"Marico Limited Q4FY13 Earnings Conference Call"

April 30, 2013

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Moderator: Ladies and gentlemen, good day and welcome to the Q4FY13 Earnings Conference Call of Marico Industries, hosted by PhillipCapital India Private Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this 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. Naveen Kulkarni of PhillipCapital India Private Limited. Thank you. And over to you, Sir.

Naveen Kulkarni: Thank you, Mohsin, and good evening, everyone. We, at PhillipCapital India, are pleased to host the Q4FY13 earnings conference call of Marico Industries Limited. We have with us the senior management team of Marico Industries represented by Mr. Milind Sarwate – Group CFO; Mr. Saugata Gupta – CEO of Consumer Business; Mr. Vijay S. Subramaniam – CEO, Kaya; Mr. Chaitanya Deshpande – Executive Vice President and Head of Mergers and Acquisitions and Investor Relations; and Mr. Vivek Karve – Executive Vice President and Head of Corporate Finance. We will begin the call with a short commentary by Mr. Milind Sarwate and then we will move on to the question-and-answer session. Over to you, sir.

Milind Sarwate: Thank you, Naveen. Good evening, everybody. Welcome to the earnings call of our Q4FY13 results. As always, we have shared a lot of information on the quarter and the years' performance through the Information Update issued earlier today. We are holding this call quite late in the day, starting after 6.30 pm as today is quite a unique day for the Indian Consumer sector, with the results of three leading Indian MNCs in the Consumer space – Dabur, Godrej and Marico being announced. I am sure you have also had a very busy day, attending to various calls. And I hear that there was a very long analyst meet held by Hindustan Lever in the morning. So, pardon me for loading you with more information at the end of the day. I will therefore try to keep the initial remarks brief.

The results would have been with you for some time. As you might have noticed with an analysis of different segments, we arrive at different conclusions. Starting with the fact that we are going to demerge Kaya into a separate company, this lends some complexity to the results because these are the Marico Group results, including the FMCG business and the Kaya business, out of which the Kaya business would be demerged into a separate listed company, effective April 1, 2013. The listing is now expected in by November 2013. Again, if you come to the FMCG part, there is the India business and there are overseas businesses. Both have done well in a different way. In the international business, barring one territory which is GCC, we have done reasonably well. But different parts of Marico, you will find have achieved different quality performance in this quarter. So I would urge you to get into the required details so that we are able to provide you with a very rounded view of the entire results.

If you look at the numbers, we have grown by 9% at the Group turnover level during the quarter. We have narrowly missed the Rs 1,000 crores mark turnover for this quarter, we are at

999 crores. In terms of bottom line, the profit after tax in the accounts is higher by about 20% as compared to the corresponding quarter of last year. But if you were to weed out the exceptional one-time items the growth comes down to just about a percent. There are several factors which we will analyze as we go along.

In terms of the volume growth, the India business leads the show with about 14% volume growth, the International business performed badly in GCC, and so counting that out it also grew in double-digits. The Kaya business has grown by about 15%, supported by healthy same-store growth.

In terms of bottom line, obviously, the International business has done badly because of the setback in the Middle East. Kaya has reduced its losses before interest and tax, and the Indian business has continued to do quite well.

Our market shares have generally grown across sectors. Our volumes have also grown across sectors. Our operating margins were at the same level as last year's same quarter but through the year, they have grown and they have enabled us to plough back some of the savings into ASP, leading to much better brand performance this year.

The corporate restructuring announcement you are aware of and we will be able to put Kaya into a separate listed company, only by the end of Q2FY14 because of the new rules which have come in from SEBI, requiring us to also take SEBI approval. This has delayed the process as compared to what was envisaged earlier. We were originally expecting listing sometime in August 2013. Now, that I think that could happen one to three months later. I have made some very general remarks, leaving the floor open for you to ask specific queries for various segments. So over to all of you. I appreciate it is late in the day, but we are willing to stay open for as long as you guys want us to. So please shoot with your questions. Thank you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is on the Kaya. While you mentioned the listing, just wanted to understand that once the entire process is over, will it be sort of retrospective from 1st of April in terms of your consolidated accounts it will go away from 1st of April or from when?

Management: It will be from 1st of April, 2013. The scheme of demerger envisages a separation of the two businesses from 1st of April. So whenever we receive the approval, they will all date back to 1st of April, 2013. This may create some practical odd situations. By the time we declare Q1 results for the current Marico Limited, we may not have got the approval. So we will continue to disclose results the way we are doing for this quarter, and we will separately have to highlight the Kaya portion and the FMCG portion. But, in spirit and in ultimate effect, 1st April is the date.

Percy Panthaki: Secondly, just wanted to ask you, for this quarter, the other expenses line has moved up quite significantly as a percentage of sales, so any particular reason for that?

Management: As you are aware, the other expenses line item is that way because of the way the presentation has to be done. But in the other expenses there are quite a few expenses, almost half of them, which are variable in nature, which move in tandem with sales. Having said that the other expenses have moved up because of expenses such as the legal and professional fees and exchange losses; they are actually not losses, they are hedging costs, but they need to be regrouped as other expenses.

Percy Panthaki: So if you were to remove these couple of items you mentioned, then what would be the YoY growth in the other expenses?

Management: Instead of the 200 basis points increase that you observe, the increase will be about 100 basis points.

Percy Panthaki: Coming to your business performance basically, how do you see this sort of growth of Parachute and Saffola? They have not picked up much. So do you see anything on the ground which gives you the confidence that with the pricing actions you have taken, the volume growth is coming back or that is only a hope as of now?

Management: If you look at the Parachute numbers, volume growth t was 5% in both Q3 and Q4 . In the case of Saffola, it was 4% in Q3, and it has improved marginally to 5% in this quarter. The growth rates for the year however were 10% and 7% for Parachute and Saffola respectively. The pricing action we took has come into the market only around February for Saffola, and around Feb-March for Parachute. To give you a broad outlook, we believe that Saffola will get into double-digits volume growth in FY14 and in the case of Parachute, we expect to achieve 7% to 8% which we have been indicating as out medium term growth outlook. Pricing action takes time to execute , especially for big brands and well distributed brands. Therefore, we expect Saffola to get into double-digits and Parachute to get back into the number of 7-8% in FY14.

Percy Panthaki: And my final question is, with this year, if we assume that commodity prices stay where they are, then there would be very little reason or a cost push reason for you to increase the prices. So in such an environment, what are the levers that you have to continue EPS growth at robust levels or do you feel that in this environment the EPS growth could actually slow down?

Management: We operate in emerging markets of Asia and Africa and therefore, volume growth and market share growth in the near term is far more important than immediate margin expansion. The India business enjoys higher margins are we are OK to maintain them. As far as international business is concerned, there have been some hiccups in FY13. We expect a substantial improvement in the international business margin this year.

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

Prakash Kapadia: If you could give us some sense on, recently, there have been FDA warnings to some edible oil companies for making some false claims about solving cholesterol problems. Do you believe it is better for us as a leader given that some of the players will get weeded out or people will be more pricy in terms of shifting brands, and are we seeing some traction because of this? That was first. In western India we have seen a leading groundnut oil premium player going out of the market. So are we seeing again traction on that? And CSD, are we seeing normalize growth for Saffola?

Management: We are an ethical and a responsible company and Saffola has been a brand which has over the past 20-30 years been focusing on what is best for the consumer. In all our work we seek a lot of scientific research with support from the doctor community and clinical research. Now, I do not wish to comment on whatever FDA action against other players. I am sure the government and FSSAI and FDA are extremely vigilant and they will take necessary action against players who make claim which are not necessarily true and not necessarily therefore for consumer interest. On CSD, the base will come back to the normal from Q1. You would recall that the first impact of CSD happened sometime mid Q4 last year. The normalize base of CSD will start kicking in from Q1 '13-14 So there will be no CSD impact, it will be like-to-like from this quarter onwards.

Prakash Kapadia: Secondly, on Bangladesh, what is the outlook? Because we keep on reading about these political turmoil, strikes, elections coming.

Management: Given that it is an election year and there are certain political developments in Bangladesh, degree of volatility and uncertainty is higher this year. In spite of that the economy has started growing I think any organization has to manage volatility and uncertainty. Our Q4 results were satisfactory despite a lot of hartals.. So unless the situation sharply deteriorate, we are just about okay at this point in time. I think the journey for our Bangladesh business is having developed such a strong equity how do we start diversifying the risk of being predominantly in one brand. We have thus entered Value Added Hair Oils and have already obtained leadership in Hair Dyes. And given the fact that we have such a strong distribution and the kind of operating margins we enjoy in that market, you will see a lot of power-packed action and innovation over the next 1-2 years. In fact, we believe that our right to win in that kind of a market, our ability to handle volatility and uncertainty is far higher than any other player in that market.

Prakash Kapadia: Last time in FY10 when we have seen the copra price fall and FY11 we have seen a sharp rise in copra prices, so consequently gross margins have fallen. If we look at FY13, copra has been very benign. Assuming copra prices were to increase going forward, would you see some change in gross margin or now we are much more diversified in many more categories, so you do not see gross margin maybe at a level which is coming under pressure?

Management: In response to the copra prices going down, we have taken certain pricing action. Obviously, if copra prices were to shoot up drastically, we will reverse those pricing actions. Having said that I think the situation is slightly different given the global economic outlook and the palm oil and the crude oil and other prices, we do not expect a significant rally. Yes, it could be inflationary in the second half, but we do not expect the rally could be as significant as it was in FY12.

Prakash Kapadia: And are we more diversified and much more de-risked in terms of the contribution from Parachute, which we were, say, three years ago?

Management: It is continuously reducing, although still high, but I think while the top line dependence has drastically reduced. The dependence on the bottom line is still high. The Value Added Hair Oils portfolio now generates a lot of profitability. We believe the Youth portfolio is also doing well. Egypt and Vietnam which does not have a Coconut Oil portfolio also delivers a significant profit. So I think it is far more diverse than it was three years ago. Having said that, we still have a journey to make.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the new products like the Oats and Muesli. Has the market share in oats dipped versus earlier, is it…

Management: No, in fact, we have increased our market share, we are at 13-14%, we continue to be No.2, and in the case of Body Lotion we are number 3 with 7.1% market share. Moreover, we have gained market share this year. We are around Rs 50 crores of turnover in both these portfolios, and therefore in line with our long-term assumption.

Abneesh Roy: And where would you see the market share stabilizing? Normally, we gain market share in most of the lower market share categories and even in Parachute, you are managed to gain market share. So from a 3-5 year perspective in these three sub-segments, where do you see market share stabilizing? It is not a target or guidance; it is more of a vision.

Management: I think it is difficult for me to share this. It is a growth market with low penetration levels. All these categories are growing in excess of 25%. In any market where you want to play it's critical to get about 12% to 15% share to get leverage in A&P cost and get economies of scale.

Abneesh Roy: And how has canteen sales done for us?

Management: Canteen sales have stabilized now.,We expect that the decline is over. The growth CSD during the quarter flat to 1 or 2%. The lower base owing to the issues in CSD would come in from the April – June quarter. You should start seeing some growth in the CSD sales here onwards.

Abneesh Roy: If we see the results of some of the other companies which have declared, we are seeing quarter-on-quarter improvement in most of the companies. In your case in Parachute, we are not seeing and even in Saffola if you see, you are getting a huge base advantage, last year Q4, Saffola had a low base. I agree discretionary side is there in Saffola, but are we missing out on some strategy piece, some insights into that?

Management: As I said, pricing action which was necessitated to ensure that the volume growth gets back on track was perhaps little delayed by a month or two. So let us wait for the next three months and I think we will be fairly certain about whether the strategy is right or wrong. You must appreciate that any business goes through cycle, so while I understand the base for Saffola was low, actually that base was low that was only in the CSD base, the retail base continued to be high last year. We are fairly confident of way we are tracking and we should get the growths back into double-digits for Saffola. Parachute should start getting into 7% to 8% volume growth..

Abneesh Roy: So I was thinking more from a demand perspective…

Management: I think demand is secular as far as FMCG is concerned. We believe that discretionary spends such as packaged foods and top end personal care have got impacted. The dynamics of growth and the source of growth for us is slightly different where our source of growth is upgradation as opposed to market share switch. If you look at the market share switch which is happening in Value Added Hair Oil, that is playing out well.

Abneesh Roy: My next question is on Paras. 18% growth in the comparable period in the last nine months, 25% is the vision. How confident are we especially in light of some of the new entrants, for example, GCPL has upped the ante there, Lever continues to be very aggressive in Axe, etc. So how confident are we in terms of the Deodorant and other products in the portfolio?

.**Management:** Overall, we have grown on an annualized basis at around 18%. We are fairlyconfident of getting to 20-25% growth. We continue to grow in Gels. In Deo, we are now slowly gaining market share that the brands had lost during the transition. We have now got a lot of innovation in Deo in terms of new packaging and also some new varianting. So I think 25% was an aspiration. Aspirations are always higher than acquisition assumptions, but 20-25% growth is imminently possible in the coming one year and the following year.

Abneesh Roy: But is the category seeing slow down, Deodorant specially, because Deodorant was supposed to grow at 25% plus the category?

Management: There is a slight slowdown. You must appreciate that the entire FMCG business long-term story was based on a certain 7% GDP growth every year. So while it is not as volatile as other sectors like durables or auto or something but there is obviously an impact when there is a little bit of a slowdown of 4.5-5% growth. But that slowdown is marginal, though it is seen to a slightly higher extent in categories which are relatively discretionary.

Abneesh Roy: On Bangladesh, base is low, and you mentioned in March, 10 days of the overall, there was a strike in Bangladesh. But in spite of that you have reported 7% growth in the March quarter in Bangladesh. So is it because of base or that in the 10 days of strike, you had already done the pre-planning. So my question is in FY14 with the low base, how are you seeing the growth rates in Bangladesh?

Management: Base was low only for that Q4 last year. As I said, Bangladesh growth will have two plans essentially. One is we are ploughing back some of our gains in terms of input cost into getting back the loose to branded. As you know Parachute enjoys that over 80% market share and branded to loose percentage is also high at about 80%. We believe that given the tough macro economic situation in Bangladesh this year there could have been some lapsing back into loose. We have a strategy to get this back. Looking ahead in Bangladesh, while there are hartals or strikes the other economic indicators are now stable. For growth in Bangladesh we will also focus on our second growth plank, that is the non-Parachute range. This is basically composed of Hair Dye, Value Added Hair Oils and perhaps you can expect some new introductions this year. We believe that we would be able to deliver 10% plus growth in Bangladesh next year.

Abneesh Roy: And when are you planning newer products, the Oats, Muesli and Paras products in Bangladesh?

Management: Oats might not be the right product for this market but we will look at other personal care products. Bangladesh for us would be more a personal care market than foods and we will look at segments in which we have a right to win in this market. So you could see some innovation coming in the second half of the year.

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

Pritesh Chedda: Just wanted to get a sense on the standalone gross margin front. You see QoQ odd improvement and this happens to be the best gross margin could I see in the last nine-odd quarters. Help me reconcile this, when you see the two-odd commodities on a QoQ basis that is fairly flat, whereas the QoQ gross margin is fairly sharp. So is the assessment of product mix is one which has driven this or there is something else that I should be knowing about? And to top it up, we had some pricing actions.

Management: I think you have to view the standalone results in the context of intra-group company transactions which have to be accounted in line with the transfer pricing norms. I think it would be not very correct to assume that the standalone accounts correspond to the Indian FMCG business.

Pritesh Chedda: Second, you initially commented about the other expense line and the higher expense there. I could not understand the quantification of that in the quarter?

Management: Can we deal with that offline, because while the numbers are all explainable, it may take rather long to do it over this conference call?

Pritesh Chedda: OK. Just wanted to get the assessment on the GCC side of the business for the quarter in terms of performance and specific outlooks there?

Management: The GCC business is facing some turbulence, but I think we have an idea of what needs to be done to correct the situation. We have started initiating steps in this regard this quarter. However, given the fact that everything cannot be achieved in one quarter, we would see definite improvements coming in from Q2 of this year. A final turnaround is expected to happen only towards the second half.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Firstly, I just wanted to inquire why the tax rates have gone up significantly, because in last quarter, it was because of the international business, but in this quarter, even the domestic tax rate seemed to have grown up. Could this be a consequence of the change in depreciation?

Management: Yes, you are right. What happens is as per the accounting norms, the line item of exceptional is captured only at the PBT level. So the tax impact of is exceptional item is not shown as exceptional. So, it gets embedded in the tax item. As you rightly pointed out, the effective tax rate, both in the standalone and its spillover impact on the group is primarily because of I would say three factors: Higher taxable profits in the India business, losses in the tax exempt jurisdictions outside India and the tax impact of the exceptional items.

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

Arnab Mitra: My first question is, you mentioned in the press release that you had 19-20% operating margins in the India FMCG business, while your overall operating margin seems to be around 12%. Would that mean there has been almost no profits or even losses in many of the international geographies?

Management: The International business has operating margin of around 8-8.5%, this quarter which is lower than normal. Kaya has also not made money.

Arnab Mitra: But I am just coming to the point that if your FMCG is 19%, 20%, why would there be such a sharp drop this quarter? Is it like very low single digits or even losses in many of the geographies, and what would be the reason for such a sharp drop in international?

Management: If you look at Kaya as a whole business, that business has not made money. So its operating margin is barely positive or it would be negative. In case of International business, one of the geographies which is GCC, has lost significant money this quarter. so that would explain the variation..

Arnab Mitra: But is it only GCC? Because the drop is so sharp that I am just trying to wonder whether it is just one geography or is it across international that margins have come off?

Management: International business operating margin is in single digits. If you go country-by-country, in Bangladesh, we are making good money. The margins are comparable to the Indian business. In Egypt, this quarter was not so good but overall, we have turned around and we are making reasonable money. South Africa is a very small business but that also has been in the positive. And Vietnam has been doing quite well. So the real issue has been with GCC at the operating margins.

Arnab Mitra: And could you quantify the operating margin this quarter International, how much it would have been?

Management: It would be marginal.

Arnab Mitra: Just on the International growth, if I read it right, you had a constant currency decline of around 8% in International, while Bangladesh has grown. So again, is it entirely GCC which has declined or even Vietnam and South Africa have seen weakness there?

Management: Vietnam and South Africa have continued to grow, in fact, good volume growth. It is GCC which has been under performing. This quarter other than Bangladesh and Vietnam, there has been a little bit of turbulence in Egypt and South Africa and the biggest decline has happened actually in the Gulf.

Arnab Mitra: And you answered the question a short while back, but just to come back to it, do you expect in 1Q itself this disruption to be over. So at least for you getting back to 8%, 10% level of international margins or will it be more back ended in FY14?

Management: As I said, if you look at the overall annual international margin, it was between 8 and 9%. One quarter could be a little bit of an aberration but I think crossing the 10% mark next year is imminently possible. Yes, there will be a slow buildup but it is not necessarily completely back ended.

Arnab Mitra: Again on gross margins is that even at the consol level, raw mat cost has come off. So are you seeing deflation in other costs like packaging or LLP or those kind of things other than the main costs?

Management: I would say it is mostly flattish. Copra would be slightly inflationary, but the rest of the things will be flattish to negative.

Arnab Mitra: And could you just quantify approximately how much of deflation in price is there in Parachute and Saffola, just approximately?

Management: On an average 3%.

Moderator: Thank you. The next question is from the line of Sachin Bhatia from Barings. Please go ahead.

Sachin Bhatia: I have one question. What would be your market share in GCC for the Parachute Hair Cream currently?

Management: It is 17%.

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

Vivek Maheshwari: Again on gross margin between third quarter and fourth quarter, is there a seasonality in the product mix which is taking up the margins at a consol level?

Management: Yeah, you are right.

Vivek Maheshwari: So on an annualized basis, then, we should not be extrapolating the 55.8% gross margin that you have clocked?

Management: You should look at annual number.

Vivek Maheshwari: What is the seasonality? How does the mix change between third and fourth quarter if you have this…?

Management: What happens is, normally during the Diwali quarter Saffola base will be higher and in Q4 that will be lower so that impact margins because refined edible oil profitability is slightly lower.

Management: Winter-summer difference also to some extent to some of our products.

Management: And in Q4 the CSD component is slightly lower.

Vivek Maheshwari: So on a like-to-like basis then, is third quarter margin versus fourth quarter gross margin broadly adjusting for that or there has indeed been some…?

Management: I think you should look at the annual picture. This trend is not an aberration for this particular year as such. So I do not think we should read too much into this thing.

Management: You can look at moving four quarter margin. That would give a better picture of the trend.

Vivek Maheshwari: Second, on the product prices of Jan-Feb you are running, say Rs.2 off on 100 ml bottles; March, you have changed the price to 25. What would be the rational for that? Do you expect copra prices to settle at these levels and therefore there was a confidence to take down prices explicitly or…?

Management: I think we were waiting for what was in our opinion a firmer view of the entire raw material table. As you know that for a brand like Parachute, we do not want to take a lot of pricing correction, upwards or downwards. So after having a much more firm view, we took that call.

Vivek Maheshwari: But your past few quarters, you have always maintained that for you as a business volume growth takes precedence over margins, but that does not seem to be getting reflected in the results. Could you have taken more price cuts to revise the volume growth, because your own medium-term target is between 7% and 8% volume growth in Parachute, which has obviously not come through in the last two quarters now?

Management: Fair, I completely agree with you. However we should look at an annualized basis where we have delivered a 10% volume growth. One quarter here or there could be an aberration. As you know it is very difficult to predict commodity prices and we did not want to go wrong on a pricing call which can also impact long-term profitability. So, as I said maybe we could have taken the pricing call one or two months earlier. Having said that, having taken action, we are confident of getting back those volumes in this quarter.

Vivek Maheshwari: But say Parachute, this is 6% third quarter and even lesser in this quarter, Saffola 4% and all. Are you happy with this growth or do you think more pricing actions would be required as we go ahead in the near-term?

Management: I think we have taken necessary pricing action and we do not intend taking any further pricing action in the near-term. We believe that as far as Saffola is concerned the relative pricing is attractive enough for people to upgrade. We are confident in terms of getting the volume growth back. But as I said, you have to look at volume growth on an annualized basis as sometimes there will be some quarterly ups and downs. In Parachute we are not unduly worried, I think let us wait and watch for this quarter.

Vivek Maheshwari: And in terms of both in case of Parachute as well as Saffola, how have the competitors are more important in case of Hair Oils or Coconut where unorganized competitors are there? What is your premium? Is it like in that historic band or you are comfortable with that or this is still at a higher end?

Management: We have taken the pricing action and copra has also edged up slightly compared to what it was perhaps six months ago. I think we are now comfortable.

Vivek Maheshwari: What about Saffola compared to the peers?

Management: In Saffola too, we are comfortable.

Vivek Maheshwari: And on the Paras bit, you mentioned that the performance in fiscal 2013 had been better than what you thought. But if I recall correctly, when you acquired, the market shares were 6% and you had indicated that there is a scope to increase market share. On the contrary, you are ending the year with 1 percentage point lesser market share. Is it just that this is year one and it took you some time to digest?

Management: When the brand came to us, the market share was 5%. The 6% what I mentioned was the annualized number of the previous year. So point-to-point, we have improved market share. You have to take the market share on June which is the May market share when the brand came to our hands and not the annual market share, and therefore, in all the categories which we have taken there has been an improvement in market share ever since we have taken on the brand.

Vivek Maheshwari: And do you think market shares can move up in this as we go ahead?

Management: As I said that we have already done some innovation in the Deo and I think we can only expect the market share to move up from here.

Vivek Maheshwari: If I look at fiscal '12, other expenses was at 16.5%; this year it has been at 17.5%. What is the band that we should be looking at, because that is actually changing the EBITDA margin profile quite a bit in this quarter?

Management: No, that is what I mentioned even earlier that the other expenses have two components. One is the variable component and other is the fixed component. So, the variable component moves in tandem with sales and the manufacturing activities, while the fixed component is more or less in the nature of fixed overheads. So it is difficult for us to give you a number which will be there for a given quarter or a given year. It completely depends on the variability.

Moderator: Thank you. The next question is from the line of Richard Lieu from JM Financial. Please go ahead.

Richard Lieu: Regarding high gross margin in the fourth quarter versus the first three quarters, is the segment mix the only reason for the difference in gross margin? It is about 4 percentage points higher compared to what we have seen in the last two quarters or so.

Management: Again, even in the gross margin, I believe the way you are calculating the gross margin is the sales minus the material cost, right?

Richard Lieu: Right.

Management: So, as I said earlier also, other expenses has a variable component. So ideally speaking you should look at the gross margin after you also deduct the variable portion of the other expenses. So we agree that there has been an expansion in the gross margin post other variable expenses, but it may not be 4% but about 2-2.5%.

Management: I think next quarter onwards we will start disclosing these in the note itself, so that there is no confusion on this count.

Richard Lieu: How would that compare sequentially the 2%, 2.5%? I presume that is YoY, but the confusion here is with respect to third quarter versus fourth quarter?

Management: Fourth quarter margins are better as compared to third quarter, primarily because of mix. As Saugata was explaining even earlier, higher component of Saffola in third quarter, the lower component of Saffola in the fourth quarter, lower CSD in the fourth quarter, all these factors they lead to higher gross margin in the fourth quarter compared to the third quarter. So there is a mix impact here.

Richard Lieu: On this international margin of 8.5% that was clocked during the quarter, is it actually due to negative operating leverage since there is no top line or were there some issue with gross margin as well?

Management: The reason is a significant drop in sale and that has contributed largely to it. Fixed overheads obviously and A&P and all did stay constant in terms of absolute value.

Richard Lieu: If you could just spend some time on Kaya as well, one would have thought that the profitability seems to be a little sustainable, but despite a higher revenue clocked QoQ, we have actually seen the business falling into a loss again.

Management: You will have to keep in mind that last year at PBT level the Kaya loss was 30.8 crores versus that this year at a Kaya group level it has clocked Rs 18.5 crores. In a sense, the losses have come down by half. Now, within that 18.5 crores there is a impairment of nearly Rs 17 crores plus which is contributing to a bulk of that loss at a PBT level. That is simply because we have taken a hard look, shall I say, conservative outlook going forward, given the fact that we are operating in a category which is highly discretionary in nature. The overall loss has actually come down from the previous year and its only the impairment which is giving you that feeling.

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

Gaurav Bhatia: Most of the points are already discussed. A couple of them on Kardi Oil. This commodity has fallen quite significantly since January. Have you seen the fall continuing into April because Feb to July I believe is the peak season for this particular commodity, right?

Management: Last year was I think unusually high. You should also see that some of the numbers which are there in Jan or Feb are for domestic market. During this period we use a blend of domestic and imported purchase. We do not expect too much inflation during the next year.

Gaurav Bhatia: So you typically used to hold about three months to four months of inventory in this commodity. Are you higher or lower on this on the inventory of this particular commodity right now?

Management: We do have a strategic position building in this commodity. As I said that that we have adequate coverage at present.

Gaurav Bhatia: No, the reason why I am asking this question is, is the benefit of this fall going to come in the subsequent quarters or are you already seeing that in the current quarter numbers?

Management: It has not fully come in the current quarter numbers. Some marginal benefit may come in the next quarter though not very significant.

Gaurav Bhatia: Can you share with us the proportion of copra's safflower oil and rice bran in your raw material?

Management: It will be about 40% copra, 13% Safflower and 11% Rice bran. This is for the main inputs.

Gaurav Bhatia: A final question on Saffola. We have maintained market share in Saffola despite just a 5% growth, implying a very weak volume growth. What gives us the confidence that the growth in FY14 will be double-digit volumes?

Management: Saffola suffered from two issues. First one was the CSD issue. It was followed by the fact that the pricing premium versus other products had expanded. This was corrected during the middle of Q4. We believe that we will be back on track now.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Just one follow up. I think this must have been discussed earlier. Fortune Rice Bran Oil is going very aggressive and the price point is also quite attractive. So how worried are we and what change in strategy is needed to really lessen the impact?

Management: We would not like to comment on competitive activity. As I said that Saffola is a brand with a strong equity. We continue to provide the blends which are the healthiest for the consumer and in line with the international trends. Ultimately, India as a country, is becoming more health conscious and therefore that is a tailwind trend and consumers are smart and also I am sure the regulator also knows what is the right thing to do. Beyond that we do not want to comment.

Abneesh Roy: In modern trade, have you seen any impact because of the competitive intensity and modern trade in general, how has it done for you?

Management: Modern trade growth continues to be healthy. We have grown in the region of 25-30%.

Abneesh Roy: Because a lot of closures of stores are happening. So I was a bit surprised by the strong number.

Management: It is also fuelled by a success of our new products, because all the new products in which we have launched, we have gained market share and the categories are pretty strong in modern trade, whether it is breakfast, Body Lotion. Also in Hair Oil, we have a disproportionately high share.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Just two questions. One is on the distribution. What is the distribution reach for Saffola Oils? And how does it compare when we exited the previous year? Second question is if you could comment something on the promotional-led volumes of Saffola Oils and are we seeing some kind of decrease, have you decreased the promotional-led volumes, something of that sort?

Management: We have significantly decreased the promotional volume. We are investing behind brand building. On your first question on the reach, it reaches around 100,000 outlets plus.

Binoy Jariwala: And how does this stack up versus the previous year?

Management: It will be more or less the same level.

Binoy Jariwala: Could you comment slightly more on the promotional-led volumes? How much of our volumes will be promotionally-led now in this particular year versus the previous year?

Management: It is around 2% lower promoted volumes this year.

Binoy Jariwala: And this year, how much of the volumes would be promotional-led?

Management: We would not be in a position to disclose that as it is a competitive information.

Moderator: Thank you. As there are no further questions, I would now like to hand over the floor back to Mr. Naveen Kulkarni. Over to you sir.

Naveen Kulkarni: Thanks, Mohsin. I would like to thank the management of Marico Industries for taking time out for this call. I would like to hand over the proceedings back to Mr. Milind. Over to you sir.

Milind Sarwate: Thank you, Naveen. I think this call was started late in the day and it is also ending slightly earlier than what we would have anticipated. I am sure there are detailed queries that people would like to ask us. So they should be in touch with us offline on e-mail or on phone. Tomorrow is a public holiday but some of us may be available. I suggest that all the queries which remain unanswered should be directed to us in the coming days so that we are able to disseminate all the required information. There are some good suggestions which have come in on items like other expenses. So henceforth we try and give all the information in the update itself. Apart from this, many of the questions were enlightening for us and we will derive value from them. So thanks a lot and we will be in touch. Good night.

Moderator: Thank you. On behalf of PhillipCapital India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.