 56 Crores whereas in the information update you have only mentioned the 29 Crores figure?

Vivek Karve: We have to look at it in two verticals one is the Q4 vertical for which both numbers are relevant but for the full year vertical because we have reversed the provision of the first three quarters in the Q4 it is not relevant at all. So what is relevant for the year as a whole is the reversal of the previous years' provision amounting to Rs 29.34 Crores.

Moderator: The next question is from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir just wanted to know what is the cost recognition policy going to be in Kaya henceforth because the revenue recognition we have changed ,just wanted to know the the cost recognition policy. Is it 31 Crores we have changed that, so has the cost for that already been accounted or going forward we accrue cost for the same?

Milind Sarwate: We will account for the cost as and when the service is rendered. As you know however the variable cost for services in Kaya is low.

Ankit Kedia: Thank you.

Moderator: The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

Gaurav Bhatia: Sir I just wanted to understand Kaya numbers a little better. You were saying that Kaya has done a PBT loss of about Rs 2.3 Crores for the quarter and then you are saying that we have not adjusted for Rs 31 Crores revenue, which effectively flows down to the PBT if I were to adjust that then the quarter PBT for just the Kaya business is 29 Crores plus and add to that 3 Crores depreciation for Kaya assets, which should be treated as one half. Are you saying that Kaya has done a profit of 32 Crores in the current quarter?

Ajay Pahwa: We wish it was true but the number of minus 2 Crores which you heard was the number before exceptional item. So the accounting loss is much higher because as we will have to adjust for Rs31 Crores revenue recognition, Rs 3 Crores of depreciation, Rs 4.7 Crores of IPR depreciation of Derma and almost Rs 7 Crores of clinic level impairment.

Gaurav Bhatia: These Rs 2.3 Crores is like-to-like if I compare Q3 over Q4 this is the number I should look at?

Milind Sarwate: The loss of Rs 2.3 crore is for FY11 and not for Q4 only

Gaurav Bhatia: Thank you so much.

Moderator: Thank you. The next question is from the line of Ashit Desai from B&K Securities. Please go ahead.

Ashit Desai: Currently what percentage from MENA demand is met from the domestic exports and how do we see it going forward.

Vijay Subramaniam: Manufacturing hub for the MENA region is in Egypt, which supplies close to 100% of the total demand. After the current environment issue we have developed some back up sourcing options from other locations. So should such an eventuality arise again I think we should be in a position to derisk about three-fourths of our demand.

Ashit Desai: In Q4, are there any exports from which are there in the standalone numbers?

Vijay Subramaniam: Standalone growth, it will not be very material,

Ashit Desai: I just want to confirm because of in the annexure you mentioned 30% domestic growth?

Milind Sarwate: That is the pure sales in India.

Ashit Desai: Thanks a lot.

Moderator: Thank you. The next question is from the line of Rohit Gajare from UTI Mutual Funds. Please go ahead.

Rohit Gajare: Just to understand this Kaya revenue adjustment of Rs 31.3 Crores this should be done both on the quarter only for Q4 as well as for the full year?

Milind Sarwate: Yes.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Motilal Oswal Securities Limited. Please go ahead.

Harit Kapoor: You mentioned this interest one off is Rs 6 Crores for the quarter, just wanted to know what this was on account of?

Vivek karve: These are arrangement fees on the borrowing to finance the ICP investment.

Harit Kapoor: Arrangement fees so it non-recurring for the next year right?

Vivek Karve: Correct.

Harit Kapoor: Thank you.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Macquarie Capital. Please go ahead.

Priya Ranjan: Can you just explain on why there is so much increase in the stock in-trade?

Saugata Gupta: The increase in the stock in-trade is primarily on account of the finished goods. This is up on account of the increased cost table as well as norms based inventory keeping in mind the plans for the coming months. As we progress into FY12, this could come down. It is not a permanent shift in inventory holding.

Priya Ranjan: What kind of hedging you have done going forward if we look at the copra prices if it has to go up from now on so what kind of hedging policy or something you are maintaining as of now?

Saugata Gupta: We do not do any specific hedging on copra.

Priya Ranjan: Is there any likelihood of softening because what I was looking at is it is still on a higher side?

Saugata Gupta: I think it has peaked out. As you know the flush season actually is in May, June, and July though it is difficult to pinpoint the exact timing. We believe that as far as international palm prices are showing some softening and the production numbers seem to be good. So if the fundamentals are to be believed it is bound to come down in the near term.

Priya Ranjan: Thanks. That is all from my side.

Moderator: Thank you. We would now take the final question, which is from the line Manoj Menon from Kotak. Please go ahead.

Manoj Menon: Sir just one question only on the overall volume growth in coconut. I am not just looking at Rigid. It is not about really the Rigid separately or the other part separately. I think the price increases per se was dramatic as well as the volume growth of 2%, 3% as well. Is there any threshold limits because what we are witnessing is the overall hair oil growth as well as the value added hair oil growth has kind of held up extremely well, or rather it has accelerated either a threshold limit from a consumer point of view wherein the consumer which switch between both?

Saugata Gupta: Average outlay per month by a consumer on a value added hair oil is not significant compared to other items of daily use like food and food items. So the absolute increment level is not that significant to impact near term growth rates. From a longer term perspective however it could lead to a deceleration of the loose to branded conversion. That is the reason we are clear that we want to ensure that we do not have very steep increases at least at the entry or recruiter packs.

Manoj Menon: I understood this part but my question was much more focused in terms of the fact that while we have seen the CNO growth at 2%, 3% we have seen much better growth in the other segments between hair oils either value added at much higher rates for Marico as well as for the competitors are reported till and now obviously which is pushing up the overall hair oil growth as well. I am just trying to understand from the consumer point of view what are the threshold limits in your view wherein the consumers switches between let us say CNO and the value added hair oil?

Saugata Gupta: Some of the growth numbers reported are value growths and not volume growth rates. The market volume growth rate has been about 15%. Marico has grown faster but it has gained share. There has been no dramatic increase in the overall hair oil category volume growth as such.

Manoj Menon: Thank you.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Milind Sarwate: I hope that the participants' have received answers for most of their queries. If there are any outstanding queries I suggest they contact us directly and we would be very glad to address them. I would like to sign off by wishing all of you great year ahead and I hope to be with you again sometime in late July. Good day.

Moderator: Thank you Sir. On behalf of Indiabulls Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.