"Marico Limited"

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MODERATOR:
NIKHIL VORA

Moderator: Ladies and gentlemen good day and welcome to the Q2FY13 Earnings Conference Call of Marico Limited hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" followed "0" on your touchtone telephone. Please note that this conference is been recorded. At this time I would like to hand over the conference Mr. Nikhil Vora from IDFC Securities. Thank you and over to you Sir.

Nikhil Vora: Welcome you all to the earnings conference call of Q2FY13 of Marico. We have with us the Senior Management Team with Marico represented by Milind Sarwate- Group CFO, Saugata Gupta – CEO Consumer Products Business, Ajay Pahwa – CEO Kaya, Vijay Subramaniam – CEO International Business Group, Chaitanya Deshpande – EVP and Head M&A and Investor Relations, and Vivek Karve – EVP and Head Corporate Finance. I will hand it over to Milind to make the opening remarks and may be a few words and then open it for Q&A.

Milind Sarwate: Thank you Nikhil and good afternoon to all of you. We have already shared information regarding the results on our website many of you might have also subsequently received updates directly in your mail box. Hence I would highlight only a few salient features of our results. We recorded a top line growth of 19% during this quarter, which included a volume growth of about 14%. The organic volume growth after excluding the turnover of recently acquired Youth brands Set Wet, Zatak, and Livon, was about 9%, whereas these acquired brands recorded a growth of 28%. Organic volume growth in the consumer product business in India was about 10%. Overall the volume growth seen in India was quite strong. In international business it was not as strong. We had a flattish quarter, although in value terms the international business grew by 16%. The Kaya business grew by 38%. Our gross margins expanded by about 680 basis points, helped by favorable input costs this quarter. We chose to spend a significant portion of that in advertisement spends on our existing and new products. ASP was higher by almost 450 basis points. As a result net of ASP, Employee Cost and other expenses, the EBITDA margins expanded by only about 70 basis points. The absolute EBITDA number has, however, grown by about 27%. Below the EBDITA line, however, we encountered two major increases in cost; one was the interest cost largely because of the acquisition we made earlier this year and the new office that we are buying into. We also experienced an increase in our effective income tax rate, especially in India, the reason being that the volume surge is being met by production not only in our tax holiday units but also at the non-tax holiday units. The growth in PAT was lower than the operating margin growth. The net profit grew by only about 10%. The underlying business continues to be robust. Our new products have continued to do well. We have gained market share in body lotion. We have rolled out Saffola Oats on a national basis. We have also introduced Saffola Muesli to strengthen our position in the breakfast category. In the overseas arena, Vietnam and Egypt continue to do well. In Bangladesh and Middle East there are signs of revival. South Africa has been largely flat. There was an operating margin improvement of about 150 basis points in the international business on a sequential quarter basis so we have done somewhat better in Q2 as compared to Q1, although as compared to the corresponding quarter of last year we may not have done as well. Kaya had a good quarter. The top line growth of 38% resulted in a profit growth at the PBIT level of about Rs 6 Crores. This was the result of some specific steps that were taken in this quarter which are not necessarily repeatable. We had carried promotions in this quarter so I would urge you not to extrapolate this one quarter of Kaya into similar performance in the rest of the year. We believe that the Kaya story is intact and our same store growth numbers have been pretty stable over the past 7 to 8 quarters consecutively. However we do not yet believe that Kaya has come to a point where it regularly churns out profit. Lastly at the corporate action area, we have declared the first interim dividend of 50%. With this, I throw the floor open to questions from all of you, and my colleagues and I would try to answer them to the best of our abilities. Thank you.

Moderator: Participants we will now begin with the questions and answer session. We have the first question from the line of Prakash Kapadia from ialpha Enterprises. Please go ahead.

Prakash Kapadia: Congratulations on the gross margins and EBITDA margins. If you could give us some sense on Saffola. You briefly mentioned in the presentation, some of the discretionary spending because of inflation and other things you hinted a 10% growth, is it 10% value or volume growth for Saffola for the year?

Saugata Gupta: Directionally we have indicated a 10% volume growth for the full year. As you know that there was a period of high inflation of the edible oil table and then there was a sharp correction in the edible oil table sometime during the quarter. This resulted in net inflation for ingredients of Saffola to be much higher than for other edible oils. We have so far not taken any pricing action. As a result, Saffola became a little uncompetitive. Significant growth of Saffola comes from an up gradation from a premium refined edible oils to super premium refined oils such as Saffola. When there is an economic slowdown that up-gradation decelerates a little bit. We are in the process of looking into the entire pricing of Saffola and might take some pricing action and we are pretty confident of getting growth back to around 10% to 12%. In the next one or two quarters it might not get back into the 15% volume growth zone.

Prakash Kapadia: Are we seeing some down trading from Saffola Kardi to more of a Saffola Gold or a Saffola Tasty, and to counter this slowdown in volume are we planning to introduce rural sales in Saffola by pouch sales rather than 5 or 10 liter jar sales because we are focusing on rural in terms of our overall growth plan, so does Saffola figure that to counter this kind of slowdown, if you could give us some sense?

Saugata Gupta: I think there is ground to be covered in the urban market itself and we will do something which is sustainable and profitable for the brand on a long term basis. We do not want to encourage down trading just because there is a temporary slowdown or lack of feel good factor in our economy. However, there are certain regional preferences for certain variants. Also, we are looking at pricing as a lever in terms of making it a little more competitive and seeing how we can get growth back into 10% plus region. As I said, in the second half we expect growth to be in the 10% plus.

Prakash Kapadia: Is CSD sales also affected? Is that also a factor for lower guidance for Saffola?

Saugata Gupta: Yes, there is an impact on CSD sales and as a result on the overall growth rates of Saffola. We believe that it will get corrected in the next couple of quarters.

Prakash Kapadia: Lastly, just on Saffola as we have seen edible oil prices have a clear impact because our country is not self sufficient and it is more or less import parity prices. We have seen other brands, other variants like Sunflower or specifically in western part of India groundnut oil hitting new high, so the price difference between a super premium edible oil and may be normal edible oil is not actually that large, despite that we are seeing growth tapering off because we have seen all round increase in terms of edible oil prices?

Saugata Gupta: The way the oil tables have behaved has resulted in the expansion of premium of Saffola Vs premium edible oils by as much as 20% to 30% over and above the usual premium Therefore this premium is not sustainable. The other thing you must realize is that volume growths in the last couple of months across the staples and foods industry have been lower, because it is to an extent discretionary. The fact that I want to upgrade my edible oil brand is a discretionary decision.

Moderator: We have the next question from the line of Varun Lochab from Religare Capital Markets. Please go ahead.

Varun Lochab: My question was on the consumer products business, you have mentioned that the operating margins were around 17% in the quarter, whereas when I look at the standalone out there it is around 12% to 13% so what would be the reason for the vast difference in the two?

Vivek Karve: If you look at the Marico Limited standalone performance, it not only houses the consumer product business but it also houses the entire support function, infrastructure supports, not only for the CPB business but also the IBG business and the Kaya business, so you will also have expenses relating to the support function embedded in Marico Limited.

Varun Lochab: So there is always that sort of a difference, it has not expanded materially in this quarter?

Vivek Karve: Yes, you can say so.

Varun Lochab: My second question was again on Saffola. If I look in the market, it seems that in fact we are seeing sharper price hikes in Sunflower and all, whereas Saffola you have not really taken price hikes, and in that sort of environment you should be probably gaining market share which is also reflected in your market share number so are we saying that market is actually slowing down even more than what we are seeing in Saffola volume growth numbers?

Saugata Gupta: Not really. We had taken some price increases earlier this calendar year. During the last 90 days, the table has actually gone down. As I said the entire market growth in super premium happens because of the upgrading. What has happened is because of the general economic slowdown we seen slower up-gradation. This slower growth is reflected across all categories of the slightly more expensive foods and staples. Lower orders from CSD have also had an impact.

Varun Lochab: Lastly on A&P, this quarter was obviously much higher than the guidance that you have given for the full year, is there any change to that or would A&P remain in the range of 12.5%?

Saugata Gupta: The full year ASP will remain in the range of 12% or so as we have guided earlier. As you might imagine this can be different from quarter to quarter depending on new launches or at times focus on a particular market. Moreover, the A&P during the same quarter last year happened to be lower than the annual average.

Moderator: Thank you. We have the next from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on your new products, in skin cream you have gained 6% market share and in oats 14% market share and now you are going pan India. I wanted to understand these are respectable market shares, so on the profit front from these products, gross profit minus advertising specific to these products, have we started making some money or by when do we start making money, if no?

Saugata Gupta: As you know, any FMCG category for the first couple of years is in investment mode. And the A&P spend on the Saffola food adds back to the Saffola mother brand, so you do not look at A&P from a brand perspective but from a master brand point of view. Yes, it will take a couple of years to break-even, but in terms of the top line it is tracking very well and in both these categories we have said from the beginning that we are looking at crossing the Rs 50 Crore mark this year and it is very much on track to do that.

Abneesh Roy: My second question is how you see the market share in Oats. For example, you had started very good differentiation in terms of sachet and masala, but the leader has also copied the same strategy, so any guidance on where do you see your market share two years down the line in Oats?

Saugata Gupta: At the end of the day I think the penetration of the category is very low and the plain oats is used for breakfast, but the differentiated varieties of savory oats increases occasions of use. Sometimes it makes sense in a very nascent category to have multiple player participation, because that catalyses the market growth. We believe that we have a differentiated offering. We will continue to offer value to the consumer and participate in this market growth. Obviously, we are gaining share every quarter and we expect to continue to do so.

Abneesh Roy: In first quarter you said modern trade has grown at 28% led by Saffola largely and in the second quarter you have said Saffola continues to grow at 28% in modern trade, so is it like to like comparison and secondly, has Saffola slow down more in the non modern trade and what was the decline in CSD in Saffola?

Saugata Gupta: We cannot get into brand wise, channel wise growth rates. I am not sure where you picked up this 28% growth rate of Saffola in modern trade but the overall modern trade growth for the consumer goods business in India. Is in that region

Abneesh Roy: But are you divulging overall CSD, what was the decline because the most of other companies are doing it and I think you also used to do it?

Saugata Gupta: The volume is negative and the value growth is 2%.

Abneesh Roy: My next question is on the international business if you would give us geography wise, you have given 3% constant currency but what was Bangladesh which is the main chunk, what was the growth there and South Africa growth comes back in the coming quarter?

Vijay Subramaniam: As Milind said, if you look at the international business on purely Q2 basis, growths do appear soft. We have had certain growth enabler and we have had some growth depressors which are largely transitionary in nature. So if I talk of the growth depressors first, we are having some distribution transition and pack transition issues in Middle East. We also had a transport strike in September in South Africa which impacted all industries. From the growth enabler side, clearly Vietnam is trending well and so is Egypt, and in Bangladesh most of our new initiatives are panning out well. We expect growth to return to double digits in the second half of the year. Specific to overall growth, international business has grown by about 16%. In terms of key territories, Bangladesh would be about 13%, South Africa would be low at 3% because of the strike, Middle East and North Africa (MENA) is about 6%, and Vietnam is about 30% plus.

Abneesh Roy: Why has Middle East been soft?

Vijay Subramaniam: Let me bifurcate the Middle East, Egypt as the note says has grown by 11%, so in Egypt we are seeing signs of political stability, economic revival, business is doing well. In Middle East, we have had some distributor transition and pack transition issues which have suppressed the quarter performance, but as the note says we have seen some uptick in the secondary sales in September, but unfortunately it is only one month of the quarter. We hope to carry forward that momentum into the second half of the year.

Abneesh Roy: One small issue, first page of your earnings release says 9% organic volume growth; second page says 10% volume growth, so which one is the correct one?

Saugata Gupta: The 9% organic growth is for the overall Marico Group and 10% is for the organic growth in the India Consumer Products Business.

Abneesh Roy: Lastly, Saffola strategy you said you will look at the pricing part, now the other big players in the super premium category they have also been focusing on margins rather than on the volumes, so any comment on how market shares are and now the strategy seems to be a bit aligning for both the players, so some comment on that?

Saugata Gupta: At the end of the day, we operate on a pricing which provides value to the consumer with a threshold level of margins and we will continue to do that.

Abneesh Roy: And how the market share has been?

Saugata Gupta: There are two ways of looking at market share. Obviously we are looking at a super premium market share, but we should not loose sight of the fact that a significant part on the growth of the super premium ROCP happens because of people upgrading to that category from premium and as market leaders we should focus on expanding the category. In the super premium segment our market share is about 58%.

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

Pritesh Chheda: Just one question, in the press release you have mentioned these two statements, one on Saffola and the pricing action and secondly copra prices and part of the benefit to be passed on. On the second part, I just wanted to understand if there was any of these actions happened in the Q2 in the form of promotion which would have been passed and if you take these two statements what does it mean incrementally for margins and what other drivers do you have to offset this?

Saugata Gupta: As far as Parachute is concerned, in Q2 we ran some temporary price offs in a couple of recruiter packs for a month; to gauge what is the impact. We did not have a clear visibility of how the commodity prices will pan out because there was extreme volatility in the second quarter. Having completed the quarter we now have a better visibility in terms of trends in input prices. This gives us the confidence to determine what pricing action needs to be taken in the subsequent two to three months in order to get back some accelerated volume growth, especially in the loose to branded up gradation. As you know during the last quarter the premium of loose to branded had become unsustainable so we are contemplating some pricing calls in the recruiter packs in the form of perhaps temporary price reductions or promotions which will be implemented in the market in the next couple of weeks.

Pritesh Chheda: Can you quantify the promotions which were running in Q2?

Saugata Gupta: It is marginal, ran for a month in one or two packs. It was not significantly higher than what we used to do in the past.

Pritesh Chheda: How does the margin look like and if there are any other levers to offset the same?

Saugata Gupta: This quarter as you know has higher A&P and I do not see that Q3 versus Q2 there will be a significant increase in the material cost.

Moderator: We have the next question from the line of Vivek Maheswari from CLSA. Please go ahead.

Vivek Maheswari: My first question is on the A&P 80% increase that you have seen in this quarter, is it fair to assume a good part of that delta could be because of the spends on Paras brand?

Saugata Gupta: It is a combination of spends towards some of the new product in India, in international business in Middle East, in addition to spends on the newly acquired youth brands, Set Wet, Zatak and Livon.

Vivek Maheswari: The investment in Youth Brands, would it be I am not sure if you can give us the numbers, while you have given on the top line, what would be A&P in case of Youth Brands, would it be possible for you to share that number?

Saugata Gupta: The portfolio including Set Wet, Zatak and Livon makes a far higher gross margin and the category operates at a higher A&P.

Vivek Maheswari: And is it possible to quantify that?

Saugata Gupta: Not really. Normally in personal care especially high growth category operates at a higher A&P, but at the same time the gross margins are in the region of 50% to 60% in these kinds of categories.

Vivek Maheswari: Okay, what is the A&P for full year that we should get?

Saugata Gupta: As I said, we stand by the annual rate of around 11.5% to 12%.

Vivek Maheswari: 12% for full year you are saying?

Saugata Gupta: I am saying going forward.

Vivek Maheswari: Again, one more question on CSD. Is the CSD impact limited only to Saffola or there would have been some impact on Parachute as well?

Saugata Gupta: The CSD impact is on the entire portfolio.

Vivek Maheswari: Including Parachute as well, is it?

Saugata Gupta: Yes and that is why I said there is a slightly negative volume growth in CSD in this quarter.

Vivek Maheswari: Do I recall it correctly that in the preceding quarters you were mentioning that the CSD impact is largely in Saffola, has it expanded to other categories?

Saugata Gupta: That happened in Q4 of last year in February – March, but then in the last quarter and even in Q1 the impact was on the entire portfolio, but as I said, it will slowly come back with the base correction sometime in the Q4 of this year. I might add that CSD's share in Saffola's business is higher than CSD's share across our entire portfolio.

Vivek Maheswari: Okay, understood. On the price premium, the statement that you have made in case of consumer product business, the second page, some deceleration in rate of new customer acquisition, is that again largely limited to Saffola or even to Parachute?

Saugata Gupta: It is mostly to Saffola, but to some extent it could have an impact on the Parachute recruiter packs and therefore that is the reason we are contemplating some pricing action.

Vivek Maheswari: Okay. One on body lotion, what would be exit market share?

Saugata Gupta: The quarter market share is in the region of 7.5%.

Vivek Maheswari: Tax rate in the first quarter you indicated 21% to 22% is what we should be taking, should we now look at a higher number after this quarter?

Vivek Karve: Yes, you could look at a full year number of about 24%.

Vivek Maheswari: And interest cost is this a run rate going to be between Rs 15 and Rs 17 Crores which is what we have done in the first two quarters?

Vivek Karve: It could be slightly lower, but it will be in that ballpark.

Vivek Maheswari: Lastly, on this office premises that you have bought, have you paid everything what was required, I think Rs 120-odd Crores is what you have paid right?

Vivek Karve: Yes.

Vivek Maheswari: And that is about it is it?

Milind Sarwate: There will be some more expenditure to complete office interiors which is not expected to be very significant. .

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

Gaurav Bhatia: This is on Saffola, you were running a scheme where you were giving 20% free volume on Saffola, does the 6% volume growth factor in these free volumes as well, and how do you account for the free volumes?

Saugata Gupta: That was run only during the last 15 days of the quarter. In fact in terms of promotion there was actually reduction in the promoted quantity this quarter versus the similar quarter last year.

Gaurav Bhatia: Secondly, is there some regrouping of other expenditure from consolidated minus standalone to standalone because the other expenditure in India is higher by 25% whereas consolidated minus standalone is 6%, what I am getting at is, is there some reorganization to take benefit of taxation?

Vivek Karve: No it is not because of that. There is no reorganization for the purpose of taxation. Typically what happens is because of the intergroup transactions there are lot of eliminations that happen between the standalone Marico limited and the group.

Gaurav Bhatia: Parachute volume growth for the overall franchise, rigids plus non-rigids, what would that number is?

Saugata Gupta: **About** 7%.

Gaurav Bhatia: In the press release you have said, in the update, that the medium-term trend for volume growth in Parachute will be higher than the long term trend, could you tell us what gives you the confidence that it will be higher?

Saugata Gupta: We have been always talking about 7% to 8% long term volume growth in Parachute rigids. If you look at our past 12 to 14 quarters it has been slightly higher, so therefore that gives us the confidence. In fact, this was a difficult quarter in terms of price premium; yet there was a growth rate of around 9%. Growth in the medium term (the next year or two) can be 1% to 2% higher than the long term average of 7%.

Gaurav Bhatia: Lastly on Kaya, for some time we have not expanded new stores in India. In the update you said you are going to open 3 to 4 stores. Is there some change in strategy; are we more confident on that business in India?

Ajay Pahwa: Over the last two years, we have continued to build strategically new stores and typically we have been building 3 to 4 stores every year, so this year is not inconsistent with that. Yes, our primary focus continues to be on driving same-store sales growth, so we are very pleased that this is the 8th quarter in a row and I am sure you are aware that going forward we are also prototyping a new format which will get launched in January of 2013, the 4th quarter of this financial year. I think that prototype if it performs well over the next 12 months cans fast track new store expansion.

Moderator: We have the next question from the line of Priya Ranjan from Macquarie Capital Securities. Please go ahead.

Priya Ranjan: Other expenditure for this quarter, should we expect that the current run rate will continue like this because I guess many of the new expenditure has been on the new Paras brand which you have acquired because typically the other expenditure margin etc., offered to the sales channels is actually higher than your existing brands?

Vivek Karve: The other expenditure in this particular quarter is slightly higher as a % to sales also because the Q2 sales are lower as compared to Q1, so there is a fixed portion of the expenditure which does not reduce just because the sales have dropped sequentially. On an ongoing basis you may expect the other costs as a percentage to sales to be between 15% to 16%.

Priya Ranjan: My next question is on the working capital of your new brands you have acquired from the Paras portfolio; it is not a negative working capital like other business?

Vivek Karve: In our other businesses too we do not have a negative working capital. This is a fast moving consumer product business; it will follow the working capital cycle that other businesses of Marico also follows.

Moderator: We have the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Just one on your net debt which has come down by 130 Crore Q-o-Q and your debt equity is also reduced; do you expect the debt level to reduce at a similar level?

Vivek Karve: If we do not make any further acquisition, you may expect a gradual reduction in our net debt levels going forward as the base business churns out cash regularly. .

Aditya Soman: And just a follow-up, then would you be keeping sort of any cash on hand, for any acquisition or would you just completely reduce the debt if you make no further acquisition?

Milind Sarwate: We tend to keep some amount of cash on hand because that facilitates short-term management of borrowings and short-term investments, but that is more to give us an elbow room and not to develop treasury as a profit centre. Accordingly, a small war chest will be maintained. We already have that and we do not plan to increase that so whatever accruals come our way, will go towards reducing the net debt.

Moderator: We have the next question from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Despite the precise number, would you be able to share with us as to how much more higher was the gross margin expansion in Parachute and related to that how much is gross margin compressed to Saffola, I am not asking for what is the gross margin, just the Y-o-Y change?

Saugata Gupta: On Saffola so far there has been no significant gross margin compression. In case of Parachute as you know it operates within the band which we believe is sustainable and aids volume growth. We may currently be just beyond that band and therefore we would like to ensure that we pass some part of the higher margin to ensure that the volume growth in the long term is sustained.

Richard Liu: Will the gross margin expansion in Parachute by itself have been substantially higher your 600-odd bps that we are seeing?

Saugata Gupta: It is in line, because if you look in terms of material cost structure, a significant reduction has been actually in copra.

Richard Liu: All right, if you can put in perspective, this 30% rise in other expenditure in the standalone account, we were talking about percentage of sales, but in terms of the absolute increase of 30% that seems to be a little high, are they any kind of investment type of expenditure that we are incurring here?

Vivek Karve: What happens is we do strategic position building for some of our inventory, so there are some related costs such as warehousing cost and freight costs which have gone up between the quarters.

Richard Liu: Okay sure. The last one, if I look at the value-added hair oil growth between volume and value, the pricing component of this segment seems to be pretty low at about 3% or so, whereas if I looked at the data shared on the website regarding most of the prices of the products, it would appear that the Y-on-Y price increase for each of those products individually have been slightly higher 3% overall pricing growth that seems to be there in the segment, anything to read into this?

Saugata Gupta: Not really. It depends on the time of the year the price increases have been taken and also it depends on the mix of the brands. I do not think there is anything in it because on an average again if you look at the full year, it will be around 3% to 4% inflation.

Moderator: Thank you. We have the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Basically, three questions, one on the value-added hair oil business. It is not really a short term. If you look at into the next couple of years, considering what has happened in the last couple of years, what sort of volume growth you think is sustainable considering the strong performance what you had which was based on market interventions, that is point #1. Point #2 on Parachute, in the release it says that the market share gained for the last one year has been around 400 bips. How do you kind of put the market dynamics out here because it is quite a substantial jump in a short span of one year considering the fact that you have achieved a situation, where your gross margins have reached the threshold at the highest level?

Saugata Gupta: The first question was regarding the hair oil. We have achieved 20% plus growth rates over the last few years. We believe that through our broader participation strategy we can continue to grab market share and we have gained 5% market share in the last two to three years. We aim for expect a 17% to 18% volume growth over the next couple of years.

Your next question was on Parachute. Parachute, has made significant market share gains in the last two to three years by making investments behind rural growth and growth in our recruiter packs. Regarding Parachute margin; copra prices declined around May and June and a slow down in up gradation owing the premium versus loose oil prices usually begins a couple of months later. That is the right time to make temporary pricing interventions to ensure that we get the up gradation run rate back in place, so that we maintain about 8% to 9% volume growth.

Moderator: Thank you. We have the next question from the line of Nilay Shah from Morgan Stanley. Please go ahead.

Nillai Shah: My question is around Bangladesh. Given that you have got 80% market share out there in the CNO business, why cannot you use the brand strength to get more pricing traction out there. In India I can understand that you are still fighting a 40% loose market, but what is stopping you in Bangladesh?

Vijay Subramaniam: We are looking at the rural business from a longer term perspective. Fundamentally, we are saying that we have 80% market share there. We are now consciously trying to develop and invest behind new growth engines. So if you see the note, we have made a foray and what we called value-added hair oil portfolio and there has been share gain and we are seeing good traction and good growth, but it is obviously a long-term gain. Similarly, in some of the other categories like hair dye, we are seeing good traction. Fundamentally, our approach here is to try to sustain this share and at the same time develop new growth engines.

Nillai Shah: Okay. Coming to the India business in terms of Parachute, how do you view ad spends in Parachute versus price cuts or promotions to drive volumes. What do you think is more potent out there?

Saugata Gupta: I think ultimately the significant portion of the business model is based on growth coming from loose to branded- where pricing is an important parameter. I do not consider pricing as a promotion, but we look at pricing as a strategic tool to drive volume growth. Obviously, we need a blend of both.

Nillai Shah: You still think that ad spends in a brand like Parachute and a category like coconut oil is extremely potent to get volume incrementally?

Saugata Gupta: I think it will both work. As I said, currently at this point in time, the pricing is very important in terms of actually encouraging consumers to upgrade from loose to experience a branded product.

Nillai Shah: Any study you have run or any business analysis you have which you can share some data on which talks about this, because when your gross profit margins are expanding it is brilliant to put a large part of it into ad spends, but that when your product pricing differential is so high, does it really work?

Saugata Gupta: We do not have any such study.

Moderator: Thank you. We have the next question from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: I just wanted to know in terms of Set Wet, Zatak & Livon, this quarter sales is Rs 46 Crores, can we have some sense that is this a higher sales because of probably distribution expansion or because of merging with a distribution structure from Paras to Marico or is this is the kind of number which we should expect going forward?

Saugata Gupta: We started off distribution of Set Wet, Zatak and Livon sometime in the last 10 days of June. We did around Rs 10 Crores, so far we have done Rs 56 Crores of sales in the Youth portfolio on a cumulative basis. We believe that we can maintain this run rate. Yes, there is the benefit initially of filling some distribution gaps and much more discipline retailing, given the focus we have. It is steadily settling down. The integration process is more or less complete. A run rate of around INR 15 crore is quite possible.

Sanjay Singh: Here, at least in the deo categories, probably market share is not that sticky given that it is a nascent category, so after your Set Wet launch, does it give the confidence that there is a possibility of market share movement which is much higher than it currently is?

Saugata Gupta: We believe that, yes, deo market is fragmented, but over the long term I think disciplined distribution and retailing and strength in the distribution and branding will be a source of competitive advantage. We see the market consolidating between organized players over the long term.

Sanjay Singh: What I am asking is, a more specific question, currently your market share is anywhere around 6%, and earlier it was around 7% or 8% when it was there with Paras in that range, but your initial handling of the brand and the product, does it give you a confidence that you can reach a 10% plus share very soon in the near term, is it possible something of that sort?

Saugata Gupta: Obviously, market share gain is possible. In any case as I said, ultimately we are looking at this as a portfolio and we believe that this portfolio can generate a 25% value growth over the next few years. **Sanjay Singh:** In terms of margins, I know currently it might be very difficult because spends on A&P, etc. will be very high on the Youth brands because of the relaunches, but may be in FY'14 when the business is stabilized, any sense of how better or how much will the margins be, maybe at EBITDA level or which ever way you want to classify it for the acquired Youth brands business?

Saugata Gupta: It will be anywhere between 17% and 20% and it can stabilize in this band going forward.

Moderator: Thank you. We have the next follow-up question from the line of Prakash Kapadia from ialpha Enterprises. Please go ahead.

Prakash Kapadia: I just wanted to check whether standard packing was to get implemented. Is it implemented for edible oils?

Saugata Gupta: Yes, it has been and we are compliant with it.

Prakash Kapadia: Okay. One question as part of notes to account, you have mentioned I think in note #6, forex related, Rs 46.98 Crores unrealized loss as on September 2012, in respect of derivative and foreign currencies. Is it part of the current P&L or how will that get accounted?

Vivek Karve: No, actually it is part of our reserves what is known as the hedge reserve. This pertains to the external commercial borrowing which we raised to fund one of our overseas acquisitions. As per the accounting standard, we are allowed to park the mark-to-market gains or losses in the hedge reserve. This is mark-to-market based on the exchange rate as it prevails at that period. So it has not flown through the P&L. Because it is marked to future exports, it actually creates a natural hedge. That is why it does not flow through the P&L.

Prakash Kapadia: So it is part of the H1 balance sheet in terms of translation or hedge reserves.

Vivek Karve: It does not reflect any liability which we are yet to provide for.

Prakash Kapadia: On the standard packaging, any impact you see because of this or any game plan for us to boost volumes?

Saugata Gupta: Not really. We are hardly impacted and we are compliant. So, I do not see any impact for us in all categories.

Moderator: Thank you. We have the next follow-up question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: This question is to Saugata. When CSD slowdown takes place, obviously the customer would be buying from the normal shops, so what is the thought process, will this lead to the normal retailers filling in for the loss from CSD.

Saugata Gupta: I think it is very difficult to actually compute what happens there, but in states where there is a high CSD sale, especially in the North, there has been a little bit of an uptick in retail off-take. .

Abneesh Roy: How much is the time lag, you said you have already seen, is it a one quarter lag?

Saugata Gupta: You could say that, but again it is very difficult to actually get in to so much of microanalysis on this aspect.

Abneesh Roy: Could you comment on cooling oil, any plans to expand that further, how that is done?

Saugata Gupta: We have not hit our action standards. We set a target of 10 % plus market share, which has not happened. Till that happens we are not going to scale it up.

Abneesh Roy: In the current geography, Andhra it remains?

Saugata Gupta: Yes. The market share is more or less stagnant at the 6% to 7% mark, but unless it hits a 10% to 12% mark, it does not meet our internal action standards for evaluating a scale up.

Abneesh Roy: Could you comment on Bangladesh, you had brought in new products in the last one-and-a-half years, how they are shaping up because you already have distribution, but how they are shaping up in terms of acceptance?

Vijay Subramaniam: In fact, like I said earlier they are shaping up quite well and we are pleased with the progress, The first new product introduction we made was Hair Code Hair Dye. That has moved to a market leadership position, but it has taken about two-and-a-half to three years. In the value-added hair oil space, last year exit share was 7% to 8%, which has now moved to 17% to 18%, so it is moving up Q-o-Q. These are growth engines for the future that we will continue to invest in.

Abneesh Roy: Last question on copra and kardi, what is your outlook for the next three to six months?

Saugata Gupta: Copra hit the bottom sometime in September and we are seeing a little bit of hardening because copra gets into the off-season at this point in time, so there can be a minor increase in copra prices over the next three to six months. As far as safflower is concerned, the season starts sometime in January-February, we believe there could be a slight softening of safflower prices. But overall I must add that it is difficult to forecast these movements accurately.

Abneesh Roy: Just one more to Saugata again. We have seen discretionary slowdown in foods now for two to three quarters across various companies, in personal products for you, specific skin, deo and value-added hair oils, do you see the risk of this in a meaningful way in coming quarters?

Saugata Gupta: If you look at the entire sector, perhaps October and September did better than in June, July, August. Personal care which leads to instant gratification in terms of beauty enhancement may not be seen as discretionary even when the economy is softened up. However, we observe that food is a little more discretionary, especially staples. Also you must realize that the frequency of purchase of personal care item is low as it is used over a longer period of time than foods, and hence is not as impacted. Having said that, yes, there would be some deceleration in terms of up gradation or trials, if there is a continued economic slowdown.

Moderator: Thank you. We have next question from the line of Vivek Maheswari from CLSA. Please go ahead.

Vivek Maheswari: Two more questions, one on Kaya, you have taken several efforts to bring this business on super growth, why is it that you are still saying that we should not be extrapolating this number, a part of the growth is because of FX gains, but why should not Kaya make money in the next year at least.

Ajay Pahwa: It is a very good question, I think the challenge is, the ability to now be able to do this Q-o-Q. Kaya like lifestyle retail brands would have certain promotional periods on its calendar, so I think that is the near-term challenge. I think, rather than trying to forecast what is going to happen next year, the more important part would be to continue to get this double digit sales growth, we continue to build and if the new prototype is successful and at the same time our products business that we have been greatly focused on ever since we acquired DRx, if those three things work in tandem, yes, that outcome of profitability will follow in due course.

Vivek Maheswari: One follow-up on that, so products currently are between 23% and 25% of your revenues, is there a target for product sale and is it that this is one important reason why the performance in this quarter has been good?

Ajay Pahwa: No, actually this product's performance has been building up over close to 7 to 8 quarters since we acquired the DRx business and started launching those products here. I would not say as such there is a particular number target, but we do see that in our sister business in Singapore, products can contribute up to 45% to 50% of the business. And looking at the overall growth that is taking place in the premium skin care products, we do believe that this number can continue to increase in the coming years.

Vivek Maheswari: That is helpful. Again on tax rate, the volume growth in Parachute in this quarter is 9% or so. I am sure you have not been surprised with this volume growth, why is it that you are now looking at 24% kind of tax rate compared to Q1 where you were indicating 21% to 22%? You would have known that tax paying facilities will keep moving up even at 8% to 10% run rate?

Vivek Karve: The gross margin expansion in Parachute during the quarter is quite substantial, thanks to lower copra prices, and the coconut oil franchise profits are fully taxable, as a result of which the full year outlook on the taxable profits in the Indian business is higher as compared to what we had estimated in the Q1. That is the reason why we have given a new outlook of about 24% of ETR that too at a group level. At Marico Limited level, it is currently about 20% odd percent.

Vivek Maheswari: Okay, for the next two years, will this stay at around 24% or it will move up?

Vivek Karve: There are too many factors that go into determining the tax rate, so it will be difficult to estimate; however, it may remain in the ballpark or may be a little lower than that.

Vivek Maheswari: Last bit on the tax rate itself, when do you hit marginal tax rate in India business?

Vivek Karve: It would take at least about four to five years before we reach that level, but before that if the government reduces the tax rate, then it will be a welcome step.

Moderator: Thank you. We have the next follow-up question from Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: I had a follow-up question on the Parachute market share. Basically what I was trying to understand was that, looking at the market share gain and looking at your growth, is it a case that the market growth is actually quite minimal?

Saugata Gupta: Whenever there is a huge inflationary situation, the branded market growth slows down because the loose to branded conversion slows down. However, what happens is even in that market a strong player continues to get a disproportionate share of the gain and that is exactly what is happening. Parachute is uniquely positioned actually to gain market share during both inflationary and deflationary times.

Manoj Menon: Fair enough. I had just one more question on Bangladesh. Essentially again looking at the market shares for Parachute there and looking at that in the context of the overall Marico Bangladesh performance, is it a case that you did much better than what you had actually planned for where that operations were there currently?

Vijay Subramaniam: Going forward, as in this quarter a bulk of the growth will be coming from some of the newer initiatives, which will pan out over a period of time. So growth will have to come from not just existing but the new portfolio also.

Manoj Menon: Okay. If I have to get a medium-term view here, what sort of organic growth in constant currency terms which you would be looking for this business over the next three to five years?

Vijay Subramaniam: It should be in the region of about 10% to 15% organic growth. It also depends on how our new initiates pan out.

Manoj Menon: That is basically volume plus value. Thank you so much and all the best.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor over to Mr. Harit Kapoor for closing comments.

Harit Kapoor: Just a couple of questions before we close from my end. I just wanted to understand on Bangladesh again, you have spoken about a large number of new products that you have launched in the one to one-and-a-half years. By my understanding, at that point of time Parachute was about 96% to 97% of our total sales there. I just wanted to know what is the proportion now there, has it changed?

Vijay Subramaniam: It has come down to 90% from about 97% to 98% in the 12 to 18 month period. Going forward, it will come down further.

Harit Kapoor: Okay. Staying on the international front, Bangladesh business enjoys 12% to 13% EBITDA margins and we have a consolidated international margin of about 10% at the EBTIDA level, I just wanted to know which are some of our lower margin geographies and how do we address to improve profitability there?

Vijay Subramaniam: I think this question came up in the last quarter call. Last quarter international business EBITDA margin was only 8% or so, and this similar question has come up and I had said that going forward we will see EBITDA increase. It has gone up by 150 bps. I expect to achieve 11% EBDITA in the international business for the year as a whole, which basically means that in second half it will be higher. When you look at Q-o-Q, it is difficult to extrapolate because we have certain campaigns running , or certain restaging activities, leading to a certain degree of fluctuation in the margin Q-o-Q. For the year we expect to end at about 11% and that will improve going forward. Now the geographies where we are in an investment mode, and clearly have a need to ramp up the EBITDA as we go forward are the Middle East market and the South African market. These are two markets where we are currently under investment and we will have to see EBITDA increases going forward.

Harit Kapoor: Okay. One last thing on the domestic business. On our personal care portfolio, on the new product pipeline in terms of the acquired Youth portfolio, body lotions as well as cooling oil. I just wanted to know do we have our hands full on the personal care portfolio or over the next maybe six to nine months, can we expect more renovation in that space going forward?

Saugata Gupta: The Youth portfolio of Set Wet, Zatak and Livon offers an interesting option for growth and there are a lot of innovation options available for cross-pollination from the international business. We also believe focus is important. There could be one or two new initiatives over the next 12 months, but I think there is enough on the plate in terms of driving growth and we believe that the Youth portfolio itself can drive 25% value growth in the next two to three years.

Harit Kapoor: I would like to thank the senior management of Marico as well as all the participants on the call for joining us today. I would like to hand over to Mr. Sarwate for the final remarks.

Milind Sarwate: I think we had an engaging discussion on several issues concerning our Q2 results. There may still be some more details which callers may have required. They could contact us separately and we can deal with their queries off-line. We look forward to meeting you again after three months at the next quarterly earnings calls. So have a good time in the meanwhile and Happy Diwali and festive season to all. Thank you.

Moderator: Thank you Sir. Ladies and gentleman, on behalf of IDFC Securities Limited, that concludes this conference call. Thank you for joining us.