



Marico Limited  
Q1 FY2021 Earnings Conference Call

**July 27, 2020**

**MANAGEMENT:** **MR. SAUGATA GUPTA – MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER**  
**MR. VIVEK KARVE – CHIEF FINANCIAL OFFICER**  
**MR. PAWAN AGRAWAL – EXECUTIVE VICE PRESIDENT  
& HEAD, FINANCE & INVESTOR RELATIONS**

**MODERATOR:** **MR. ANAND SHAH – AXIS CAPITAL LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to Marico Limited's Q1FY21 Earning Conference Call hosted by Axis Capital 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anand Shah from Axis Capital Limited. Thank you. And over to you, sir.

**Anand Shah:** Yes. Thank you, Janis and good evening, everyone. On behalf of Axis Capital, I welcome you all to the Marico Q1FY21 Earnings Conference Call. We have with us the senior management of the company represented by Mr. Saugata Gupta – M.D. and CEO; Mr. Vivek Karve -- CFO; and Pawan Agrawal -- EVP & Head, Finance & IR.

Before we start the call, I would like to remind you that the Q&A session will be for the institutional investors and analysts. And therefore, if there is anybody else who is not an institutional investor or an analyst but would like to ask questions, please directly reach out to Marico's Investor Relations team.

With that, I would like to hand the call over to the Management for their opening comments. Thank you. And over to you.

**Saugata Gupta:** Hi! Good evening to all those of you who have joined the call. I hope all of you, your friends and family are safe and healthy. We continue to cope with these unusual times with COVID-19 rapidly spreading and severely affecting the lives of every section of our society. We at Marico have been striving to take utmost care to ensure health and safety of our people and are partnering with our associates and other stakeholders to help them navigate through the challenges posed by this pandemic.

Marico has already pledged Rs.7 crores to relief activities and is participating in various rehabilitation initiatives. We remain committed to providing the best possible support to the people associated directly or indirectly with Marico at this time.

I would start with a quick brief on the quarter gone by and the outlook going forward before I leave the house open to questions. With the extension of the national lockdown in India, April was nearly a complete washout month for most categories other than Edible Oils, Foods, hand sanitizers and coconut oil to a certain extent. We could resume meaningful billing of Value Added Hair Oils much later in the month and recorded almost no sales in Premium Personal Care. However, since then as restrictions eased, the business has seen a smart recovery in May

and June with overall India volume growth growing by 3% in these two months on a year-on-year basis, and we continue to show growth in July this year.

Typically, we clock a higher share of the annual revenues in Q1, not due to any seasonality in the portfolio, but on account of certain drives taken to start off the year on a positive note and building in momentum for the balance part of the year. However, in FY20, the Q1 SKU was further accentuated to about 31% because of a good Q1 and subdued performance during the rest of the quarters which was a function of the external environment and a few internal misses in our portfolio and pricing in Q2 & Q3. Since April this year has been an anomaly, as I just explained, comparing our Q1 performance with the base quarter, will not be the ideal indicator of the underlying demand trends. Therefore, we believe it is pertinent to compare Q1FY21 performance with average monthly run rates of FY20 to get a better sense of where we are.

The India business clocked sales at 104% of FY20 average run rate for the quarter, while optically volumes were 14% lower on a YoY basis. We continue to strengthen our market position by gaining market share in more than 90% of our portfolio. We will be extremely aggressive in driving market share gains in all the core and some of the new tailwind portfolios this year.

As we speak, we have experienced growth in the last three months, i.e. May, June and July, and we are confident that we will carry the momentum and deliver growth for the balance part of the year too, provided of course, the COVID situation does not drastically worsen from the current position.

Notably, our secondaries have been in line with the primaries, and we have not resorted to upstocking our distributors after the destocking in the last couple of weeks of March as well as in Q3 previous year.

Given the tough macroeconomic environment, we continue to operate at lower distributor inventories to ensure ROIs of our channel partners is optimized. And we will review the option of restocking, if at all needed, when the situation improves.

Heightened social distancing norms and travel restrictions worked in favor of neighborhood kirana stores and e-commerce while modern trade has de-grown. We are now beginning to see some improvement in modern trade, but would expect the channel to underperform if COVID situation worsens.

CSD business was down nearly 50% - being about 7% of the business, it translates to about 3% volume growth being shaven off.

Given the reverse migration of labor, government stimulus, good rabi season and no adverse impact on agricultural output during these times, rural in Q1 grew at 120% of our FY20 monthly run rate, while urban including alternate channels was nearly at par. We expect this trend to continue in the event of a normal monsoon season.

Delving deeper into the India business, Parachute has clocked 111% of annual average monthly run rate of FY20. Given the skew and the high 9% base, the brand reported 11% drop in volume year-on-year. We have seen very healthy traction in May and June given that the brand is trusted by consumers for purity and hygiene attributes which have gained even more significance today, giving them all the more reason to switch to a trusted leader brand from loose oil. Parachute's latest "Untouched by Hand" campaign throws light on the hygienic processing and safety credentials of the brand. With copra likely to be mildly bearish, we shall look at passing on the value to our customers in pricing and drive accelerated conversions of loose oil as well as gain market share in view of the lower disposable income in the hands of the consumers and lower competitive activity amongst the smaller players.

In Value Added Hair Oils, the portfolio had a rough start with meaningful billing resuming only in the last week of April and fall in demand for premium oils. However, May and June has seen significantly healthier trends with the franchise growing in May, June period on year-over-year basis, led by mid and bottom of the pyramid segment.

We continue to show some growth in July. We clocked 94% of the last year's run rate, but had a sharp decline on a year-on-year basis. Nihar Shanti Amla Badam continued to gain salience and lead the way for the franchise. Among the newer offerings, Parachute Advanced Aloe Vera also showed promising signs in June and July. In current times, while our consumer wants trusted brands, she may be willing for a lower outlay of spend. Therefore, it is pertinent to be able to offer value to the consumer at lower price points. We shall aggressively engage in pricing and tactical play in the lower unit packs to drive growth.

We are encouraged by June offtake data which suggests that the hair oil category is now tracking ahead of pre-COVID-19 levels which is December, January, February.

Our three-pronged strategy of gaining market share in the premium segment, driving value in the mid segment and aggressive pricing in the bottom of the pyramid segment shall continue in the near and medium-term.

Saffola Edible Oil continued its healthy run, growing 16% in value and volume terms. The strategic shift in pricing and promotion in the portfolio and effective brand communication over the past few quarters has allowed us to capitalize on the heightened health consciousness and

increased in-home cooking. We believe the shift in Saffola's penetration and reach should sustain and we will continue to invest towards delivering value to our consumers to build it further especially with increased cooking at home. However, the potential 20% Saffola growth which we are expecting was partly stunted because of CSD and modern trade which has a high saliency.

The base foods business, which is Saffola Oats and Savoury Oats had a robust 41% value growth. Saffola Masala Oats continues to gain salience at an accelerated pace in the current times. We will continue innovation of newer flavors to delight our consumers. We have made a fresh foray into immunity within the food segment with the launch of Saffola Honey. Every batch of Saffola Honey undergoes international standard NMR test, bringing consumer export grade quality honey, free of added sugar and any impurity.

The Premium Personal Care portfolios of Premium Hair Nourishment, Male Grooming and Premium Skin Care recorded sharp declines given the significant fall in discretionary category sales. While some green shoots are there in June, we will lie low and closely monitor these categories to have a sharper near-term outlook and strategy. These categories however continue to remain high-growth engines from a medium-term perspective, as and when things normalize.

On the hygiene segment, Mediker Hand Sanitizer and Veggie Clean have started well. We have had some agile launches in House Protect and Travel Protect and KeepSafe by Marico, primarily in e-commerce to cater to the need of sanitization. In the current quarter, hygiene portfolio contributed to more than 1.5% of India turnover.

Coming to International business, the business fared better with the top line de-growing by 4% in constant currency terms, supported by a sturdy 10% constant currency growth in Bangladesh despite the state of lockdown in the country. The non-coconut oil portfolio in Bangladesh continues to grow in high double digits. For supporting the needs of health and hygiene, Marico Bangladesh has launched Mediker SafeLife Hand Sanitizer and Hand Wash.

We have also introduced Mediker SafeLife Veggie Wash, a fruit and vegetables cleanser. Further broadening of the personal care play, we launched Parachute Natural Shampoo in three variants -- Nourishing Care, Damage Repair and Anti Hair Fall.

Vietnam has been probably the least affected country in the world and business is gradually coming back to normal. Offtakes in discretionary personal care have been slow, but we are optimistic of a recovery going forward. On the other hand, the pandemic-led restrictions have further weakened the macros for MENA and South Africa. We remain cautious on this business in the near-term, but we will be aggressive on cost management to keep them afloat. We believe,

based on the current trends, the situation of decline is improving in these markets in June and July.

A&P spend was at 7.1% of sales as we rationalized spends in the discretionary portfolio and were able to attain the desired share of voice and impact more effectively. There was a visible shift in spend from non-media to media channels, a trend that will continue in the near-term. Spends in April were minimal given the circumstances, but we will continue to invest in growth in the core portfolios in light of improving traction during the rest of the year.

So to give you a perspective, the core portfolio spends in May and June were at 90% of last year levels - all the cuts were mostly in the discretionary part of the portfolio and to the non-media part of the portfolio. In addition, we also rationalized trade spends accordingly. Keeping a tight control on cost, fixed overheads were lower than last year excluding one-offs. As a result, EBITDA margin was up 300 basis points. With A&P and trade spends likely to perk up, we expect operating margins to be 20%-plus for the rest of the year.

To summarize, a larger trend that we have seen so far is that staples and select tailwind categories have done well, while discretionary FMCG has suffered. We saw some of them recovering in June. Steadily improving trends is testament to the inherent strength of our core franchises. We will build the hygiene portfolio with a significant acceleration in e-commerce and digital spends. In hygiene, we believe the key to success in this overcrowding category is differentiation and we will continue to build keeping this in mind. We expect the hygiene business to be shaping up into a Rs.80 crores to Rs.100 crores portfolio for us this year.

We also aim to make a quantum leap in foods and we will eye bigger tailwind categories with market share gain opportunities instead of getting into niches and creating categories. With more in the pipeline for this year, we expect to clock Rs.300 crores to Rs.350 crores of Foods business this year and then gun for Rs.500 crores business in Foods in 2021- 22.

Availability, agility, strong brands and rural distribution are going to be sources of competitive advantage. With a series of fresh lockdowns in various areas, Q2 may turn out to be more volatile than Q1, but we are geared up for times to come. We expect to post growth for balance of the year and will strive to end flattish at annual level vis-à-vis last year provided the COVID situation does not drastically worsen.

The crisis has presented opportunities for us to structurally reset certain costs with newer ways of working, including working from home, automation, smaller assortment. Further, with SKU rationalization and spend rationalization, we are effecting a huge cost transformation across the

company. The significant cost leverage generated by mildly bearish input costs and cost transformation shall be channelized into defending and gaining market share.

On the International front, while Bangladesh is on a firm footing, we will focus on the rest of the markets to steady the ship and broad base growth. We see these growth trends in most of these markets in July.

Our people continue to be one of the key building blocks in our journey. In these unconventional working conditions ensuring that motivation and engagement levels stay high has gained even more significance. In this direction, we have been working with our members through a variety of engagement sessions and facilitating medical and emotional wellbeing through professional aid.

We are pleased to be recognized amongst “India’s Five Best Work Places in FMCG” as per “Great Place To Work Institute” and featured in the “Top 25 Most Desirable Companies To Work For In India Across All Sectors.”

Before I conclude, I would like to say that we have been fairly resilient so far and we shall continue to adapt to the dynamic environment and any deep rooted changes that the pandemic may bring in, in consumer behavior.

I would like to congratulate the entire team, in particular the frontline members in sales, manufacturing and supply chain for the exceptional level of great agility and spirit of collaboration that they continue to exhibit. It is this passion that enables Marico to keep punching above its weight even in the face of unprecedented changes.

Lastly, I would like to use this forum to thank Vivek for his immense contribution to the Marico growth journey for the last 20 years. He has been a great colleague and has been instrumental in shaping great standards of transparency in investor communication, ethics and governance at Marico. We wish him all the best in his new assignment, and he leaves a legacy and a worthy successor in Pawan. Thank you for your patient listening and we are happy to take questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. We take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Saugata, my first question is on the hair oil consumption. What is the impact of work from home because a lot of Indians use hair oil for grooming, styling purpose also and although lockdown would have ended formally, but still work from home is continuing. And second, earlier Q1 was

supposed to be the start of recovery of VAHO. Unfortunately, COVID has happened. Now when do you see recovery in VAHO?

**Saugata Gupta:** First of all, I think as per the data, as I talked in my commentary, the offtake seems to have gone back into pre-COVID levels of December, January, February, in June. As regards, our consumer trends, what we are noticing is that only the premium part of the portfolio which is the non-sticky hair oil, which is used for post wash and used for setting and outdoor usage seems affected. Most of the in-home consumption or pre-wash consumption of hair oils has in fact increased. As regards VAHO recovery, we have grown VAHO in May and June and the July trend is also showing a growth.

**Abneesh Roy:** Saugata, one of the other hair oil companies said that in July, last 10-days has been quite tough because again lockdown sporadically has restarted. So, are you also seeing a similar trend?

**Saugata Gupta:** So I think the lockdown is not just for hair oil, all companies I think have got impacted. As I said, that Q2 will be a little trickier than Q1 in terms of far more localized lockdowns and therefore we need to be far more agile and resilient and ensure supply chain especially availability at the last mile. If you maintain the same kind of agility and the supply chain effectiveness, I think it is a question of whose brands are more available and therefore gain market share. And therefore, yes, you are right that Q2 will be a little more volatile than Q1.

**Abneesh Roy:** Saugata, one follow-up was that if you see there is some bit of seasonality in hair oil consumption in terms of weather impact, temperature or festival. Most other companies in Q1 results have given May, June comparison with May, June last year. You have given the comparison on a run rate basis. So wanted to understand, why run rate is a right method? And in terms of June, how do we compare to June of last year across the three sub-segments?

**Saugata Gupta:** I have already mentioned in the commentary, Abneesh, that May, June we have grown 3% versus last year. So I have given you that perspective. And June and July also we have grown in most of the categories. As regards run rate, as I explained, that the reason we have talked about run rate is, for us, Q2 and Q3 were slightly soft because of both external and internal reasons. And in Q4, as you know, there was COVID in the March quarter. Therefore, run rate is a better way of looking at it. Having said that, in May, June, we have grown 3% overall. And most of the portfolios have been growing other than the discretionary part of the portfolio where we continue to face challenges. As far as seasonality in hair oils is concerned, it is in cooling oil which has a seasonality in summer. But we do not participate in that category.

**Abneesh Roy:** My last question is on Saffola. So the base is much softer versus Q4; Q4 base was 18%, on which 25% growth was there. This time 3% was the base. You grew healthily at 16%. If I see other



food players, for example, biscuits in fact accelerated to 22% growth in Q1 versus flat in Q4. If you see even ITC Foods plus essentials grew at 34%. Just want to understand, Saffola, yes, impact of modern trade, impact of CSD you have called out. But are there any more reasons as to why the growth should slow down on a much softer base?

**Saugata Gupta:**

In Q4, there was a little bit of pantry loading. The base was not anything softer because you have to see the absolute volume and not the previous year growth alone. Hence, base alone does not matter. You have to see the run rate sequentially and therefore I would think that we could have hit 20%-plus. However, CSD, as you know was down 48% and modern trade for Saffola has a higher salience as well. In fact, the Saffola run rate, we have mentioned is around 114% of the last year's average run rate. So, even if you consider the base and Saffola growth, we are doing pretty well.

**Moderator:**

Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

**Manoj Menon:**

The first question is on Saffola, and Parachute – Saffola, where there is this opportunity where you are gaining from the work from home or people are staying at home, and Parachute, where the “Untouched By Hand” campaign, which is one of the rare campaign opportunities for you to actually present the brand in front of the consumer on ATL. The question here is, Saugata, in your assessment... I am using the word assessment because I am not sure whether realistically any market research is possible in the last three months, what is the household penetration increase? And how much let us say as an analyst, I should assume as the DCF value-accretive gains what you have got? What I am essentially trying to understand is in a normalized scenario, 12-months down the line, whatever benefit we are seeing will actually fade away. And there is a scenario that in 9-months' time, Saffola will actually decline in a normalized way of living. How do I think about the actual household penetration growth currently on these two brands?

**Saugata Gupta:**

Let me first handle the Parachute question. I think Parachute, everybody wants to use a brand like Parachute. It is a very aspirational brand for those who are either the consumers who are using local brands or the consumers who are moving from unbranded. I think the biggest points to be considered are the price premium and of course distribution. Now obviously, we have a distribution advantage, and we also are ensuring that all the cost savings are being channelized towards Parachute pricing, and our net pricing, if we have to give you a perspective, we have taken a 5% to 6% cut in Parachute pricing. It is not an absolute pricing, but through promotional pricing. Now, we believe that this is a great opportunity to permanently reset in terms of market share. See, you must realize that we compete with a lot of smaller players. Some other players also are interested maybe in gaining market share. This is an opportunity just not through Parachute, but for some of our flanker brands to significantly increase our market share. And

obviously some of the impact of that market share will be permanent. And as you know, also, the second thing which we are doing, we realized that with the COVID times and also a general dilution of wholesale as a channel, direct distribution, especially in rural is the way forward. And therefore, we believe that most of the market share gains will be permanent. As regards Saffola, it is two things which have played on. On one hand, a section of loyal consumers has obviously started using Saffola more because they are consuming more oil. But secondly, as I said that there has been a significant loss in volumes as well in CSD and modern trade. Now those two are actually going to neutralize once COVID situation normalizes. With the fundamental work which we have done in Saffola in the form of tweaking of the pricing, tweaking of the promotion, the new communication, the 10% embedded growth is here to stay.

**Manoj Menon:** So when you say 10%, that confidence comes from a certain visibility on whether it is higher usage or habits changing?

**Saugata Gupta:** No. 10%, that has to go in penetration. The higher usage, as I said, in a post-COVID world, if people go back, there are two things that will happen. One is obviously will the permanent shift happen to eating out? I am not so sure. Secondly, as I said that when normalization happens, we have definitely more advantage in modern trade and the fact that we also hope that CSD will come back to normal. So therefore, these two factors will neutralize each other. And therefore, there is no reason to believe that the entire Saffola growth that has happened is going to happen only because of some small set of consumers doing much more in home cooking. The penetration is also going to increase. As I said, that one of the factors on Saffola increasing volume growth which has exhibited itself in the previous year Q3, Q4 was the right pricing, right communication strategy. So penetration is also increasing. It is not that we are stagnant in penetration and the entire growth is only based on household consuming more Saffola which will vanish in a post-COVID world.

**Manoj Menon:** And allow me a lighter question. When I look at some of the new brands which you have launched, KeepSafe, House Protect, Travel Protect, you guys have done a brilliant job in terms of getting some generic words exactly as brands. Just curious to understand the thought process which went behind this?

**Saugata Gupta:** So I think, we were not in a position to extend all our existing brands into the category. So therefore when you try to establish a new brand quickly, if the brand name suggests the benefit, half of your job is done.

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

**Arnab Mitra:** Saugata, my question was on the trade pipeline. So I think you clearly mentioned that at the distributor level, there has been no upstocking after the destocking which happened. But given that you were not able to supply a lot of products in three, four weeks, the trade pipelines would have got depleted because offtakes kept happening through the end of March till April. So in that context, this 3%, 4% growth in May, June or let us say even in July, does it give you confidence that it can continue because there would have definitely been some restocking in the normal trade channel given the depletion which would have happened?

**Saugata Gupta:** There are two ways of looking at it. One, let's talk about servicing the existing outlets - that only would be some part of the VAHO portfolio and some Parachute, because Parachute we continue to sell especially in the South where the situation on COVID was pretty stable in April, May. If I was servicing 100 outlets regularly, we are now being able to service 70-75 outlets regularly. So I think we are unable to service 25% to 30% of the outlets regularly. Now there we have not been able to stock. So, I would say that we have managed to do this number with covering 70% of the outlets, covering with SKUs, which started out with 40% and we are working now with 70% to 80% SKUs. You have to also take into consideration that significant decline has happened in CSD and modern trade. So the GT growth is far higher than that 3%.

**Arnab Mitra:** The second question was on the launch of honey. So, if you could just talk through the rationale and how you kind of hope to differentiate versus the leading brand here? And also, given that you are launching in the middle of COVID, you do not have a lot of tools like modern trade visibility or promoter sampling and things like that. Is it a challenge to launch a completely new category in this environment or you think there are some actual positives which may help you in this COVID kind of a situation?

**Saugata Gupta:** I would not like to get into the strategy and differentiation. Let that play out in the market, but all I can tell you is that I think Saffola has a very strong health equity. And this category is on health and immunity and therefore, Saffola is a very strong brand. So therefore, anything on health and Saffola, I think, there is a credential. Number two is, as I said there is a shift in our approach to Foods. If we have taken on the ambition of having Rs.500 crores Foods business by the end of 2021-22, we need to look at categories which are tailwind, categories which have critical mass, categories with one single incumbent with high market share and then the rest being fragmented where Saffola or a strong brand can play with some differentiation. With modern trade, your concerns, I would not think so, because this is a known category. You need promoters and merchandisers perhaps when you are doing category creation.

**Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** My first question is on the VAHO portfolio. So just wanted to dig a little deeper on that. See, in VAHO, unlike some of our competition which is purely positioned on styling, our VAHO portfolio has a fair degree of nourishment with Parachute Advansed and Parachute Jasmine, etc. It is like these brands are a combination of nourishment and to some extent styling whereas Hair & Care is obviously almost completely styling, but that is a small part of your portfolio. I can understand that if people are not going outside the house, then obviously the demand for styling will be down, but the demand for nourishment is not affected by that, right? Just wanted to understand why we have such a big decline in this portfolio? And also you mentioned that May and June have not declined for VAHO. So for a 30% decline for the full quarter mathematically, April will have to be zero or even negative. What am I missing out in this?

**Saugata Gupta:** This also depends on last year April, May, June contribution. But we hardly sold in April. We started selling only in the last week of April. And as I said, that if you look at the annual run rate last year, we are at 94% of the annual run rate. And if you look at the quarterly growth rates of VAHO last year, it was 7% in Q1, 0% in Q2, minus 7% in Q3 and minus 11% in Q4, which ended up with a minus 2% for the full year. So therefore if you are at 94% of the run rate and for the full quarter, if I had to dive deeper into May and June it would have been significantly above 100% which includes some pipeline filling obviously. As regards the balance three quarters, the required run rate to even go flat is not much. So in that context, we started deteriorating in VAHO because of some of the issues - there were issues in two, three brands and there was also lack of participation in bottom of pyramid. Bottom of pyramid, we will be participating very aggressively. And as far as the two, three brands are concerned, I think two have already got relatively fixed and one is almost getting fixed. So, I think we are in a much better place in VAHO, but we have to show that result over the next two, three quarters. We should be flattish definitely to like slight growth maybe in Q2, but there should be definite chances of delivering growth in Q3 and Q4. But then let me first give you the results rather than telling you something right now.

**Percy Panthaki:** Secondly, just wanted to understand on the copra cycle and margins there. Do you think for the full year on account of copra there can be any gross margin expansion that you can see?

**Saugata Gupta:** Our endeavor will be to get a permanent reset in market share in Parachute and coconut oil. And therefore, any copra depletion in price and deflation, we will pass it in terms of pricing. I think we have given a broad idea about the margins. While whatever we have done in Q1, we will strive to deliver 20%-plus in the Q2, Q3, Q4 balance three quarters.

**Percy Panthaki:** Lastly, on the foods business, Rs.500 crores target by FY22, that seems to be a pretty ambitious target. You are currently at around Rs.200 crores, right?

- Saugata Gupta:** Last year base is Rs.200 crores. Our Q1 run rate is Rs.30-35 crores. So with this run rate, if we maintain it, that takes us to around Rs.270 crores, Rs.280 crores. We have launched honey. We might see some new launches in the next three months. So Rs. 300 crores is very much in reaching distance and then we will see how the year ends. So yes, it is ambitious, but we believe that there are two things - One is the shift in our strategy to chase tailwind large categories instead of trying to create niche categories. Saffola is an extremely strong brand. And I think in a post-COVID world and the current situation, in-home consumption and consumption of healthy food and healthy habits in terms of people wanting healthy snacking on in-home eating, will continue. We broke even in foods two years ago and we now know at least what is very-very critical in terms of managing supply chain and cost structure in foods.
- Percy Panthaki:** If you could just give some kind of a flavor, this Rs.500 crores, how much of that will be from products which were not present in FY20?
- Saugata Gupta:** As I said, the base, last year also grew 20%-plus. The oats are growing at 40% this quarter. So with the base portfolio getting itself to grow at 20%-30%, the base itself will be around Rs.300-350 crores by 2022.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** A couple of questions. So first, Saugata, if you can elaborate on two observations made in the 'Investor Update' that there is an accelerated upgradation in coconut oil from loose to branded and then in VAHO healthy traction has been observed in the bottom of the pyramid segment. So is this kind of counterintuitive to the macroeconomic environment that you are observing right now?
- Saugata Gupta:** People are wanting trusted, safe brands, and in the case of coconut oil, people want a trusted brand and with large companies having the agility to distribute and having a supply chain assurance, I think it is a source of competitive advantage. Since we compete with a lot of small players, their ability to distribute i.e. availability plus consumer pull, a combination of both plays out. In the case of bottom of pyramid in VAHO, it is a different issue where we believe that a significant amount of activity is happening at the bottom of pyramid in the case of, especially North and some parts of East of the country where there is a conversion that happens from loose mustard to value added hair oil. And because of organized players participating, that will accelerate that conversion. And this year, I believe that a lot of small players are going to struggle because of supply chain, working capital and distribution issues because they distribute a lot through wholesale.

- Tejas Shah:** So if I understood correctly, in coconut oil, it is largely consumer-led and in VAHO it could be supply-led as well which is leading to this consolidation?
- Saugata Gupta:** It will be a combination of both. Because the consumer has to get the right price and the brand has to be available. So as you know, Parachute, for example, the rural market share is 46% while urban market share is around 54%. So there is a huge opportunity, but our pricing has to be right and we have to distribute. People want a trusted brand, which is untouched by hand and hygienic.
- Tejas Shah:** Just one clarification. You mentioned that 90% of the portfolio gained market share. So is it on Nielsen basis or some other source because some other companies said that Nielsen data is not available for the quarter?
- Saugata Gupta:** Nielsen data is available for the quarter and so are the other bases. In both we are seeing gain in market share. What we quoted is a MAT number because obviously the quarter-on-quarter number might not be that stable. In quarter, our market share gains are slightly higher, but we do not want to take credit for that because the data might not be stable. So, we are quoting on a MAT basis when at least nine months get neutralized in some way. So we have checked from both sources and both sources are throwing the same results mostly. Just to conclude, I think the retail audit will be more stable this quarter going onwards.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.
- Vivek Maheshwari:** Few questions, Saugata. Firstly, in your opening remarks, you mentioned something like first quarter is 30% not just because of seasonality but also because you wanted to start on a positive note. I just did not understand what you exactly meant. Sorry.
- Saugata Gupta:** Last year, if you see, we had a very high growth in Q1. If you look at the volume growth, we grew 6% in Q1, 1% in Q2, minus 1% in Q3 and Q4 was minus 3%. So we started off with a very strong note. We had a very average Q2 and Q3 because of partly internal reasons, partly external reasons. And Q4 compared to the industry, we were better off, but still it was minus. As a result, 31% last year skew was heavy, towards Q1, which is not going to be the case this year because we have tackled a lot of internal issues. And number two, it gets into the base. So there will be a lower base in Q2, Q3 and Q4. That is what I meant.
- Vivek Maheshwari:** I know this question was asked to you about July and upstocking and you have clarified that. But my other question on that piece is, by your own admission, you say that second quarter can be highly volatile, then why would you not upstock? In our channel checks, July month has been a bit weak for the reasons of vertical lockdowns and all, but companies have tendencies to

actually stock up at the distributor level so that the market can still be fed because the grocery outlet should still be working. So what is your stance because fourth and first quarter, there has been a decent decline in your top line which means that there is a potential to push up inventory at the channel in case if the situation goes out of control in certain micro markets?

**Saugata Gupta:** When I talk about upstocking, I am talking of an overall quarter. So obviously, if there are some localized needs, we will upstock. Having said that also, as you know that in most of the metros, we are experimenting with a third-party supply chain directly supplying to outlets. So therefore that stocking does not happen necessarily at the distributor point. So professional logistics firms directly supply outlets in most of our metros.

**Vivek Maheshwari:** So that being the case, there will be enough inventories is what you are trying to say...?

**Saugata Gupta:** So that inventory will be more at that node rather than at the distributor node. And as you know, we struggled with our urban GTM ROI last year and that is one of the things we did. And I think COVID has accelerated it and therefore we believe that it is better, given the current situation, to have distributors who are happy with their ROIs rather than give credit and stock more. But should the need arise on stocking, I do not think we will be shying away from that. But overall, on the average on the quarter level, we will tend to neutralize it. I think the good thing that happens, Vivek, just to also clarify is, at least you are getting a 48-hour notice or 72-hour notice for a lockdown. So that is good enough time to actually upstock if necessary. But in general, this month, we might not want to keep it upstocked.

**Vivek Maheshwari:** Saugata, why is Bangladesh so different? Apologies, I do not know much about the landscape there. But if the lockdown was as stringent, why is the business cycle very different over there compared to India?

**Saugata Gupta:** I think we have done relatively well. But more than that, even when the lockdown was there, they allowed businesses to run. Most of the times I think the disruption in business was slightly low.

**Vivek Maheshwari:** Lastly, I know you will not comment about where you want to foray into. I just go back to Saffola. I remember I think the rice brand name was "Arise" a few years back, and there was Saffola Atta Mix. I do not know if those are still around, but do you think some of those innovations were perhaps early at that point of time and there is a case to look at those products?

**Saugata Gupta:** See, the problem with commodities and staples is that you do not get margins. So anything we want to enter into with Saffola, has to be margin-accretive to the base edible oil because those business models are based on high scale. So, I believe whether it is in immunity or some other

areas, there are enough categories, which are typically say Rs.600-700 crores with a single incumbent or opportunity for differentiation, I would rather do that. So one of the things as I said, we are deviating from is our fascination to create niches and growing multiple niches because category creation takes a lot of time and it does not give you scale. That is a significant shift we want to do in Foods. And we, I believe, were under leveraging the potential of the brand Saffola on anything which is healthy in foods and health also includes immunity.

**Vivek Maheshwari:** Just a follow-up on that. So I totally agree, but my simple question is, if that is the case, even if something is margin-dilutive, but if it has a positive contribution, what is the harm in leveraging Saffola brand and then building further from there?

**Saugata Gupta:** Just to take a case of rice since you have taken the example, rice is also not a level playing field. All the *basmatris* of the world might not be *basmati*. And those kind of commodities, we do not want to get into them. There are enough other categories where you can enjoy a better margin and scope for differentiation. You have to then get whole-heartedly into huge supply chain scale advantages which we might not have. It will take time to build that capability. If we get into branded staples, that requires huge back-end capability which might take time. We are looking at categories which are slightly more urban-centric, which have a slightly higher gross margin. So that is the kind of choice making we have done. Once we cross the Rs. 500 crore mark, maybe our framework will change and we will be ambitious enough to take on something more.

**Moderator:** Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

**Harit Kapoor:** So I have two questions. Firstly, on the distribution side, you emphasized on direct distribution as well as increasing on the rural side. So could you just talk a little bit about plans for FY21 in terms of where direct distribution is right now and how do you plan to move that forward into the next 12, 18 months especially on rural?

**Saugata Gupta:** There are two things we are doing. One is we are increasing the footprint in our direct distribution in terms of converting a lot of stockist towns and sub-stockist towns to direct. We are going state-by-state where we believe we are under-penetrated. Secondly, we also believe that wholesale as a channel, especially in urban too, it is going to reduce its saliency. Therefore, we have also ensured that in terms of our trade spends, we balance that. Now we are also playing with the BOP portfolio - we have Nihar Shanti Jasmine and we are going to play more aggressively in Sarson. We have Shanti Amla already at Rs. 10. Plus we have a couple of maybe one or two plans in the pipeline. So we believe now that we have a BOP portfolio, that also gives a kind of a fillip. There is a critical mass, earlier, it was only Shanti Amla and now we have three brands at least at a Rs.10 price point and maybe we want to add some more. That will give us a



significant kind of a critical mass of portfolio to go into. It is just not distribution but you need the portfolio.

**Harit Kapoor:** Just to add on to that, so for Q1, for example, how much would have rural now contributed to your number? I mean, I understand it was around that 35%-odd percent, but...

**Saugata Gupta:** Rural, in terms of run rate, would have added at least 1 or 2 percentage points in Q1, so both e-com and rural added a couple of percentage points in contribution in Q1.

**Harit Kapoor:** My second and last question was on the introduction of the shampoo in Bangladesh. So do we look at this more as an extension of your thought process on Saffola on India, that you are looking at non-niche but slightly larger opportunities and probably that could be a template for even personal care in India going forward or am I just reading too much into it?

**Saugata Gupta:** The way we look at it is that as a company, we believe that we do not want to get into red oceans. And when I define a red ocean, red ocean is a typically highly-penetrated category, dominated by three incumbents having 70%-to-80% market share. So, shampoo in India might not fit in into our strategy. The market structure in Bangladesh is different.

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

**Aditya Soman:** So my first question is what is the sort of contribution from e-commerce or to what extent have the losses in modern trade been offset by e-commerce given that we have seen some of the other companies seeing quite a significant acceleration in e-commerce?

**Saugata Gupta:** So e-commerce, last year was 5%, this quarter has been 7%. But we believe that e-commerce has the potential to significantly grow. I think there are two opportunities which we are looking at. One, is that while discretionary categories are impacted overall, we believe with digital spends and e-commerce, there is still a significant portion of people who are going to buy through e-commerce. Also, a significant amount of personal care is also being bought from chemists because beauty outlets are closed. Secondly, if you look at the modern trade losses, there are two kinds of consumers who come to modern trade. One is a consumer who has switched to e-commerce. And this is the consumer who buys a lot of assortment and they are the top end consumers. There is also a significant value seeking consumer who comes to certain modern trade channels. Now they are not necessarily buying through e-commerce, they might be buying through general trade. And therefore, the task is to provide that same value in general trade to capture that consumer.

- Aditya Soman:** Just a follow-up on that. So when we have seen a sort of deterioration in modern trade and CSD, could that also mean that some of the competitive intensity has been lower given that especially for brands like Saffola you see a lot of competition and the consumers can actually compare pricing on the shelf or similarly do so in e-commerce, would that be a fair assessment?
- Saugata Gupta:** Actually, Saffola has suffered because Saffola had a far higher saliency in modern trade. Modern trade share of Saffola is far higher than in general trade.
- Aditya Soman:** In terms of the overall size of SKUs, you had indicated last time that there was some increase in SKU size as you have prioritized larger packs. Has this now normalized in Q1 or are you still seeing larger SKUs for Saffola in particular?
- Saugata Gupta:** So we started normalizing towards May, June. If you look at May and June, we went up to 70% of the SKUs. By the end of June, we might have gone up to 90%. But we are looking at SKU rationalization again to make the supply chain far more agile because we believe that as I talked about that, Q2 may continue to be volatile. So that SKU rationalization will continue. Having said that, we have now realized that we will have to focus on the small pack given the consumer outlay and the consumer disposable income is challenged. So, we will look at more of the tail of SKUs across categories especially discretionary, but in the case of most of the core, we will continue to manufacture all SKUs.
- Aditya Soman:** On Saffola, any sort of intention to drive more promotions or take price cuts, given that, I think, if I compare it online or even in GT, I see that some of your brands are still priced higher than competition?
- Saugata Gupta:** Saffola is a brand which people aspire to buy. We will continue to provide consumer value. And should there be a need for pricing, we will do that. But we shall not do something where the volume growth is not sustainable because we believe in sustainable profitable growth. And therefore, especially now because people are wanting to go for a trusted brand, we have to make it affordable. So I think end consumer price is something we will look at. So if you look at Saffola in the last two years, we have actually taken significant cuts in end consumer price by rationalizing all promotion and trade spend. So, that will be the direction we will continue to go in.
- Moderator:** Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.
- Kunal Vora:** Can you provide some more insights about your new brands KeepSafe, House Protect, etc. Have these products been developed in-house and how are you looking to promote these brands - Will it be digital only or would you also look to launch them in modern trade?

**Saugata Gupta:** So just to give a broad picture, Veggie Clean and Sanitizer are launched across all channels. As far as House Protect and Travel Protect and KeepSafe are concerned, right now, it will be more expected to be digital in terms of e-com and modern trade. But we will see as it pans out. But, as far as GT is concerned, we have started distributing far more of Veggie Clean and Sanitizer. We have to look at more differentiated spaces because everybody has launched sanitizers. I think it is important that we have also launched. It has contributed to 1.5% of the entire portfolio. But we would like to look at more differentiated spaces and just not tactically participate in the category.

**Kunal Vora:** Are most of these products developed in-house?

**Saugata Gupta:** Yes, they are in-house.

**Kunal Vora:** Regarding the medium-term growth aspiration of 13% to 15%, do you believe there is a need to revise it downwards considering the state of the economy and low inflation, etc.? Do you think it can be achieved anytime soon?

**Saugata Gupta:** I gave a 3-5 year horizon number. But yes, you are right, if the COVID situation continues, it all depends on what is the bounce back that happens in 2021-22 in terms of when is the vaccine developed, when does normalization come and the economy bounces back. Should there be a delay, obviously, there could be a call to revise that number.

**Moderator:** Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

**Amit Sinha:** My first question is on cost savings part. You mentioned that you have initiated aggressive cost savings both in India and the international business. So just wanted to understand what are the areas that you are working on? And is there any target which you are working with for this year?

**Saugata Gupta:** So just to give you a perspective, there are no holy cows to cost except on three or four things. We will not compromise on safety. At least in India, we have committed to protect jobs and salaries. We will continue to invest behind leadership capability and innovation. Otherwise, everything else is up for grabs. We do have a target. And it is reasonably significant, and we hope to channelize some of it. Having said that, I think in the international markets, however, the cost transformation is far more structural, which also may include the operating model in some of the markets. While in India, while we are not tinkering with operating model, there are enough cost levers. And some of them will be, I think, permanent resets, for example, whether it is some people working from home, some things getting on permanent automation, go-to-market as also we have looked at a lot of things in marketing spends. So, I think, COVID or otherwise has given us an opportunity to question every cost and look at a reset in terms of costs.

And we believe that a significant portion will be ploughed back towards consumer pricing and investment behind growth, whether it is Foods or Hygiene and behind the core.

**Amit Sinha:** So basically, at this point of time, you are not giving any target or anything like that? Some of the companies, they indicate. So that is why I asked.

**Saugata Gupta:** We do have a target and we have a project name. But we do not want to talk about it right now.

**Amit Sinha:** My second question is on your A&P spend. Just wanted to understand how should we look at it, especially this year, given that some of the non-media-related spends this year will anyways be significantly less? So I mean, from a perspective that last year you spent around 10% of sales in A&P, this year, that number should be significantly low?

**Saugata Gupta:** So first, let me give you a flavor for the Q1 A&P. It is important because we have not done sharp squeeze in spends or something like that, but what we have done is very simple. We did not advertise largely in April other than a little bit in Foods. That takes out straight away 33%. And as you know, April is also otherwise very expensive and cluttered because of the historic IPL that is there. So we advertised core, we actually spent up to 80%-to-90%, so we did not dilute on core. And we cut spends on discretionary very, very significantly. And also a lot of spend was cut was with regard to visibility, with regard to merchandising, with regard to a lot of A&P spends on promoters and experienced marketing out of home and print. Now you are absolutely right, some of them will not come back this year. I do not see promoters in modern trade coming because of social distancing. I do not need too much merchandising because of social distancing. So, some of it will be permanent knock off. So, if you put everything together, I would think there would be 100 to 150 basis points reduction for the balance year because it will not be so significant as the cuts in Q1. So the balance year, you can see 100 to 150 basis points reduction. Having said that, the way we are doing it, there is no reduction in share of voice or in terms of impact in the core. Now, if the new products, which is Hygiene and Foods, require investment and traction, we should be able to be prepared to spend. That is why I am giving you a number of 100 to 150 points depending on how things pan out.

**Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

**Karthik Chellappa:** Two questions. On the Parachute coconut oil in the quarter, have you seen any conspicuous shift in the share of 50 ml versus 100 ml versus 200 ml versus the normal run rate?

- Saugata Gupta:** So to be very frank, we were actually focusing only on large packs in the first two months because of our production constraint. Having said that, we are now seeing a significant traction in the small pack.
- Karthik Chellappa:** If that is the case, is there not a risk of some sort of volume slippage in the following quarters because if people have opted off the 300 ml bottles, the frequency of visits will just come down?
- Saugata Gupta:** You must also see the distribution in April was also very, very unstable. We started our full distribution in May and June.
- Karthik Chellappa:** How much of the expansion in margins in international markets is just explained by geographical mix that Bangladesh did better than the rest?
- Saugata Gupta:** It is a combination of that and cost structure. We are continuing to work on cost structure in all the rest of the markets. In fact, currently, there is a cost transformation exercise. As I explained, unlike India, where we have committed that we are not changing the operating model, we are looking at everything in the non-Bangladesh markets and Bangladesh also, we are looking at the basic cost structure. So, there are cost transformation exercises happening as we speak in all the international markets.
- Moderator:** Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.
- Nikunj Doshi:** The one thing I wanted to ask was that last year we introduced new premium products. So, what are we doing to that portfolio -- are we continuing, or we are putting it on a back burner for some time? And secondly, on these Hygiene products, will they be margin-accretive?
- Saugata Gupta:** So first, as far as the personal care products are concerned, as I said, we will continue to support them in the digital space and we will wait for the market to normalize. It is not that we are abandoning that category. And within personal care also, we believe that there is enough opportunity in two brands - the LUP of male grooming, and, of course, Livon because there is a lot of do-it-yourself (DIY) trend, and Livon gives you salon finish hair at home. So therefore, we are not completely abandoning. But having said that, the focus is much more on selling through e-commerce because that consumer still does not have an issue on disposable income and will continue to consume it. Our medium-term aspiration on premiumisation of the portfolio stays intact. Having said that, it is not just a consumer thing, it is also complexity in the supply chain, it is complexity in the sales system. And therefore, given it is a far more uphill climb and we have a very, very robust core which is doing well and also Health and Hygiene and Foods, we thought, given management bandwidth, especially in the current situation being limited, we

are just keeping it in abeyance for the rest of the channels. And as long as situation normalizes, people will want to look good. And therefore there is no reason why we will not start investing behind them. But this year definitely we are not going to significantly invest behind them.

**Nikunj Doshi:**

But Coco Soul and FITTIFY range of products?

**Saugata Gupta:**

So Coco Soul, again, we have sharply rationalized the portfolio as this quarter we could not manufacture because they were all smaller 3ps. We have sharply rationalized the portfolio into three or four categories, for example, virgin coconut oil, green coffee and protein shake. These three definitely have links and therefore the rest of the things, we are not going to focus on. And these three, obviously, because there is health, there is immunity associated with it, we will start focusing. In fact, as we speak, we have already started manufacturing and selling. We are back to pre-COVID levels in around July itself. But the rest of the portfolio, we had those small, small initiatives, we have all cut it down because right now, the system, the complexity, and the bandwidth does not make sense. With these three, we are going to definitely grow and we will do better numbers than last year what we did with all the 10 of 11 sub-categories we had.

**Nikunj Doshi:**

Hygiene portfolio, do you think it is margin-accretive?

**Saugata Gupta:**

Hygiene portfolio makes reasonably decent margin. And if you look at it, right now, because of the demand, other than of course, Veggie Clean, which is a new category creation, you do not need too much A&P behind those categories at this point in time.

**Moderator:**

Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

**K Sambamoorthy:**

Saugata, you always mentioned that Foods is a relatively lower margin category. So, what gives you the confidence that you would be able to do 20%-plus margins for the full year given that Foods is expected to grow so sharply? And my second question is with Rs.300-350 crores of sales likely targeted in the current year and Rs. 500 crores by 2021-22, what would be the improvement in the Foods margins over this period?

**Saugata Gupta:**

I cannot get into that details on Foods much. All I can assure you is that you have to look at Foods from the lens of Saffola+. Anything which we are launching in Foods does make more margins than edible oil. Number two, as you know, that Foods' A&P requirement is lower than personal care. And even with Rs.300 crores plus, it is around less than 5% of the Marico India turnover. So I do not think even that Rs.100 crores incremental in Foods, if it happens this year, is going to swing the margin at all. And the categories we are looking at make decent margin.

And that is the reason, in reply to the earlier question, I spoke that we might not be interested in basic branded staples which are commodities in some way.

**K Sambamoorthy:** Where are we on the copra cycle and what is the outlook over the next year, year and a half?

**Saugata Gupta:** So we have entered a deflationary part, but it is a mild deflation. And usually, it is an 18 to 24-months cycle. Earlier, we thought it will be flattish to slightly positive, but we think it will be slightly deflationary. For us, slight deflation is much better than a deep deflation because historically, when there is a huge correction in copra prices, our volumes are impacted. So this is perfect for us.

**Moderator:** Thank you. The next question is from the line of Vishal Punmiya from Nirmal Bang. Please go ahead.

**Vishal Punmiya:** So my first question is on the realization in the domestic business. So on a QoQ basis, the difference between the value and the volume is slightly better this quarter both in Parachute and VAHO. You mentioned that the trade spends were rationalized during the quarter. Is that the only reason for that? And is the trade spend now normalized going into Q2? And secondly, you mentioned that there was a huge focus on increasing your direct reach during the quarter. What would be the new number for direct reach? You mentioned that it was around 0.9 million at the end of FY20. Has that increased very sharply now?

**Saugata Gupta:** First, let me just answer your first question. Some of it is obviously trade spends, some of it could also be in Parachute - we might have sold slightly larger packs. So it is a combination of a little bit of mix, but mostly largely that realization is because of trade spends. Obviously, we believe that going in Q2, while we have increased the trade spend, it might not have gone back to original levels because I think still there is a volatility in the system. There is distribution advantage for a person who is doing direct distribution especially when you are competing with smaller players. So there would be some rationalization of trade spends, including some of these, which are linked to some programs in retail outlets because I think today, they are just stocking for offtake, they are not stocking because there is a promotion or BTL (below the line) discount being given and they are overstocking. Today, most of the retail outlets in GT are in the auto replenishment mode. As regards direct distribution, we are into 900,000 to 1 million outlets. What I spoke to you about, is this initiative started in the second half of the last year in terms of improving our quality of rural distribution, including wherever we have indirect to direct. So, it is more a long-term number. So it is not that this quarter direct distribution increased. In fact, as I said, that at any point in time, when we were not able to service, on an average, we have been able to actually service 70% of our outlets this quarter. So this quarter especially in urban pockets where the COVID situation was high, I do not think we are able to reach that original direct

distribution. Having said that, we have started the rural distribution. And over a one-year period, if you take say, since second half of last year and then you extend it to the full year, we believe that there will be a significant increase in direct distribution especially in rural.

**Vishal Punmiya:**

I just wanted your thoughts on the implementation of technology at the distributor level. So, we have been hearing from the channel that because of the order taking tool or using technology for taking orders at the distributor level, they have been seeing a good amount of efficiencies. If you can highlight what kind of cost efficiency you can see because of this order taking? And because of the current situation, the implementation could have only picked up. So, if you can just highlight or give your thoughts on this front?

**Saugata Gupta:**

Firstly, if you look at it, our first endeavor was to ensure that we do not lose orders. So one of the things we are looking at, is tele-calling. And as you know that also, physically, we are not able to service all outlets. Number two, because of social distancing and other safety requirements, the average productivity of a direct order taking will suffer. And of course, people availability was the issue. So, we are looking at tele-calling and other automation means to actually drive order taking. Our first endeavor is to get growth and not lose orders. Obviously, over the long term, this efficiency will happen. I do not think this efficiency will happen in the short term. In fact, in the short term, because of COVID, there are a lot of costs that have got added to the system, which we are ensuring because for us availability is equal to share. So those efficiencies that will happen will be long term. However, this has accelerated the GTM transformation and automation transformation in GT, urban GT especially. Something which would have happened in two to three years, would happen perhaps in one year.

**Vishal Punmiya:**

But do you not think that this could also lead to less sales people at the distributor level which could basically reduce their cost and in turn give you the cost benefits?

**Saugata Gupta:**

I think the question is that at this point in time, our focus is to ensure that we do not lose orders and have effective coverage. Over the medium to long term, it will happen, definitely.

**Moderator:**

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

**Abneesh Roy:**

Just a few follow-ups. On the media, how is the online advertising in Q1? And do you see that immediately reversing back to the normal now in Q2 and Q3 wherein television again goes back to the earlier larger number?

**Saugata Gupta:**

We continued to advertise in television in May, June. Obviously, depending on the media and the consumption habits of people, the media mix would have changed. But some of the online consumptions will be a permanent reset, some will be not. So, depending on how the situation



pans out, our mix will change. Having said that, I think still we have a large set of mass brands where television advertising will continue to hold sway.

**Abneesh Roy:** Saugata, on innovation, I had one question. Earlier, you had said that now you will do fewer and bigger innovations. Now, you have done five innovations in India in the last few months, of course, some are based on the COVID opportunity. So, is there any change to that strategy of fewer and bigger innovations? So doing just a few innovations, backing that by ad spends - is there any change to that or do you want to do more innovations and let some of them succeed and then you will decide on advertising?

**Saugata Gupta:** So some will be big bets, which will be supported by A&P. Some are range. So as I said that maybe in Health and Hygiene, some will be only sold through digital and not necessarily through the mass. So it will be depending on that. When I talked about a few things, I think there could be fewer big bets rather than having several with all sucking up advertising spends.

**Abneesh Roy:** And, Saugata, last question on rationalization. Unilever also called out in India that they will rationalize SKUs. You actually went into more detail, wherein you said because currently personal products are discretionary, the demand is low. In the short term, you will be cutting down on SKUs. But is there something more structural there? Because in COVID, you have learnt that most of the sales are coming from lesser number of SKUs. So after say the discretionary comes back, will you go back to that large number of SKUs?

**Saugata Gupta:** Obviously there is a hidden cost of complexity. When you are forced to do something, there could be a permanent reset because as far as SKUs are concerned, there is a significant pareto. And what happens is, during these times, it becomes much more easy to do change management in terms of people eliminating SKUs. And I believe some part of it will be permanent because there is a magic in simplicity, there is a huge cost saving in simplicity. And other thing that happens is when you have a huge number of SKUs, these tail end SKUs actually lead to a larger amount of write-offs because this is where the forecasting accuracy is wrong, these are where your fill rates are bad, therefore, I think there is a huge case for doing simple automated business and COVID has taught you that you can work with 50% people operate at 90% capacity. So, there are a lot of learnings from COVID to become far more automated and agile and simple.

**Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the Management for closing comments.

**Vivek KarveShah:** Thank you, so much. Dear investors and analysts, we thank you for joining today's call. Given the unprecedented times, we are reasonably happy with what we could deliver in the first quarter. We hope that the quarters ahead get safer and better. However, in the near-term, turbulence



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cannot be avoided. And we are committed to wade through these muddy waters and deliver growth for the balance of the year on the back of our strong brands, and the never say die attitude of Mariconians. Till we meet again next quarter, stay safe and take care. Good night.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, we conclude today's conference. Thank you for joining. You may now disconnect your lines.

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*(This document has been edited for readability)*