Marico Limited

Conference Call

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Moderators	Mr. Milind Sarwate - Group CFO and CHRO Mr Saugata Gupta – CEO – Consumer Products Business Mr Ajay Pahwa – CEO Kaya Limited Mr. Vijay S. Subramaniam - CEO, International Business Group Mr Vivek Karve – EVP and Head – Corporate Finance Mr Chaitanya Desphande – EVP & Head Investor Relations & M&A

Moderator: Ladies and gentlemen, welcome to the Q2 FY12 results call of Marico Limited hosted by Emkay Global Financial Services. We have with us today Mr. Milind Sarwate - Group CFO and CHRO, Mr. Saugata Gupta - CEO, Consumer Products Business, Mr. Ajay Pahwa - CEO, Kaya, Mr. Vijay S. Subramaniam - CEO, International Business Group, Mr. Chaitanya Deshpande - Executive Vice President and Head, M&A Investor Relations and Mr. Vivek Karve - Executive Vice President and Head Corporate Finance. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask a question at the end of today's presentation. Should you need assistance during the conference please signal an operator by pressing * and 0 on your touchtone phones. Please note this conference is being recorded. I will now like to hand over the conference to Mr. Pritesh Chheda, Senior Research Analyst of Emkay Global, thank you sir and over to you Mr. Chheda.

Pritesh Chheda: Thank you, Alvin. Good evening everybody, thank you for joining us today. Apology for a slight delay in the call, we would like to welcome the management of Marico Limited and I thank them for giving us the opportunity to host this call. I would now like to handover the call to Mr. Sarwate for the opening remarks, over to you sir.

Milind Sarwate: Thanks Pritesh. Good evening everybody. Let me begin the conference call with a very short introduction because most of the information regarding the quarter's performance is already in public domain and I am sure most of you would have already accessed that. The quarter was a difficult one as was intimated by us in our earlier information update on September 14th. Nevertheless we were confident about our belief in long-term India story and our ability to achieve volume growth. The quarter has seen turnover growth of 26% in value, supported by a very strong underlying volume growth of 14%. This was led by the India Consumer Products Business. Our net profit was somewhat muted at about 78 crores, which is up 9% as compared to the corresponding quarter of the previous year. The chief reason for this has been the very high material cost. In fact there was a cost push of about 470 basis points on account of material cost at the Group level. To some extent we could recoup margins through a relatively lower advertisement and sales promotion by about 250 basis points. We thus saw the margin fall by about 180 basis points only. The quarter has been satisfactory in a way because we knew we were up against hard times and were able to maintain our track record of a profit growth. I must say though that in the recent times we have never had single digit profit growth, but maybe in the overall context of our long term growth strategy the volume growth number of 14% and the value growth number of 26% are quite heartening. The detailed Information Update is already with you. I now throw the floor open to questions and my colleagues and I will be glad to answer them, thank you

Moderator: We will now begin the question and answer session. At this time if you would like to ask a question, please press * then 1 on your touchtone phone. If you decide you want to withdraw your request from the questioning queue please press * then 1 to remove yourself from the queue. Dear participants please press * and 1 for your questions.

The first question comes from Mr. Aditya Soman from Goldman Sachs.

Aditya Soman: Hello, good evening. You have posted a very robust volume growth of 14% in the domestic business, now is this entirely demand led or are there some other factors that we should know which have led to the volume growth?

Saugata Gupta: I think it has been a combination of demand led growth and other distribution initiatives the Company is taking particularly in Rural. As far as the coconut oil franchise is concerned especially Parachute we are growing aggressively in rural, especially with our small packs. Our rural growths have far exceeded our urban growths. In our hair oils, our entire attempt has been to grow all franchises and gain market share, so we have grown far ahead of the market and gained around 1.3% market share YTD and 1.7% in the last quarter. Shanti Amla, has had a share gain of around 3 to 4% in the last six months. Saffola also has continued to grow even though the Saffola growth has been a little muted because of a 39% reduction in promotional quantities versus the corresponding quarter in the previous year. Our new products are also showing promise, so I think it is a combination of growth across all franchises and growth across segments including rural, urban and Modern trade.

Aditya Soman: Alright. No, the reason I asked the question is because a lot of and in fact most of the consumer companies have shown very robust volume growth and clearly given how the economic environment it seems like a sort of far-fetched belief that there is such an increase in demand, so we wanted to try and understand if there is any other factors playing out, sir?

Saugata Gupta: There have been inflationary headwinds and food inflation, but we believe that that is something which could impact discretionary consumption especially at the top end of consumer products. So far we have not seen any significant signs of slowdown even in the rural India because of the fact that the agricultural commodities and the MSPs have also gone up. But having said that, we are waiting and watching because I think continuous inflation, especially high levels of inflation is not good. I think a significant portion of our growth has come from distribution expansion which we have taken specially in the rural areas and that is the reason if you look at our rural contribution which is 25% direct rural sales has moved to 30% from the previous two years.

Aditya Soman: Okay, thank you, I think that answers the question, thanks a lot.

Moderator: Thank you sir. Next question comes from Mr. Hemant Patel from Enam Securities.

Hemant Patel: Yeah, hi. I had two questions, one on the growth front on the hair oils and Parachute, can you just give us a sense of what has been the category growth and how have we been managing to grow actually in the hair oil segment ahead of the category as such?

Saugata Gupta: The hair oil category growth is estimated to be around 14% to 15% in volumes. We have grown around 26% in quarter 2. We have been growing because we have been following a broad participative strategy in participating in all the segments and the share, and all our franchises have been growing healthy growths whether it is Parachute Jasmine or whether it is Hair & Care. Shanti Amla of course has been growing at a very fast pace given our disruption strategy. Also we have 1 or 2 new franchises, cooling is just about settling down, we are cracking at 8% market share although it is very small in the south, we expect this market share to grow and Ayurvedic, which is a new initiative which is growing that is also contributing to growth. So, I think a broad participation strategy together with investments and rural distribution thrust, a combination of all these factors is giving this growth in the last two years.

Hemant Patel: So, sir just on hair oils particularly in cooling oils and some of the other new launches that you have done, I wanted to understand that the kind of gains in market share post launch have been quite encouraging and I wanted to understand is consumer really sticky at their ends and are these just the first initial trials and then probably we will see a moderation going ahead, what happens to brand equities for larger players who have been established in these particular categories?

Saugata Gupta: See, if you look at the cooling, our cooling offering is differentiated and we are concentrating on the south where I think the offering is more suited towards the taste and the presence of the southern consumer, so therefore I think it is a differentiated offering. As far as Ayurvedic is concerned I think it is giving a specific benefit, it is something which is highly efficacious in controlling hair fall, so I think consumers are today willing to pay a little premium and are willing to switch if a product is driving efficacy and offering a specific benefit, that is the trend which we are noticing. Having said that also we are investing behind this entire category in the hair oil space so that we have critical mass and that is what we are now trying to get. Once we get a critical mass it becomes a virtual cycle because once with the critical mass, your average cost structure ,specially of spends, go down. We have now reached a critical mass as far as hair oils are concerned.

Hemant Patel: And in terms of market share is this gains coming in from the regional players or is it from the larger incumbents?

Saugata Gupta: In certain categories it has come as a combination of both.

Hemant Patel: Okay and one final question on the price and input dynamics and we notice that the copra which is not actually cooling off contrary to our expectations just a little ahead, but, I mean, I don't want to read into what is happening at the moment, what I really did want to understand was on the pricing front how are you looking at it because on the recruiter packs you haven't done much, but definitely on the larger pack size, the price increases have been there, but obviously not much over the nine months, but going ahead if the input cost does decline, are you likely to cut prices in the large pack size?

Saugata Gupta: This year every time there has been a decline I think there has been a correction upwards in copra that has been the trend, so therefore we have so far not taken any pricing action. Having said that, yes, if there is significant fall in copra prices, we will look into recruiter packs for sure and maybe large packs, but having said that our entire philosophy has been as I have said in the previous calls also that we follow a policy where you may find the sweet spot of pricing which maximizes long term consumer franchise. So, we have a pricing model in place, as and when we feel that it has crossed the threshold premium over loose, we will take certain pricing action. We don't see any reason for any pricing action, however, if you really notice the copra fall has not been in line with expectations. We believe in investing in the new initiatives and reduce our dependence on Parachute portfolio especially now that we have gone into certain new categories. We would like to increase our ASP to be around 10% to 11% of sales over the second half. In the light of the above, we are taking some minor price increases in some of the large packs. The increases are in the range of 2% to 3%; these are more towards protection of the overall margins.

Hemant Patel: And in light of the potential decline in copra prices, I just wanted to understand how long does it take for the transmission to happen?

Saugata Gupta: Around 6-8 weeks

Hemant Patel: Okay, alright. Thanks a lot and best of luck.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Next question comes from Ms. Himani Singh from Elara Capital.

Himani Singh: Good evening and congratulations on good volumes.

Saugata Gupta: Thank you.

Himani Singh: My question is, one on your international business, sir, although the business has shown robust organic as well as inorganic growth, but on the bottom line there seemed to be a complete wipeout of the top line growth, could you please elaborate?

Milind Sarwate: Himani, you have probably done a consolidated numbers minus Marico Limited numbers to try and arrive at that, is that what you have done?

Himani Singh: Yeah, almost.

Milind Sarwate: Yeah, okay, so there are two things that will actually clear the picture, one is the fact that you also have the Kaya numbers. In addition to that some of the profits in the international business actually lies in Marico standalone itself, because there are intercompany, there are some exports that Marico Limited is making to the international market, so there is some profit lying there. So, actually just doing consolidated minus standalone does not throw a correct picture, the margins in the international business in fact have not changed from last quarter, they might have even gone up marginally.

Himani Singh: And how are they comparative to your consol or standalone number?

Milind Sarwate: Margins in the international business are in the region of 12%.

Himani Singh: Thanks and my next question is, could you elaborate on the domestic front, when we are taking 14% kind of volume gains and we said that we are getting growth from the rural regions, how do you see the rural versus urban growth because other players, Neilsen has reported urban growing faster while other players have indicated that probably rural is also growing faster, so what is your take on that?

Saugata Gupta: We believe as things stand now most of the mass consumer players still continue to experience higher rural growth.

Himani Singh: And sir, of this volume growth that you have seen, how much do you see it being more festival driven and pipeline push and how much is more sustainable in nature?

Saugata Gupta: We have a secondary sales oriented pull system of sales, so therefore there is no pipeline filling and festivals occur every year. Last year there was also Diwali, this year also there has been Diwali and I don't think our consumption is based much on festivals, so that has not an impact and so therefore there are no adjustments on that account.

Himani Singh: Sure. Thank you sir, that is for now. Thank you so much.

Saugata Gupta: Thank you.

Moderator: Thank you madam. Next question comes from Mr. Abneesh Roy from Edelweiss.

Abneesh Roy: Sir, my question is on the new products in foods basically, oats and rice which you have done in terms of Basmati, you have shared the market share in oats, is that sustainable 10% share looks really good and how has the Basmati new variant fared up till now?

Saugata Gupta: Okay, as far as oats is concerned, we expect to increase our market share, so 10% I think is, yes we are satisfied. We had indicated last year also we expect to see between oats and rice Rs 40 crores of annualized sales, we are reasonably on target on that. As far as rice is concerned I think if you would realize that rice, there are certain dynamics, there are regional preferences, there is a trade margin, which are very high and if you see in lot of Modern trade, the rice as a category is discounted. We are encountering the same journey which perhaps Saffola oils went through in the early 90s where we wanted to play in a premium player, branded player in a category which was heavily commoditized, so we need to be patient about this, but having given a superior product and a strong brand and a brand which encourages the consumers to have a healthy lifestyle, we are optimistic about the long term. Even we are going to dig in our heels on this, so rice as I said, will take a little more time. Oats we see a much more faster traction because both the consumer and trade tail winds are there, in the case of rice perhaps there are some trade headwinds.

Abneesh Roy: In terms of this 10% market share, what is pulling in the customer, in terms of pricing how are you different from say a Quaker oats, is it the Saffola health brand positioning which is working for you, what is working?

Saugata Gupta: It is a combination of distribution, product offering, product and obviously some pricing, our pricing is slightly below the market leader. Saffola is a strong brand on the health platform and we have perhaps been under leveraging it by keeping it focused on only one category called edible oil. So, I think in terms of brand equity on heart health, Saffola is a very strong brand.

Abneesh Roy: Sir, my next question is on the rural percentage of sales you have been doing exceedingly well from 25 it jumped to 27, now it is 30. Next two years what would be the target you are internally setting up, rural as a total percentage?

Saugata Gupta: Actually we had setup a target of 30% in 3 or 4 years, having achieved that I think we have to do a recalibration, so we will come back to you on that. I will be happy if we at least move it to 32%-33% over the next two years.

Abneesh Roy: Sir, my next question is on Saffola 11% volume growth, which is now the slowest in the last many quarters. You have given the justification for that, that promotions have been low. It is a discretionary product, we have seen slowdown in discretionary across many segments in overall consumption, so how much is the slowdown because of these two factors, if you can breakup that?

Saugata Gupta: See, if you look at the non-promo quantity, the growths are far higher, 39% reduction in promoted quantity versus last year where we ran extra product offer in September, the reason which we are doing is that if you really look at it, we believe that we want to cross sell to existing Saffola households, so instead of running extra product offer we are cross selling either oats or rice because if you look at customer acquisition cost, cross selling to existing households of Saffola is a far better investment choice than rather just spending money on advertising. So, that is the reason we have been doing that. At the top end, which is the Kardi, which is priced at Rs 165 there could be certain pressure, but as you know that we are offering Saffola in a huge price range, so the consumer has a choice to enter and experience the brand at different price points. So, yes, there could be certain pressure at the extreme top end of the pricing, but we are not seeing it at the entry point Saffola or Saffola Gold growths.

Abneesh Roy: Sir, any update on cooling oil being focused also in North India, earlier you had tried some experiments, but nothing really worked out, so North India what is the strategy, are we kind of rolling it out?

Saugata Gupta: No, we want to get a certain critical market share we have defined for ourselves the challenging action standard in South, only once we achieved it, we will consider it.

Abneesh Roy: And sir the last question is on the Amla, you have been gaining good market share and you have said that largely because of disruptive strategy you are doing it, when does the disruptive strategy go to the next level and what is the market share you are targeting over the 2 year, 3 year time-frame?

Saugata Gupta: I think it is very premature to talk about when this strategy will end, what is the next strategy that will unfold and what is the kind of market share expectations. We are happy with the current trend and the growth, so I think we will wait and watch what happens in this category, but we would like to gain some further market share in the coming years.

Abneesh Roy: What is the pricing difference now with the main player?

Saugata Gupta: It is around 20% to 30%.

Abneesh Roy: Okay sir, I will come back if I have more, thanks and all the best.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Priyaranjan from Macquarie Capital Securities.

Priyaranjan: Yeah, my question pertains to the coconut oil volume growth; you have given the volume growth for the rigid packs, but what was the overall volume growth including the recruiters pack?

Saugata Gupta: The rigid packs include the recruiter packs of 50 ml and 100 ml. The overall coconut oil growth, which includes our other packs in sachets, is around 6.4%, Usually in inflationary scenario we continue to defocus on our flexi part.

Priyaranjan: And on international business what is the update on the Middle East part where we have started seeing pickup in volumes, off take from the consumers, etc?

Vijay Subramaniam: The key themes we are seeing in international business are, one is high inflation, especially food inflation at an overall level so obviously there is some tightness we are witnessing. Second, all the local currencies are also devaluing pretty much like how the rupee is devaluing and considering a large portion of production of raw materials are imported, so there are those pressures. Considering all that I think we have done well with an overall level with a 33% business growth and you heard the comment earlier about the margin being constant at the 11% to 12% kind of a band. Specific to Middle East, from a macro level we are observing that some of those economies like Libya, Syria, etc., continue to be closed, but that contributes to only about 5% of MENA business. As far as Egypt goes from a macro level while there have been some sporadic disruptions, overall I would say situation is improved substantially and in terms of our overall business in Egypt I think our growth has been pretty good, we have grown at about 20% plus or so. Coming to the Middle East region where we have gone for a re-stage of the Parachute franchise, I think that will continue to pan out in this coming quarter. So, I think at the end of Q3 you will have a much better read on the Middle East portion of the business.

Priyaranjan: And in terms of India business like in consumer care you had mentioned somewhere in the information update about the launch of some body lotion, etc., so how do you think, do you want to be a really serious player in this business in terms of expanding your portfolio beyond this single product or are you just trying to test the market basically as of now?

Saugata Gupta: We have a robust choice making framework for our new product, which is based on our market attractiveness and our ability to win and extendibility of the mother franchise in this case, which is Parachute Advanced. We believe that this category still has headroom for growth in terms of penetration and market attractiveness, so therefore this is our first entry into skin care in the terms of body lotion. I think we have a differentiated product, which is natural and containing coconut milk, which is very good, as you would know that coconut milk has a very good moisturizing property, so I think it is a big enough category for us to participate and I think, once we get a certain critical mass we have to evaluate our next stage of our journey into skin care and as I said it has to be based on where the brand can be stretched, where you can have a differentiated offering and where we have a right to win.

Priyaranjan: And in terms of just on a general economic kind of thing, like what do you see in terms of in a given inflationary environment, do you see some kind of consumer down trading happening across segments?

Saugata Gupta: Yeah, we are concerned about the continuing inflation, specially food inflation. At the same time you must realize that with all the other input costs which are increasing, we don't have certain leverage in pricing beyond a point, at the same time there are things like high interest cost regime, so discretionary spends are something which may get impacted. Rural growth so far is not impacted, however having said that, I think as I said just earlier we are waiting and watching. We will be, I think, tracking it carefully because yes, continuous inflation could have certain impact, having said that we have not yet noticed it or suffered from it yet.

Priyaranjan: That's all from my side, thanks a lot.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Pulkeshan Shah from Jaypee Capitals.

Pulkeshan Shah: Good evening and congratulations for good set of numbers sir.

Management: Thank you.

Pulkeshan Shah: Sir, my question pertains to the Kaya business, in the last quarter I guess we have launched some of the products from Derma Rx which was mainly for laser hair reduction, so what was the kind of performance during the quarter?

Ajay Pahwa: Okay, this is Ajay Pahwa. Last quarter we have launched a series of products from DRx which is called the Kaya Advanced Range. Most of these products actually focus on skin care especially on anti-ageing. There are no specific products as such for laser hair reduction. Overall we are very excited because our product mix continues to grow steadily, which is in line with our strategy of positioning Kaya as a skin care solutions brand. So, just to give you a perspective in Q2 in specific our product mix in India has now crossed 23%.

Pulkeshan Shah: Okay and sir my next question is regarding the Bangladesh business, have you seen any kind of market share increment during the quarter with the Parachute portfolio?

Vijay Subramaniam: That's right; in the quarter gone by we would have increased our market share by about a percentage share point, so it is now at 69% as you would have noticed from the information update. So, we would have actually picked up I think two percentage points over the last couple of quarters and when I say 69% this is the share of Parachute coconut oil on a total base of branded and loose coconut oils, total base.

Pulkeshan Shah: Okay and sir on the raw material and I want to understand the kind of movement we have seen in Palm oil, Kardi and sunflower during the quarter?

Saugata Gupta: You want quarter 2 over quarter 1 or quarter 2 versus quarter 2 last year?

Pulkeshan Shah: On Y-on-Y basis?

Saugata Gupta: On a Y-on-Y basis inflation in safflower has been 24% and sunflower has been around 30%.

Pulkeshan Shah: Okay. Thank you, sir.

Moderator: Thank you sir. Next question comes from Mr. Mihir Shah from Daiwa Capital.

Mihir Shah: Hello? Sir, congrats on a great set of numbers.

Saugata Gupta: Thank you.

Mihir Shah: My question is on basically your accounting for this promotional quantity on Saffola, supposing if you are giving 20% free, does that reflect as an expense in the P&L or does that adjust in the net sales?

Saugata Gupta: It gets realized, net realization will dip.

Mihir Shah: Okay so, basically your net realization, so if you could just tell me on Saffola, since you said that the volumes are affected by promotional quantity, I think a better measurement standard would be value growth, can you tell me how much that has happened Q2 over Q2?

Saugata Gupta: Value growth 34%.

Mihir Shah: Okay, so that is much better and my second question is on rice, you mentioned that there are some headwinds from the trade, now I would assume that because yours is a more value-added product, your gross margins would be higher than probably some of the other plain basmati or plain packaged rice kind of products and consequently your ability to pay trade margins should also be at least equal to the other players, so what exactly is the issue there?

Saugata Gupta: See, it is like this, basmati has a wide range in terms of price points and not everything in this country which is sold as pure basmati is basmati in the real sense. So, as an organized player, we obviously sell true basmati and we have a certain cost structure, trade margins and have a certain profit expectation. Our belief is to invest behind brands rather than having a margin led play. So, therefore I don't think the complete price structure and the cost structure, we don't really have more play in margins as far as Rice is concerned. Saffola Rice is going to do a journey what Saffola edible oils did 20 years ago. So, we are willing to dig in our heels because we believe in the brand, we believe in the strength of the product and therefore we shall think we shall get the traction some day, but we have to persist with it.

Mihir Shah: But you don't think that basically to build up critical mass maybe for a couple of years if the margins are higher, what will happen is maybe a couple of years down the line when you do have actually a lot of throughput going through the Modern trade will also realize that a lower margin is also sort of acceptable given that they are actually making a sort of higher or decent throughputs on this. Right now there is nothing on stake for them because right now the throughputs are also not happening and if they don't keep the product versus keeping it, there is not much difference to their sort of P&L as of now, so you don't think that could be a good strategy for the next two years to probably grow the category.

Saugata Gupta: See, the challenge will always be whether to treat this category as a commodity closed category or a brand closed category. If you have to move it over as a standard product we have to start with a higher margin otherwise we will always end up getting closer to the commodity market. See, in this category the differentiation is largely through the power of the brand Saffola and if we let it get diluted it will hurt not only this category, but also the other categories where Saffola is present. So, I think it is important to have a higher margin-high investment model.

Mihir Shah: Okay and what would be your expectations of margin once this stabilizes, let us say three years down the line what kind of EBIT margins can you expect from this category?

Saugata Gupta: Right now we would, it is still premature, I think because I would say over a long term period we should obviously, we have the oils average as our target aspirations.

Mihir Shah: Okay and my next question is basically on your hair oils portfolio, right now your growth is being driven by your market share gain, I understand that the aspiration will always be to continuously gain market share, but there is always a certain low hanging fruit which is easier to pick, so do you think that process is over or do you think that there is still some headroom?

Saugata Gupta: There is still some headroom however having said that I think we have indicated in our note that long term growth will be in the region more into 15%, 17%, volume growth.

Mihir Shah: Right and that will be in line with the industry growth so to say.

Saugata Gupta: Market growth long term we are foreseeing a market growth of around 12%, 13%.

Mihir Shah: Okay, that's it for now. I will come back in case I have any further questions, thanks.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Subramaniam from Sundaram Mutual Fund.

Subramaniam: Hi, sir. Just some few questions, I wanted to know this ad spend cut, where has this actually happened, in which of these geographies have you actually cut ad spends or behind which products have ad spends actually reduced and where is it that you have continued to spend behind ads and also if you could throw some color on where is it that you have seen highest pressures in terms of margins across various geographies?

Saugata Gupta: See, if you look at it when you have a very high top line growth contributed by price increases the average spends look lower when seen as a % to Sales as spends have not growth by 26%. There has not been a reduction in absolute level of spends. Actually 12.2% of last year's sales is equal to 9.7% of this year's sales, so actually the ad spend as such has not gone down, we may have, so very clearly this drop of 250 basis points in ASP largely is statistical. Some of it is justifiable because not every sales price increase will warrant a corresponding increase in ASP spend. I think in terms of rationalization we would have invested in the right category rather than spreading ourselves thin and generally increasing the ASP expenditure. As far as territories are concerned, I think we have not taken any particular call to cut advertisement from any particular territory. In the Middle East where there has been unrest, there may have been some rationalization, but then correspondingly even the sales would have fallen, so I don't think any particular pattern comes out of this quarter.

Subramaniam: Okay, another data point is for the quarter could you just share with us what would be the geographical sales mix?

Milind Sarwate: In the international business…

Vijay Subramaniam: It contributes to about 24% to our total revenue. Kaya contributes to about 7% of overall group revenue and the balance is FMCG sales in India, which is around 70%.

Subramaniam: So, this 24% mix could you just break it up sir, how much would be Bangladesh and Middle East how much?

Vijay Subramaniam: About let's say roughly 43% to 45% will be Bangladesh. MENA should be about 25%.,Vietnam has come into the fold, so Vietnam is almost clocking 16% to 17% and the balance is basically South Africa and other countries.

Subramaniam: Okay, thanks sir, that's it from my side.

Moderator: Thank you sir. Next question comes from Mr. Amnish Aggarwal from Motilal Oswal.

Amnish Aggarwal: Yeah, congrats sir on good volume growth in the domestic market. My question is regarding the international business; can you give us in absolute terms the EBITDA which we have earned in those businesses?

Vijay Subramaniam: Sorry, can you repeat your question?

Amnish Aggarwal: Sir, what is the EBITDA in absolute number in terms of say rupees crores which we have earned in the international business?

Vijay Subramaniam: It is difficult, but roughly you take, you heard the operating margin varies about we said 11% to 12% margin, you know the total sales figure, so roughly it should be in the region of about Rs 28 to 29 crores.

Amnish Aggarwal: Okay. Sir, my second question is regarding the Bangladesh business, because if you look in that business, the sales growth is only 7% despite including VAT, which is now reduced from the top line, whereas can you give us some brief that how come the sales growth is only 7%, have we seen the decline in volume growth over there?

Vijay Subramaniam: See, let me clarify. I think there is some misunderstanding here, VAT is basically when you hear that 7% when you have seen overall, that's the rate of overall base of IBG and second specifically because of the way the MODVAT system has got changed in that country it is not being netted off from the sales. If you look at actual business growth and I will give you the first half number, the overall business growth in Bangladesh is 20% plus in terms of absolute.

Amnish Aggarwal: No sir, I am talking about Bangladesh numbers in taka where it is a listed entity, there the sales for the second quarter are 180 crores versus 179 in the similar quarter previous year.

Amnish Aggarwal: Yeah, it is 7% growth.

Vijay Subramaniam: No, that quarter 2 business Bangladesh actually is 13% if you see like-to-like business terms. You are possibly taking the number which has been, because it is a listed entity and you are subtracting MODVAT and you are reacting to the optical number, the business growth is about 13% plus.

Amnish Aggarwal: Okay, so have we grown in terms of volumes also because we have launched so many products there?

Vijay Subramaniam: No, in terms of volumes the Bangladesh market was a little flat, it was a very low growth and in some part of the quarter it could have been negative also mainly due to a very big quarter last year. So its also the high base impact The fact is that Bangladesh is also at our market share and at our relative domination of the market; our pricing approach will have to be properly adjusted over there. We are not very happy with the number that has come out, so we will make the necessary corrections. In Bangladesh we have the luxury because we kind of lead the market and also our attention has also been now divided over the hair dye product, which is doing well separately with a 29% market share.

Vijay Subramaniam: See, just to add to what, his comment was specifically with reference to the Parachute coconut oil business. The second part of your question was, since we have got into lot of new categories there, I think we are seeing a lot of encouraging signs. You would recollect we had launched Hair Code hair dye about couple of years back, so that from the information update is at number one position in the market, small segment but growing segment, we already have a 29% thereabout share there. We had also launched taking our India learning forward, we had launched Parachute cooling oil there; we had launched a brand called Parachute Beliphool, which is fragrant based hair oil. Both these are doing well; our share in the value-added hair oil segment has also actually increased from a practically zero situation. We have seen a lot of good traction in the Modern trade channel. As Saugata mentioned the journey for Saffola there will be very similar to what India has gone through. So, we are seeing a lot of encouraging signs in the new product portfolio which has been a conscious part of our reducing dependence on Parachute and expanding our overall portfolio. So, on the overall new products front we are quite happy. On the Parachute coconut oil front, as Milind said, while a lot of growth has been value based, I think, as the year progresses we should get some more volume growth.

Amnish Aggarwal: Okay, sir in the same title if we look at say the, have we taken any price increase post September because our gross margins there are down by nearly 10%?

Vijay Subramaniam: Are you referring to the Bangladesh?

Amnish Aggarwal: Yes.

Vijay Subramaniam: We took a price increase towards end of September, so which would have got panned out in the market in October.

Amnish Aggarwal: Okay. Sir, can you share with us the quantum of price increase?

Vijay Subramaniam: The price increase was I think somewhat 4%

Amnish Aggarwal: Okay, so you expect that the margins there and overall profitability should return to normal levels?

Vijay Subramaniam: See, some of it has been conscious. I just spoke earlier about 4, 5 new product initiatives and the fact they are doing well, so they have obviously seen some investments, so some of them has been conscious, some of the same cost push pressures which face us in India continues to face us there, but in the long term as long as our consumer franchise is maintained, I think the margins will come back, we see no issue there.

Amnish Aggarwal: Okay sir, thanks a lot.

Moderator: Thank you sir.

Moderator: Next question comes from Mr. Vivek Maheswari from CLSA.

Vivek Maheswari: Hello.

Milind Sarwate: Hi Vivek.

Vivek Maheswari: Thanks for taking my question. My first question is on the inflation, while you have highlighted inflation as a key concern, I was just wondering in the domestic business, is it as big concern because if I look at your top line EBITDA or bottom line, everything has pretty much moved up 35% on a YOY basis. I mean, I don't know if there is any answer to this, but had inflation not been this concern, could you have grown 35% on earnings still?

Milind Sarwate: Which 35% because we are pleasantly surprised by this 35%?

Vivek Maheswari: No, Standalone Company results if I look at.

Milind Sarwate: No, that may not be the right…

Vivek Maheswari: I understand because that is what Chaitanya highlighted that there will be an element of export there, right? But nonetheless the chunk of standalone entity would still be domestic business or is my understanding incorrect?

Milind Sarwate: No, standalone entity does not correspond exactly to the domestic business because our segments do not match our legal entities 100%, so there is always that confusion. In course of time, in the next 2 or 3 quarters we would be publishing segmental results so that this confusion can be removed. Meanwhile I think let us keep the number 35% away. I think your question is had there not been inflation would we have been even more impressive in our performance?

Vivek Maheswari: Or possibly if assuming that this is indeed the growth rate for domestic business, would you have still done something like this had inflation not been there as much as it is today?

Milind Sarwate: I would like to deal with inflation on two counts, one is the overall inflation, which our consumers face, and the second is the inflation we ourselves have been facing. If you look at those numbers, those numbers are also 35% plus. If you look at copra, it is running 50% higher than last year. In quarter 1 it was riding 80% higher than last year. If you look at rice bran oil, it is close to 50%, if you look at our other components, almost no component is less than 20%. So there is a huge cost push that we are facing in the domestic business, we have taken care of it partly by raising prices, but this quarter we did not raise any significant prices. So I would say that had the input cost inflation not been there, we would have done significantly better. Maybe you are right in a way that the overall inflationary scenario in the country may not have impacted our volume growth. That is probably a valid hypothesis.

Saugata Gupta : See, just to add, I think, input cost inflation, which we have faced as a company would have been higher than the sector also?

Vivek Maheswari: I understand. My only point is, even if I leave aside say top line, if I just look at EBITDA and assuming for simplicity sake, standalone is domestic company, a 35% EBITDA or earnings growth is still very strong, very, very strong I would say, which will be a function of the price hike that you would have taken, right?

Milind Sarwate: No Vivek, I think that would be a wrong assumption. We run this business, so we know that we have not grown by 35% in this quarter, so you please accept our word for that.

Vivek Maheswari: Okay. I will take your top line. My second question is on rural versus urban that you indicated, that rural is growing faster than urban. Is it that there is some slowdown in urban or is it that rural has accelerated because when you say Modern trade is 46% up YOY, which should reflect that urban India is still growing, unless otherwise promotion is a big component of that 46% growth in Modern trade.

Saugata Gupta: No. See, it is like this. I think rural growth; there are two components to the rural growth. One is the natural rural growth in consumption, which is being experienced. Secondly, what we have done is, we have consciously taken a huge distribution infrastructure drive markets of rural India, so from there we are getting the additional sales. So if you look at in terms of FMCG as a category is concerned, I would say, rural growth is slightly higher than urban growth, it is not that there is a significant difference. In our case the rural urban differential is higher because of the specific thrust we have taken in the rural sector.

Vivek Maheswari: Okay. So, on a like-to-like basis, rural will only be marginally higher, right?

Saugata Gupta: Yes, that's right. As far as if you look at the category of the sector is concerned…

Vivek Maheswari: Okay. And any bit on Modern trade because that 46%, obviously in the context of what's happening around, it is a very strong number again.

Saugata Gupta: It is also some of the new products like oats and Rice and including Saffola edible oil itself have become a significant component of Modern trade there.

Vivek Maheswari: Okay. And on the body lotion that you have launched, like in case of oats plus rice, a Rs 40-crore target that you had given, anything that you would want to give at this point of time or that would be premature?

Saugata Gupta: We would definitely be able to give you a clearer picture within the next quarter; we have just launched it into the market.

Vivek Maheswari: Sure, I understand. And lastly would you be able to share your direct and indirect reach in terms of outlets if you have it handy?

Saugata Gupta: 35 lakh is the unduplicated Marico as in reach as per Nielsen.

Vivek Maheswari: Okay and the direct reach out of this 35 lakhs, would you have that number?

Saugata Gupta: Around 800,000.

Vivek Maheswari: Alright sir. Thank you very much and all the best.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Vicky Punjabi from J M Financial.

Richard: Hi, this is Richard here. Thanks for taking my question. Sir just wanted to check on what is the next step for Kaya now because if one were to look at the revenue, it is kind of stuck in that 60 to 66 crores kind of a band over the past many quarters and even losses seem to be getting sticky at about 5 crores per quarter level now. I see that you were making profits maybe 3 to 4 quarters back, but I understand that there is this element of revenue recognition change. So how do we see this going forward from here?

Ajay Pahwa: Hi Richard, this is Ajay. So, I think first you are fully cognizant of as you stated the revenue recognition change event, right? So if you look at that, I would ask you to step back and see you actually had four consecutive quarters of same store sales growth. So if you look at it between Middle East and India, this particular quarter we have had approximately 14% collections growth. So, I think, one the collections growth, which is one indicator of customers coming in and billing is very strong. We are obviously on revenue recognition, we are getting along that journey and by the end of this year we would have kind of sorted that out. So, I think the point that I am driving is, the business is not static, you are getting basically same store growth of 15%, I think, that, that would bore very well. Second, we have opened 3 clinics in the Middle East this year, we had opened some clinics last year and in India as well we continue to expand cautiously. So, I think, net-net if I look at it, we will be able to deliver a reasonably strong high double digit kind of top line growth. I think on the bottom line, yes, we have faced some near term issues with revenue recognition, but I think we will start seeing a better and stronger flow through of that come through to the bottom line. This quarter has not been a stellar performance, but I think overall picture that I am trying to build is, as we have said, we continue to expand and we will see both top line coming as well as bottom line improving in the coming quarters. We have taken a view of FY13 and I think we will be fairly consistent with the statements we have made on Kaya in the past.

Richard: Sure, thanks for that Ajay. If I would look at reported EBIT numbers, you have done about 11 crores of loss in the six months this year versus about a roughly breakeven. If I were to weed out the element of revenue recognition, how do you think the bottom line compares this six months versus the earlier six months?

Milind Sarwate: Richard, I think, the revenue recognition related account thing implication is one part of it, but what we have realized over time and this happened to us roughly at around 5th or 6th year of the clinic all through the history of Kaya that we have taken a fresh stock of everything. And there is also another accounting concept of impairment of, we have looked at the business time and again with a greater and greater conservative lens and you will find that almost every year we have kept on chipping away at accounting entries in Kaya so as to make the business reported financials as conservative as possible. And in line with that, we have kept on writing down assets. You would have found that over the past at least 2 or 3 years that I can remember, there have been accounting adjustments in Kaya every now and then. The commercial reason for that is that Kaya is essentially a front-ended business. You set up the shop and then you wait for customers to come in and you incur the cost upfront. Now, from a pure accounting standpoint, there are ways of keeping on deferring these costs and writing them off over a longer period. We have tried to choose ways by which we can write them off earlier than later. And as a result of that there have been haunting implications every year in one way or the other. Revenue recognition was something, which happened because we automated; we found better ways of reckoning revenue as it occurs over various packages. Similarly, in terms of asset write downs, which may or may not have a business implication going forward, those asset write downs have also been there. And as we have more and more aging clinics, for example, in the Middle East we have clinics, which are now about five or six years old, we would have these issues coming up. What we have focused upon, from a business angle, is, "Is Kaya attracting the right number and type of consumers". So are our footfalls the right footfalls, that is point #1. Point #2 "How do you protect the GC or gross contribution of this business". One of the routes, which we have taken of late, is to increase the product composition and to that extent, the Derma Rx acquisition was very handy because we now have a strong back room for effective formulations, which can be supplied to India as well as the Middle East. So our focus has been to look at increasing gross margin, increasing the footfalls and hence getting a more certain revenue flow and as Ajay rightly mentioned, if you have four consecutive quarters of collections growing in Kaya, I think that is a far more sign of assurance rather than looking at the bottom line number, which may have got vitiated because of several factors other than pure business side. About when will Kaya report profit or when will Kaya breakeven. I think that question we are unable to answer beyond giving the answer that we have always given, that we are hopeful that it will happen soon. But I think in a business, which is still young and emerging from a retail concept, I think, it is important to not focus on the arithmetical or accounting bottom line, but to secure the business in the long run. I hope I have not been able to confuse you.

Richard: No. I think that is fine because the reason I asked was if I were to look at, I mean, I was looking at it more from a sequential basis. Since you started the new accounting method, I just want an assurance that you don't find yourselves hitting a wall at that 65 crores per quarter level, right? I mean, it is only my misconception.

Milind Sarwate: No, I don't think so. See, the deferment of revenue that is mandated under the accounts, it does not necessarily follow a pattern. And in retail businesses, you will have to also keep in mind that each day is a productive unit, so if in a particular quarter some days are lost, in the comparability where the previous quarter suffer?

Richard: Sure, got it. And second one; if I may, how much did you have to write down your reserves because of INR depreciation and with respect to your loans?

Milind Sarwate: In case of our loans, because they are hedged against our future exports, there has not been any impact on account of these write downs on the profit and loss account.

Richard: I mean, but you would have made some adjustments to your balance sheet, right?

Milind Sarwate: Yeah, we have made these adjustments. I don't have that number, but we can share the number with you offline. But there is no impact on the P&L.

Richard: No, I got that. I just wanted to know in terms of, how much of your gross debt had to be written upwards because of that. I think I will take it offline.

Milind Sarwate: About Rs 22 Cr.

Richard: Alright, thanks a ton. I wish you all the best.

Milind Sarwate: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Arnab Mitra from IIFL.

Arnab Mitra: Yeah, hi. I had a couple of questions, firstly on the hair oils portfolio; you have reported a 26% volume and a 48% value growth. I just wanted to understand it is very high realization gain because most of the other value-added hair oil players have reported an 8 to 10% kind of increase in prices. If you could just explain why this is so high in your case?

Saugata Gupta: Because most of the price increases happened in quarter 3 and quarter 4 last year.

Arnab Mitra: Right now I am just trying to understand because some of your competitors who are in value-added hair oils, the increases there have been 8 to 10% on a YOY basis this quarter. So is it that you have actually taken your prices higher than what the average price increase has been in the market, in these categories?

Saugata Gupta: See, as I said, we took two sets of price increases, which was in quarter 3 and quarter 4 of last year. And yes, it would be slightly higher because as I said we look at our overall portfolio, maybe we would have taken a little less in the Parachute franchise and a little more in the hair oil franchise.

Arnab Mitra: Right. And the other point that you had mentioned earlier is that now you are getting into some kind of critical mass in some of the value-added hair oils. So, given that, how do you look at your margins in these products, especially since you are selling at below competitive prices in categories like Amla? How much of operating leverage and margin impact can be there because of this very high revenue growth?

Saugata Gupta: Yeah, experience says that in any sub category, I am looking at sub categories rather than categories, but any sub segments, if you get your critical mass, is defined as anything above market share of 15% plus, you get operating leverage both in cost structure and in ASP to Sales. So our experience says that around you get a 2% to 3% operating leverage and after that for every doubling of size you get another 2 to 3%.

Arnab Mitra: Right. And just one more question. You had mentioned in your update that the copra prices on an average was 11% lower, so this is the market prices or your own consumption rate?

Saugata Gupta: Market prices and as I said, in terms of consumption there is always a lag between 8 to 10 weeks.

Arnab Mitra: Right. So basically some of this 11% reduction would kind of fully get factored in the third quarter, right?

Saugata Gupta: Yes, a little bit of it.

Arnab Mitra: Sure. Thanks, that's it from my side.

Moderator: Thank you sir. Next question comes from Mr. Abneesh Roy from Edelweiss.

Abneesh Roy: Sir, in terms of Modern trade, what is the contribution to Saffola and Parachute overall?

Saugata Gupta: See, I can give you an overall Modern trade contribution; it is around 7-1/2%, 8%.

Abneesh Roy: And how has it moved in the last two years?

Saugata Gupta: It has moved from around 6 to 7-1/2.

Abneesh Roy: Obviously you don't seem to take oats and all that is it, because if you are growing at 46%, the percentage growth does not seem very high, so. And how has Derma Rx done on the segmental basis, as in, just Derma Rx, I am not taking any of the synergy benefits, which you have done.

Ajay Pahwa: Actually after four quarters of growth, this particular quarter when compared to last year, Derma Rx has a bit of softness, particularly in Q2. So we have seen about 8% de-growth that has happened in a comparable period with last year. But the way we look at it, this is a blip on the revenue. Part of it was because we were relocating one of the clinics, so we saw a revenue downside. The good news is that actually the profitability has achieved direct level and now that the clinic has been relocated to a better location on a high street, on Orchard Street, I would see both the revenue as well as the bottom line realization flow through in Q3 onwards.

Abneesh Roy: And why did the relocation happen?

Ajay Pahwa: The relocation because actually it was, you know, how in retail business you have to ensure that you have to go with where the customer footfall is, so we have moved to a better location on Orchard Road from our relatively older building, which was on the wrong side of the street. So, now we are actually located in the same building where the DRX clinic is also located. So I think there is greater synergy and eventual benefit for the business. If you are in Singapore, please do visit the clinic.

Abneesh Roy: Sure. And sir, coming to Ayurvedic oil, we have a 11% market share, which are the products you are taking in calculating this market share, who are the competitors?

Saugata Gupta: There are certain locals as Ashwini, there is Sesa, so there are some local brands mostly, but they are critical mass, they have a critical mass in the sense that some of these players are of size of around Rs 60 to 70 crores. The market is around Rs 250 to 300 crores.

Abneesh Roy: And there is no aggressive pan India player, like Emami and all?

Saugata Gupta: Both Sesa and Ashwini, they have a reasonable pan India presence with Ashwini more concentrated on the South and Sesa more concentrated in the North and we also have therapy, our Parachute Therapy.

Abneesh Roy: And sir, lastly coming back to Bangladesh, overall parachute did well on Bangladesh, but I could not really understand why in coconut we are seeing some issues in terms of volumes in Bangladesh, while in India we are seeing reasonably good volume growth. Pricing action in both the countries would have been fairly similar, so basically has competition taken some market share in Bangladesh in coconut?

Vijay Subramaniam: Okay, let me clarify this. #1, our market share has gone up, our market share of total branded plus loose has moved from 67% to 69%. Our share in value-added hair oils has increased from about 3% to 4% to about 10%, 11%, so triple literally. So there is no market share drop that is the first point. If you look at the overall economy, the key issues there are high inflation, high food inflation, so leading to some degree of consumption softness and some degree of down trading, much higher than I think what we are seeing in India. Other point is high interest rate regime and because of that obviously as the distribution partners, the channel partners, the wholesales stock holding, etc., so there are soft macros, which had been the reason. There has been absolutely no concern whatsoever in terms of any share loss of any sorts and courtesy the various initiatives we think some of this growth is going to come back to us in the second half of the year. And we are talking of the volume part only. If you look at the value growth in Bangladesh, that has been fairly strong at about 14% or 16%.

Abneesh Roy: So actually no change.

Vijay Subramaniam: Total growth in Bangladesh in a year-to-date on H1, the overall growth rate is about 21%. So all these comments we are referring to is largely in the volume arena of coconut oil only.

Abneesh Roy: And sir, lastly on the Saffola, oats, you had done some brand extensions also in Tamil Nadu, which I think is in the test market phase in terms of savories, how has that done?

Saugata Gupta: I think it is too early to comment on it, I think it has been just two months, so I think we will be able to give you a clearer picture on this in January.

Abneesh Roy: Okay sir, thanks and all the best.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Nillai Shah from Morgan Stanley.

Nillai Shah: Sir, first on the coconut oil business, your volumes are 10% up, your market share is about 53%, so the industry volume growth should be not more than 6%. Is that a cause of concern going forward?

Saugata Gupta: Long term we have already said that we expect us to grow around 7% to 8% and the industry to grow at around 7% Hair oil space is growing at around 14 to 15%, which should be a long term growth rate of around 12% to 13%.

Nillai Shah: Right. And you come against very strong comparative quarter in hair oils, so that's the reason why you are talking about a 15% growth rate out there? Or is this more long term, I mean, 3 to 5 years.

Saugata Gupta: I am talking of a 3 to 4 year perspective.

Nillai Shah: Okay. The next question is on Bangladesh. I had kind of briefly discussed with you on the call last time around on Bangladesh, that given the fact that there is very strong market share, which you hold in Bangladesh, and the fact that the loose to branded penetration is also very, very high, so is not this now the new norm in terms of volume growth for Bangladesh very, very low seeing single digit volume growth?

Vijay Subramaniam: See, two things, when we talk of our overall share being 69% that is the share on loose plus branded, so that fundamentally means theoretically there is, you have another 30%, so obviously all of it is not going to accrue to you, but there is still some headroom for growth. We are cognizant and we have said this consciously that our growth rates in Bangladesh in future, volume growth rates, are not going to be as high as in the past because you are obviously grown by a 30%-35% CAGR for the last 3, 4 years, which is why we have consciously, we are investing and we have unleashed a slew of NPD, whether it is Hair Code, hair dye or our offerings of Parachute Beliphool or Saffola. So we hope to maintain our overall growth rate on a portfolio basis, specific to see, possibly our growth rates in future will not be as high as in the past. So you are right there.

Nillai Shah: So, in that context, what is your view of the overall volume growth in the international business, ex currency, ex pricing?

Vijay Subramaniam: If you look at overall growth in business terms, in terms of for the quarter gone by in international business, it is 33%.

Nillai Shah: No, I am saying, actually I am talking more about the future, next 1 to 2 years out, organic volume growth.

Vijay Subramaniam: See, organic volume growth given the fact that we operate in categories where consumer penetration levels are 35%, 40%, we expect to see volume growth overall. See there will be obviously some blips one quarter to another, but if you disregard the outliers, you expect to see volume growths, which are definitely in the 10% kind of range for sure in international business, at an overall basis

Nillai Shah: Right. So, basically if I am guiding assessment…

Vijay Subramaniam: And overall value growth will continue to be healthy level digits.

Nillai Shah: Right. So overall revenue growth is, you are hinting at approximately 15% long term.

Vijay Subramaniam: I don't know from where you got that number of 15.

Nillai Shah: No, you said domestic about 14%, international volume at about 10%, so I am assuming the overall revenue growth should be about 12% to 15%.

Vijay Subramaniam: No, no. I think you got, I was referring to volume and value in the international business, not domestic and international.

Nillai Shah: Okay, I got that. But, no worry, I will just move on, on this one, in terms of coming to Kaya, I was just looking at the segment capital employed in that business, and even if you take a very long term scenario in Kaya and do expect this company to, this segment to breakeven and actually do very, very well, are you looking at this more in terms of earnings accretion or are you looking at some sort of an ROC profile out here?

Ajay Pahwa: I think initially it will have to be earnings accretion. There will be an operating leverage, which will come up. Currently the capacity utilization in Kaya may not be at the level at where we want to be. For example, if at 35% or 40% utilization, we will not be able to achieve that operating leverage. So our initial objective is to turn profitable, thereafter with a capital, which would have already been in existence, say for about 8 years, we would definitely have our ROC, which will be in line with the rest of the business.

Nillai Shah: What is the incremental CAPEX in this business every year, ex new store openings?

Ajay Pahwa: Well, basically other than new store openings, the CAPEX that would go in is for two reasons, one would go into installing new technologies. There is not like a fixed number that I would like to gun for, a lot of that depends on what is the strategic shift and what technology are being designed to support that. The other CAPEX that would go in is from a time to time, in a 10 year thing, stores would need to get renovated. So hence there will be needs. Typically, in a 10 year investment cycle in retail, at year 6 there would be a certain investment that would be required to remodel the store.

Nillai Shah: Exactly…so how much would that be approximately, would that be like 40% of the current capital employed in the business overall?

Ajay Pahwa: No, no. That is too large a number. You see, because you have to see there is a sequential buildup, the role out of the stores actually takes over a period of time and hence if you see year 6, there will only be a small number of stores, which would hit year 6 every year, right? So typically if I had to give you an indicative number, for India's example, with 82, typically we will put in about Rs 10 crores every year in fresh CAPEX in our existing clinics.

Nillai Shah: Okay. I was just basically trying to get to the point where you should be long term ROC of this business, but I will probably take this offline. The last question is on the ASP did allude to 10% to 11% ASP for the next two quarters, this seems particularly high given the fact that you have got such massive price increases in the system currently, when you talk about percentage of sales. So is this committed ASP spends or is this more dynamic?

Milind Sarwate: We are already at 9.7% for the first part, we are about 2 points away from, from that band of 10% to 11%, we are not too far away.

Saugata Gupta: See, I think, when I talked to you, I talked about a long term band, obviously ASP varies from quarter-to-quarter, but I think, you can see something, which as Milind said, I think, 9.7% to anything between 10% and 11%, so it is hardly much of a shift.

Nillai Shah: Right. And the input costs remaining where they are, at this point in time, and prices staying where you are right now, what do you expect in terms of margins for the coconut oil business and the hair oil business over the next two quarters?

Saugata Gupta: See, it is like this. I think we would expect that whatever the peak as far as our input prices are concerned, we expect that is over. So therefore going forward there could be a slight softening and, I think, as I said that our philosophy is to continue to ensure that we continue to provide value to the consumer and ensure that we don't lose volume growth. So therefore I don't see any significant improvement, but there will be slight softening in terms of the input cost special, so therefore there could be some delta shifts in margins.

Nillai Shah: You have mentioned out there that the growth has been driven by these smaller packs; I am assuming you are alluding to the recruiter packs.

Saugata Gupta: That's right.

Nillai Shah: So if there is a scenario of a softening input cost and you mentioned in the past that the first price cuts will come in the recruiter packs, and given the higher growth rates out there, is there a chance that the margin expansion may actually not happen even if there is a fall in input costs?

Saugata Gupta: See, I think, the margin expansion as I said will not be directly proportional to the fall in input costs, we will pass down some of it. Similarly when there have been input cost increases, we have not passed everything to the consumers. So we are going to follow by the band, which maximizes the volume growth.

Nillai Shah: Okay. The last question, sorry, one more question is on Bangladesh. Will there be any impact of adverse currency movements for the input cost in Bangladesh?

Vijay Subramaniam: Yes, sure. That is because obviously you are importing certain raw materials into the country and it is not only restricted to Bangladesh, it is across most of the geographies we operate, but that is factored in the cost of cost push. So when we say our operating margins, we have maintained at 11% to 12% band, so implicit in the statement is the fact that this has got covered.

Nillai Shah: Because your copra inputs now are coming from the Middle East, right, for Bangladesh, or no?

Vijay Subramaniam: No. We source it from multiple countries, so I will not get into the details of which countries, but we source it from multiple countries including India.

Nillai Shah: Okay, perfect. Thank you so much sir.

Moderator: Thank you sir. Next question comes from Mr. Ashish Upganlawar from Spark Capital.

Ashish Upganlawar: Hello. Just wanted to understand we have been seeing very good growth in hair oils and you are guiding that it will be 15%, 17% in that range. So could you explain me the underlying reasons why the growth is so strong in this segment?

Saugata Gupta: I think I indicated to you earlier, we have a much broader participation strategy and also what we are doing is, we are coming, our innovation program is on specific benefits, which realizes our slightly higher premium, so a combination of that and our rural thrust and the price disruption strategy, which we have done in Amla. So, I think, there is a combination of factors, which is driving this growth and we expect that, obviously we have said that 25 plus percent growth is something, which is not something, which can be sustainable in the long term, but anything between 15% to 17%, is something which is sustainable over the immediate 3 to 4 years.

Ashish Upganlawar: Sir, my question was more from the category point of view, hair oils category and across clients, so what is driving that 20% kind of growth for the last.

Saugata Gupta: The category growth, if you look at it, is actually around 13 to 14% and not 20%. So it is more in line with, see I think, as I said, hair oil is something which is very close to the Indian consumers in terms of the nourishment, it provides nourishment at a very low value cost. So therefore, I think, it is continuing as urbanization is happening, and as rural incomes have increased people have moved into this habit, in terms of moving up the value chain. And therefore if you see certain growth rates of the value-added piece, whether it is Almond or certain value-added pieces is increasing, so it is a combination of that, moving, upgrading. Similarly as and when specific benefits comes, for example, cooling was a specific benefit that led to a category explosion or hair fall is a specific benefit, people, the consumption is increasing. So it is a combination of various factors.

Ashish Upganlawar: Yeah, other questions have been answered. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Harit Kapoor from Motilal Oswal.

Harit Kapoor: Hello?

Chaitanya Deshpande: Yes.

Harit Kapoor: Yeah, good evening. Just had a couple of things. Firstly, just wanted to know on Kaya. I mean, about 18 months back, I think around 2009, when we had seen slowdown in the economy, we had seen that initial impact and two or three quarters of impact on Kaya, so just wanted to know the initial signs with retailers showing slower growth, just wanted to know, how are we more better prepared as compared to last time around in the Kaya business?

Ajay Pahwa: I think that is a very fair and a very pertinent question and a concern as well. I think the big shift if I look at it vis-à-vis last year, I think, are two-fold. One, Kaya's positioning from cure to cure plus care and our regular skin care business where we launched a whole range of services, which are priced at a very affordable price point. Now that part of the business has come to be close to 21% of our business in Q2. Second, the products actually are a great way of building loyalty because they become a part of your everyday regimen, and now that I mentioned sometime back, with the addition of the Derma Rx range of products our product portfolio is now 23% of our top line in India. I think those two shifts in particular and I think the third thing being that our loyal customers, particularly our heavy users, as well as our HNI users, their contribution to the business continuously rises. So if I look at those three components put together, I think Kaya is far better prepared and a little bit more protected than it was two years ago.

Harit Kapoor: Fair enough. My second question is on the FMCG business in India, our entry into skin care is a vital move, because if you saw about a year and a half back, the strategy was to stay away from categories where MNC competition was immense. Just wanted to understand have we shifted our line of thought on that front as to now we are more prepared to enter those categories and take larger shares there?

Saugata Gupta: Yeah, I think, as I said earlier, we have a choice making framework, which takes into account both marketing and market attractiveness and right to win. Obviously we will enter categories, which have high headroom for growth, lower penetration, and obviously we will also look at whether we have a differentiated proposition to enter that category. In this case we do have a differentiated proposition and also if you look at it, you need to look at different categories as different levels of competitive intensity, whether it is MNC or Indian. So, yes, competitive intensity is a factor, but we think, if you look at competitive intensity, which is defined also in the market attractiveness, overall growth, and the product offering, which we have, the probability of win is perhaps higher, but as I said, it is too early and we will comment on it maybe in another three to four months from now. And if you look at penetration of this category, it is less than 20%. There are certain categories where there is intense competition, which are big, but penetration numbers are far higher.

Harit Kapoor: Fair enough. So our priority of attractiveness would be basically our differentiated offering as well as penetration and growth, is that what it is, right?

Saugata Gupta: Yes, the levels of competitive intensity obviously.

Harit Kapoor: Sure. And finally just one maintenance question, if you adjust for the promotions in Saffola on a like-to-like basis, what would be the volume growth there?

Saugata Gupta: It would be more in the region of 14%, 15%.

Harit Kapoor: Okay, that's it from me. Thank you and all the best.

Saugata Gupta: Thank you.

Moderator: Thank you sir. Last question comes from Sumant Kumar from Elara Capital.

Sumant Kumar: Hello?

Chaitanya Deshpande: Yes.

Sumant Kumar: Sir, what is the overall volume growth at consolidated level?

Management: 14%.

Sumant Kumar: 14% is in the domestic market, isn't it?

Saugata Gupta: Also for consolidated.

Sumant Kumar: Okay. Thank you sir.

Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Mr. Pritesh Chheda of Emkay Global for closing comments.

Pritesh Chheda: Thank you Allwyn. On behalf of Emkay I would once again like to thank everyone for joining the call. I would like to thank the management for giving us the opportunity to host this call. We wish you all the luck. Over to you Mr. Sarwate, if there is a closing comment.

Milind Sarwate: Pritesh thanks, Allwyn thanks to you also for anchoring the call. I have no specific summarizing comment, except that the information update, which we issued in September raising certain concerns about immediate term profitability, those concerns remain valid for some more time because until we get clarity on the route which copra is going to take we will not be able to commit to a higher level of profitability. Having said that we find that the basic building blocks of our long term journey are there, we are clocking in the right volume growth, our operating efficiency of the business is intact, our overseas business is also doing fundamentally well, and in case of Kaya, we find that the fourth consecutive quarter of collection growth is a very heartening development. So there has been a mix of positive and negative in this quarter. We hope that as the remaining quarters of the year unfold, we would have more positive than negative. On that optimistic note, I thank all of you for joining this call and hope to see you again after three months. Thank you and have a good day, bye.

Moderator: Thank you sir. On behalf of Emkay Global Financial Service, we conclude this conference. Thank you for joining us. You may now disconnect.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.