



“Bajaj Corp Ltd. Earnings Conference Call”

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Moderator Ladies and gentleman good day and welcome to the Bajaj Corp Conference Call hosted by Kotak Institutional Equities. As a reminder for the duration of this conference all participants' lines will be in the listen only-mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Amrita Basu from Kotak Institutional Equities. Thank you and over to you ma'am.

Amrita Basu On behalf of Kotak Institutional Equities, I welcome all of you to this Bajaj Corp Q4 FY11 Earnings Conference Call. I would like to welcome the Bajaj Corp team Mr. Sumit Malhotra – Director, Sales & Marketing; Mr. Dilip Maloo – CFO and Vice President, Finance; Narayan Raman – President, Corporate and Investor Relations. I will now handover the call to Mr. Sumit Malhotra to discuss the recently announced earnings.

Sumit Malhotra Like Amrita said we have with us Mr. Maloo, who is the head and CFO and Head Finance, we also have Narayan Raman, who is the President, Corporate and Investor Relations.

We have announced the Q4 results and we closed the Q4 with sales of Rs. 109.8 crores and a PAT of Rs. 26.88 crores. This translates to a turnover growth of 27.6% quarter on quarter. And a decline in PAT of 1.94, this PAT decline basically because of the write-off of the IPO expenses to the tune of 6.31 crores during the quarter. If you look at PBT before exceptional item it is 20%. We have also declared the annual results and both the results and the investors presentations are already on the stock exchange site and our website. For the financial year 2010-2011 the turnover has shown a 21.76% increase and it's now is Rs. 358.67 crores. The PBT of Profit, Before Tax before exceptional items is Rs. 124 crores which is a growth of 22.15%. As we would know we have written-off the complete IPO expenses of 18.95 crores during the last three quarters as result of this PAT has come down to Rs. 84.1 crores which is more or less equal to that of the previous year.

The other significant announcement is that the board has announced a 190% dividend payout at Rs. 9.50 per share. This is approximately one third of the profit, the profit generated by business during the financial year 11. One of our main raw materials is light liquid paraffin is as you know is the derivative of crude and hence it's linked directly with the price of crude. This has seen a major turn in the last four months and the average price of LPP which was Rs. 66.84 per kg in the third quarter, when the Rs. 75.20 per kg in the fourth quarter. At the highest level we took a conscious decision not to raise MRP of our products in the last quarter. The intension was basically to drive volumes. As a result of this and we have been vindicated in this and the Q4 volumes have risen by 21%, by far the highest of any hair oil in the fourth quarter against full year average volume growth of 14.9%. The EBIDTA margin did go down as a result, but it was still a healthy 28.6% for the Q4.

Our lead brand which is Bajaj Almond Drops had continued to do well and now has a market share of 53% in value and 49.1% in volume for the whole year 2010-2011 that is increased market share. If you look at that for March 2011 it is 54.1% by value and 50.2% by volume. This is basically because of increase in advertising and distribution, the product is now available in around 19.5 lakhs outlets all over the country with a huge distributor base of 5700. The rural penetration of our products also is growing on the back low unit price SKUs, which are basically the 3 ml sachet and the 20 ml at Rs. 10. These two are faster flowing SKUs what is really heartening is that the third fastest growing SKUs is actually the 300 ml, which shows that the brand loyalty for our products continues and therefore we are very happy with what's happening with our brand.

Lastly I would like to inform the calls investors when the people who have logged in, the three important events have happened post 31st of March, which I believe all of you should know. The first is that we have taken a price increase in our lead brand Almond Drops, the price of 100 ml is now Rs.46 vis-à-vis Rs. 42 which was in March. If you normalize it , it is an 8.5% price increase for the brand. This price increase should actually see us through LLP prices still around Rs. 90 per kg. But in fact if crude continues to rise (hopefully not, if you read Goldman Sachs reports) but if it does we might have to take a price increase if there is prices go beyond Rs. 90 per kg here.

Secondly as stated in our RSP we have started launching new products, the first new product is called Kailash Parbat and is a cooling oil. The launch actually started on Gudi Padwa day which is 4th of May and we will distribute nationally by mid-May. The product basically is differentiated from the existing cooling oil in three ways, one is the USP or the Unique Selling Proposition is one of Chandan which is in India recognized as a natural coolant. Second, it has got almonds in it which is an addition of nutrient to a cooling oil which is never been done. And the third is the color is not red, if the color of sandalwood oil. We believe that this product should increase our sales and look at better volume. The will not contribute to the bottomline in the first year because the first year would be negative on the bottom line. The third is the launch of the 500 ml SKU of Bajaj Almond Drops, this is very, very important because this is the first time that we launched a product in PET. There has been a lot of demands for the 500 ml Almond Drops SKU all over the country especially in the North India, we were constraint not to launch it because if you launched it in a glass bottle it would have been around more than 1 kilo in weight. And therefore after concentrated consumer groups in which the loyal users of Almond Drops said that they were open to the product being in PET, we have launched it and I think the success of this family pack will determine the future of packaging in Almond Drops. And I think I will now open the flow to questions.

Moderator

The first question is from the line of Jayshree D from Pari Washington, please go ahead.

Jayshree D

I have a couple of question actually what was your F10 sales number because as per your IPO document your F10 sales number is about 330 crores.

Sumit Malhotra What is I didn't really get you?

Jayshree D Yes that's right. As per IPO document the F10 sales is about 330 crores whereas you are showing the 294.58 crores here. What was F10 sales number?

Sumit Malhotra That was the inclusive of sales tax and now we have reduce that sales tax amount from both side.

Jayshree D Okay. That adjusted number, this is adjusted number without sales tax.

Sumit Malhotra Yes, without sales tax you can say.

Jayshree D Okay, that's helpful. And then the next question is if you could just give me a breakup of your volume in terms of kilo liters because you are given it in terms of cases here if you could just give me breakup for the volume in terms of kiloliters that will be very helpful for us?

Sumit Malhotra Jayshree, we actually monitor in terms of cases.

Jayshree D Okay.

Sumit Malhotra In each cases is 4.5 liters.

Jayshree D One case is equal to?

Sumit Malhotra 4.5 liters.

Jayshree D Okay, that's fine.

Sumit Malhotra Right. So that is financial is F11 we have done 29.9 lakh or 2.99 million cases.

Jayshree D That's right, okay I have got the number here in the presentation.

Sumit Malhotra Yes, it' there in the presentation.

Jayshree D It's 4.5 liters, right?

Sumit Malhotra 4.5 liters, yeah.

Jayshree D Okay, that's fine.

Dilip Maloo If you want to have the liters, then it is 12000 tonnes.

Jayshree D No, I convert that's okay, I have got the numbers you have given me all the numbers pertaining to the Almond Drops and then Bajaj Brahmi Amla and some of the numbers are there in the presentation, I will convert it from there.

- Sumit Malhotra** Just remember, this 4.5 is for a main brand which is Almond Drops, but the other please multiply by 6 liters per cases.
- Jayshree D** 6 liters?
- Sumit Malhotra** the case is much larger.
- Jayshree D** Okay, that's fine. Okay.
- Moderator** Our next question is from the line of Abneesh Roy from Edelweiss Securities, please go ahead.
- Abneesh Rai** I wanted to get more clarity on the cooling oil foray, how do you see this segment of the market panning out because you are launching a differentiated product, so I wanted to understand your own study of how big the market can be whether it will take share from the existing case or will it create a new segment altogether?
- Sumit Malhotra** Abneesh, thanks for asking that question because I didn't want to put it in the initial thing, but I think it's pertinent question. Just to give you a background, what is happened over the years in cooling oil is its grown really very, very well, even this year the value growth is 15.5% which is second only to light hair oil growth, right. The segment is now become around Rs. 690 crores just to give you a benchmark like liquid, light hair oils are at Rs. 832 and heavy Amla is Rs. 879 crores these are ORG off take figures. So it's a big segment it's basically a segment cornered by just one national player which is Navratna by Emami right. Also Navratna has more or less stabilized or its marginally decreasing over the last three years. It got 39% of the market, right. The second biggest guy is a brand called Himgange who is at 29% by value. Now just remember Himgange is only present in four states all over India to a major extend. So actually fighting one national player and that also at 39% market share unlike let's say if I were to fight Dabur Amla who is got a 67% market share or we who have got 54% market share in light hair oil market. So yes there is competition there will always be competition in FMCG. But, the competition is one brand basically currently and we are fighting that. We have also learned over the years that unless you have a differentiated product you cannot hope to knockout the market leader, its happened everywhere, its happened in Amla, it's happened with us it's happened in cooling oil where all the players in the hair oil segment have tried and failed. But the differentiation that we are trying to bring is the sandal part of it and the color and perfume. Research actually shows that even though the cooling oil is seen as a red colored stinky product, but the consumers do not want that. So we are hoping to tap into that segment and get a foothold initially and that you could feel like, you are seeing an Almond category being created you could see a sandalwood category created in hair oil.
- Abneesh Rai** And how does it compare in terms of pricing with the existing players in cooling oil?
- Sumit Malhotra** Thing what happens is when we launched it all of us at the same at Rs. 48 for 100 ml this last week Navratna has taken a price increase to RS. 50 for 100 ml. Now this is exceptional

because Navratna and Emami never take the price increase during season. The strategy is that once the season starts ending in August-September, they take a price increase so they have six months for the price increase to get stabilized there. So this time because of the cost pressures they had to take a price increase.

Abneesh Roy So you also plan to bridge the gap or...

Sumit Malhotra No.

Abneesh Roy And you will also focus on some of the key states like four states or will it be a PAN India?

Sumit Malhotra It's a PAN India because we have much better distribution than Emami in around 70% of the states of India. So I think it would be quite detrimental only when the UP, Bihar and what other people did they are trying to fight Himgange and Navratna. So we are going national launch will be complete by mid May.

Abneesh Roy I wanted to understand the new initiative which you have done in terms of 500 ml, new packaging Pet you are using, have you tried this earlier anytime and any feedback you have on that?

Sumit Malhotra We have never tried it in terms of actual marketing it. We have done focus groups like I think I remember having told you every two years we do a focus group on seeing whether we can change from glass to Pet this is a first time we have got some positive indication and therefore we are trying a new SKU, all are the existing SKUs remain the same. So we are not playing around with the existing SKUs. The moment we do please remember your packaging material cost of Pet vs glass bottle versus pet is 1:2. so there is a significant savings if we can succeed here.

Abneesh Rai So for the consumer price per ml is half or what it is for a glass SKU?

Sumit Malhotra Not really, we haven't changed the price. For example 300 ml is at Rs. 100.

Abneesh Rai Yes

Sumit Malhotra Right. And 500 is Rs. 150, ideally it should have been **Rs.** 160 we gave a Rs. 10 discount. But that's not that because of the change and packaging we are not passing on the benefit yet to the consumer.

Abneesh Rai Okay. As lastly how do you see demand in the next year, you see times are slowing down and some of the SMP segment we have seen some times of slowing down because of food inflation because of general inflation. I wanted to understand your view on this?

Sumit Malhotra I really don't see it happening in hair oil and if you notice what is happened in the second half of this year hair oils have actually heated up. We have ended the year with the value growth of

15%, total hair oil. And this is contrary to what you would believe that inflation happens. The only reason I say this is possible and this would continuous please remember that hair oil form are very, very small part of your monthly consumption and therefore even in the price of a hair oil goes up by Rs. 2 net effect on the whole month is Rs. 2 because the bottle normally lasts the whole month. Whereas if it's went up of milk, Rs. 2 build up for milk you are talking of something like Rs. 4 per day that's why you normally clear on this consumption of this food item first and then the branded consumer items. So to answer your first question directly I don't see a slowing down but that's having said that crude at this level if it's keeps on rising like this god knows what is going to happen.

Abneesh Roy Lastly some of the competing hair oil segment like Copra has been unprecedented inflation, so have we seen some help from their because our volume was in this quarter has been good. And in the past ever have you seen this kind of a smaller gap between the other hair oils and your hair oil. So any insight from there in the past we can project.

Sumit Malhotra As far as I remember I have never seen this small a gap because normally crude went on going up and Copra was more or less stable I won't say 100% stable but this kind of increase is totally unprecedented and if you read the articles coming out over the last month is that Copra prices continue to rise. That's all Copra but yet it has helped us because if you look at the hair oil we break oils into this marketing lingo "segments" which are coconut, heavy Amla, light Amla, coolings. Actually a consumer doesn't see it he or she goes to buy the hair oil there. Once he or she feels that her coconut oil has moved up from let's say Rs. 21 to Rs. 27. He is open to switch and that is what is help both Dabur, Amla, which was more or less flat in FY10 has jumped enormously so that growth is something like 15%, 16% without raising prices. So have we seen some excellent growth during the year. So I think the rising of prices of Copra is helped the value added hair oils grow or much faster in volume.

Abneesh Rai But to make it easier to understand what is the gap currently for a consumer per ml and what has been the normal gap, average gap say about a last five years broadly?

Sumit Malhotra See, if you go average gap per ml would that been see, there were at 21 we were 42. Before this that they were 18 and we were 40.

Abneesh Rai Okay.

Sumit Malhotra Right, that's for 100 ml, so it's point you can convert these into paisa there.

Abneesh Rai Okay.

Sumit Malhotra That for discussed and at that point of time before price increase Parachute was 27 paisa/ml and we were 42 paisa/ml and Dabur Amla was 36 paisa. So what was 100% initially for us versus them has come down to something like 60%.

Abneesh Rai Okay. And Dabur Amla?

Sumit Malhotra Dabur Amla is 36 paisa/ml versus 27 so just 9 paisa gap between both of them.

Abneesh Roy No, Dabur Amla has not changed I think Amla categories hasn't changed.

Sumit Malhotra Hasn't changed meaning pricing.

Abneesh Roy Yeah, pricing.

Sumit Malhotra No, they haven't. They have raised it in April

Abneesh Roy Okay.

Sumit Malhotra Still both of us held our places. So while the market leader was constantly having to raise prices both of the number two and number three which is Dabur and us we were holding price. Just one thing I think, I should point out in terms of value Amla is now around, Rs. 879 crores whereas we are Rs. 833 crores light oil, so very soon you should see light and heavy being the same here which is a significant thing that might come.

Abneesh Rai But cooling oil do you think will it grow faster with so many new players entering there?

Sumit Malhotra Yes, I do. with the competition, both the awareness because for example let's say current spends in cooling oil would be around 20 crores per annum right, thus by people entering this spend itself will increase dramatically and therefore awareness and therefore trial of cooling oil will also exceed.

Abneesh Roy And what's the cooling oil price similar to what you said to Parachute, Dabur and?

Sumit Malhotra 27.

Abneesh Roy 37.

Sumit Malhotra 27 for 100 ml or 27 paisa for per ml.

Abneesh Rai Cooling oil.

Sumit Malhotra Is parachute and 48 paisa per 100 ml our cooling oil.

Moderator Our next question is from the line of Anirudh Joshi from Bajaj Corp, please go ahead.

Anirudh Joshi In initial speech here that you have taken price hike, sir can you just re-say price hike we missed it.

Sumit Malhotra Okay. You are aware that our 100 ml because we measure 100 ml because that's the highest selling size across all hair oils here.

Anirudh Joshi Okay.

Sumit Malhotra 100 ml for Almond Drops was Rs. 42 till march end. It is Rs. 46 per 100 ml.

Anirudh Joshi For 100 ml.

Sumit Malhotra Since in two of the sizes(the smaller two) there is no price increases, they equated on normalize price increased is 8.5%.

Anirudh Joshi 8.5%. Can you just breakout for us the key SKU maybe the Rs. 1 sachet, 100 ml pack, 50 ml packs, 200 ml and above, what is the general breakup in hair oil industry and even in specifically in let's say cooling oil industry?

Sumit Malhotra Just a second I will give you our breakup, the full detail. See normally our sachet which is now around 11% of our total business.

Anirudh Joshi Sachet?

Sumit Malhotra Sachet.

Anirudh Joshi Okay.

Sumit Malhotra Right. Then some 20 ml which is around 3%.

Anirudh Joshi 20 ml, 3%.

Sumit Malhotra 50 ml is 16. 100 ml is 33%. 200 ml is 20%. And 300 ml is 14%. Remaining we have a strategic size of 75 ml which is the remaining.

Anirudh Joshi Okay. And now on this dividend policy whether we are looking at a policy of paying out 33% PAT as dividend or you would like to increase the dividend payout ratio in FY12?

Sumit Malhotra See Anirudh we had a big discussion in the board and we decided on 33 % because we said this is a level we will not drop, right and therefore we kept it as a base depending on the performance and the need we can increase it. But at this point of time the board believes that we will not go down from this percentage.

Anirudh Joshi So, minimum dividend payout we are looking at is 33%.

Sumit Malhotra At this point the board has decided this.

Moderator Our next question is from the line of Akshay Rai from Premji Investments, please go ahead.

Akshay Rai Can you just tell me what is the portfolio level price rise you have taken? You told that 100 ml price rise on an overall level what kind of price rise have you taken?

Sumit Malhotra I mentioned 8.5% normalize across all entities.

Akshay Rai Okay. And another question was with launch of the cooling oil, do you see any margin compressions?

Sumit Malhotra Yes, first year there will be a compression in EBIDTA.

Akshay Rai Overall.

Sumit Malhotra Yes, overall for the company. We are currently at 30% EBIDTA, you could see a compression in EBITDA in the first year. We also taken on the grants in year two or year three so at that time when the EBIDTA should go back to the lower level.

Akshay Rai Okay.

Sumit Malhotra Yes.

Akshay Rai Sir, so at what level of LLPs do you take for the price rise?

Sumit Malhotra Beyond 90, it is currently at 85.

Akshay Rai Currently at 65?

Sumit Malhotra 85.

Moderator Our next question is from the line of Riken Gopani from Infina Finance, please go ahead.

Riken Gopani Sir, first thing is at the current price hike which we have taken, would that take our margins back to the 30% range for the Bajaj Almond oil portfolio?

Sumit Malhotra Yes, it would go back to that level provided we A&P at 11.

Riken Gopani Yes, that's what definitely I mean, assuming that LLP remains here margins back to that range.

Sumit Malhotra That's why we had to take it back.

Riken Gopani Right. And for keeping the cooling oil as separately, what is your internal target about the first year in market share that you would like to at least look at to say that you have been successful in launching this product.

- Sumit Malhotra** As a policy we don't like giving guidance but since you have asked me this question and I think I will give you an answer, right. Let me say even once I crossed 6.5% market share. As our expected level of A&P?
- Riken Gopani** All right. So obviously there will be a higher A&P spends because of the launch that you would see this year.
- Sumit Malhotra** Okay you would not be at 11%
- Riken Gopani** All right. And secondly sir, what would be the kind of inventory that you would have right now on LLP, you would have a higher inventory or you would have your normal policy? What would your policy basic?
- Sumit Malhotra** Unfortunately sir LLP is something that you can't stock for very long time. provided you even had LLP storage tanks.
- Dilip Maloo** We are consuming around 800 to 850 tonnes a month.
- Sumit Malhotra** So you are talking of minimum storage of 1000 tonnes, if you really make it much larger and stock up, we have seen that LLP also changes its characters.
- Dilip Maloo** We cannot stock it for a long period.
- Sumit Malhotra** Not more than two or three months.
- Riken Gopani** So you would have bought for the next three months, how it would be I mean, at least for Q1 you would have the inventory right now.
- Dilip Maloo** For 1.5 we have already for 1.5 months.
- Riken Gopani** And lastly sir just to understand the overall trend growth rates in the Almonds Oil that you would have, this quarter you had 20% volume growth, you would say that the I mean, your trend growth was about what for the balance period of the year about 14% volume growth if I am not wrong. Do you think that the entire balance would have come on account of the differential pricing between Copra oil and your there would be a improvement in the trend growth rate as well?
- Sumit Malhotra** It's very difficult to slice and dice this but remember we had a negative in the first half where we had taken a price increase in May and therefore in the month of June-July we had seen a volume drop till the consumer really went and accepted our price because at that point of time Copra prices were not driving. So we got this on account of this in the first half and we and more so Dabur Amla were benefitted in the second half. So I don't think I can put a number but I can say that the bands in terms of volumes is growing despite the gap between us and copra shortening.

- Riken Gopani** And what kind of growth do you expect next just on account of distribution, what kind of distribution improvement do you target for the next year?
- Sumit Malhotra** See we currently have around 5700 distributors. We are targeting 6500 next year. We have our product available in 19.5 lakh outside, we are targeting 21 lakh.
- Riken Gopani** All right. So at least about 10% would be an improvement in.
- Sumit Malhotra** But remember that normally the additional outlets are the smaller outlets. You don't get a proportionate percentage in increase in sales.
- Riken Gopani** All right. So, do you see with this price hike that you have taken 8.5% weighted average again during the months of June, July you see some dip in volumes happening in this year as well.
- Sumit Malhotra** It could happen, yes it could happen. But there are three things working for us one is definitely Parachute. Parachute continues to raise its price I am told that they are contemplating another price increase. Second, our competitors are also taken a price increase and therefore the gap that was has more or less remained. And the third is there is an overall inflation in the Indian economy. So therefore I believe that this year it will go down much smoothly than the last year.
- Moderator** Our next question is from the line of Tejas Shah from Spark Capital, please our ahead.
- Tejas Shah** Sir, I just wanted to understand on your cooling oil segment that, is there any cyclicity in this demand of the segment?
- Sumit Malhotra** I did explained there was 67% happens in the summer and remember most of the country there is no winter. For example if you look at places like Maharashtra, Andhra, Gujarat, you really do not have any winter and what is helping this brand is that basically it was seen as a UP, Bihar brand, but slowly it is becoming a national category brand. Therefore wherever we are strong we have been able to place a decent amount of stock.
- Tejas Shah** And sir, what would be the key raw material for the cooling oil?
- Sumit Malhotra** Cooling oil has three basically one is til oil. Second is vegetable oil, and third is light liquid paraffin.
- Tejas Shah** I am sorry, I missed out the first one.
- Sumit Malhotra** Til.
- Tejas Shah** Til. And how was raw material prices of til oil has behaved in the past?

Sumit Malhotra I haven't really tracked so if we are started manufacturing we have been keeping a close watch on that but typically Maloo Sahab correct me if I am wrong til is more expensive than vegetable oil.

Dilip Maloo Yes, but by almost 15% to 20%.

Tejas Shah And sir pardon my ignorance but is it also derivative of crude oil?

Sumit Malhotra No, and this is til oil.]

Dilip Maloo It is a vegetable oil, edible oil.

Tejas Shah Okay, fine. So basically prices are mostly driven by general inflation and all.

Sumit Malhotra Yes

Dilip Maloo General inflation and the crop production and all that.

Tejas Shah Sir, do you outlined any CapEx in terms of expanding capacity for cooling oil or you will be using existing capacities for this?

Sumit Malhotra We are using the existing capacity, in October the government actually announced that if you had a factory in excise free or tax-free zone, if you setup additional capacity or use the capacity to make an additional product still gets benefited. Actually making this in our Paonta Sahib which started in March of 2010.

Tejas Shah So basically most of the CapEx would involve your marketing CapEx and all?

Sumit Malhotra The marketing CapEx is a nice word to hear but it's normally expense rather than.....

Tejas Shah Yeah, I know. But sir that won't give you that much contribution in top-line as of now.

Sumit Malhotra Yes that manufacturing line is very cheap. To put a line for oil filling is what around 26-27 lakhs.

Tejas Shah And sir considering that your key competitor in this segment has hired a top notch brand, are we trying to go aggressively in branding part or we will take it slowly as your brand acceptance grows and then you will take a call on aggressive branding or not?

Sumit Malhotra Sir in terms of marketing basically there are two parts. A celebrity become bigger than the brand, so you normally recognize Navratna as Amitabh Bachchan, right. Initially when you launch a product to avoid kind of a thing your products become bigger than the brand. So initially a product should be recognized and then only when you get a celebrity to endorse your brand. That's one school of thought which is the school of thought we would be following.

- Tejas Shah** Sir, there won't be like big bang expense on this account.
- Sumit Malhotra** There will be big bang expense but not on account of a celebrity. But we may not pay some 10 crores to a celebrity but we spent 20 crores in advertising, these are numbers which are I am quoting as an example. These are not the exact numbers.
- Tejas Shah** Sir, would it be fair to assume that since you launched almost on Gudi Padwa so you have missed out a key season for cooling oil in this year.
- Sumit Malhotra** It's that normally being but thanks to the shift in seasons. Summer has come in very late and so coincidentally we are not late but we did launch at the right time.
- Tejas Shah** Okay. And sir do you expect next launch to be in this fiscal year?
- Sumit Malhotra** Finger crossed if this if we start off well on this product we could see one more launch in this year.
- Tejas Shah** In this fiscal only. Okay, thanks a lot sir and all the best.
- Moderator** Our next question is from the line of Yogesh Bhatt from ICICI Prudential Mutual funds, please go ahead.
- Yogesh Bhatt** My question is that this market share gain which we have seen 270 basis points approximately 53% is still happening from the Keo Karpin or is this some other guys who are losing that is first question. And second question will be definitely on we were discussing earlier about the likely acquisitions specifically again for Keo Karpin and there is some family dispute which was going on what's happening on that front?
- Sumit Malhotra** Thank you. First from gains, yes our gains still coming from Keo Karpin market share gain, right, though growths are coming out of growth of natural growth of light hair oil category because of conversion from coconut and heavy Amla. So yes, if you look at the gain more than 90% of our gains are from Keo Karpin itself. Second in terms of acquisitions we are still on the lookout we have some targeted companies that we are talking to. Specifically on Keo Karpin sir I don't think I would be able to comment on that because there is nothing as of now as if there as we speak, right. But acquisitions are clearly the way forward because now we have close to around 390 odd crores in our kitty and therefore even if we take a debt and cash of 1:1 we could be looking at something at 700 crore 800 crore acquisition which is not very bit but not very small.
- Tejas Shah** So can we expect some news on this front at least in this fiscal?
- Sumit Malhotra** I'm praying very hard because I think this will change our company's top-line and bottom line significantly but with acquisitions really until the due diligence starts, you can't predict with

any certainty that the acquisition will happen. So unfortunately I don't have any news at this point of time to share with you.

- Moderator** Our next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.
- Aman Batra** Hello sir a quick question on the volumes front, your other brands Brahmi, Amla and the Shikakai brands they have not benefited from any kind of transition from the Parachute coconut oil basis and they have seen a volume decline as such. Are these not being focused on or what's happening over there?
- Sumit Malhotra** So you have got it very right and I think we are not focusing on this. I think the clue is when we are talking about the cooling oil until we have product differentiation; there is no consumer who will switch from his loyal brand. So leader in the Amla category is Dabur Amla who is sitting on 67%. So you need this differentiation, until I can find differentiation in Brahmi Amla I'm not going to invest behind it. So it's basically question of focus, because of lack of say a big bang idea.
- Aman Batra** See the other question is on, by launching a new brand something like a cooling oil, what would be a typical additional ad spend over the year for the national launch?
- Sumit Malhotra** See I will answer just slightly differently, because what I will do is I tell you, currently in the cooling oil category, the media spend is around 20 crores per annum. And when you are launching, you have to have a significant share of voice there. So you cannot afford to launch a new product at a share of voice or share of expense of 10% 20% there. If the category, this time spends 20 odd crores on TV, again which was last year they have spent 20, we would have to be a significant part of that.
- Moderator** Our next question is from the line of Chetan Sheth, an individual investor. Please go ahead.
- Chetan Sheth** I just want to know directionally where the EBIDTA margins are expected in FY11 especially with the launch cool oil which we are going to do. And the part of FY11 ad cost, I think was, included in the extraordinary expenses, which was incurred last year and rent is also now being paid for office premises. With keeping all this in mind, where do you directionally see the EBIDTA margin in FY12?
- Sumit Malhotra** Basically if you look at EBIDTA margins, they will be compressed in FY12, but not to a very significant extent because please remember cooling oil as I said is a very high GP product. So a lot of the spending will come out of the GP, right so it will not take a lot out of Almond Drops, but yes EBIDTA will come down you will not earn 30% on cooling oil.
- Chetan Sheth** Directionally to what extent can it come down sir?
- Sumit Malhotra** A few points, not more than that.

- Chetan Sheth** Sir my second question is I just want to know that, if I am not wrong the contribution margin from Almond Oil around 35% that was before staff cost and depreciation, the contribution margins for Almond Oil segment.
- Sumit Malhotra** If you look at our investor presentation our cost are around 43%. now. So you are talking of 57% gross margins.
- Chetan Sheth** 57% gross margins.
- Sumit Malhotra** If you remove 11% A&P. So after A&P you are still talking about 46%.
- Moderator** Our next question is from the line of Arpit Kapoor from UTI Mutual Funds. Please go ahead.
- Arpit Kapoor** Sir my question is on cooling hair oil. Since you have launched it, just wanted to understand as in your Almond hair oil you know that 100 ml is the best selling SKU. So what would be like in a cooling hair oil segment so which, would LUP sell more than 50 ml or 100 ml pack?
- Sumit Malhotra** Not exactly, highest selling size is still 100 ml.
- Arpit Kapoor** It would still be 100 ml.
- Sumit Malhotra** But the second largest, which is 50 ml normal hair oil, is the sachet in cooling oil. So for Navratna around 28% of its sales volume comes out of sachet.
- Arpit Kapoor** And the 100 ml would still be somewhere around 33%?
- Sumit Malhotra** Around 33%.
- Arpit Kapoor** and the price hike which Emami would have taken is it broad base across all SKUs or is it concentrated more on the higher SKU and they would have left the lower LUPs untouched.
- Sumit Malhotra** Unfortunately for Emami and may be for us in future you can't take the price hike in sachet. That price point of Rs.1 is sacrosanct. Emami did try and take a price rise to 1.5 around two and a half year ago. At least that's genesis of the second biggest brand of Himgange. That is when Himgange really took off there. So, apart from that all the other sizes they have taken an equivalent price increase.
- Arpit Kapoor** Okay so the price increase is, I just make that point, how much would be the quantum of price increase that they have taken?
- Sumit Malhotra** Emami?
- Arpit Kapoor** Yes.

- Sumit Malhotra** I wouldn't know.
- Arpit Kapoor** Okay but otherwise how much would be the differential of our product as compared to let us say an Emami product in the market?
- Sumit Malhotra** Our 100 ml is 46 now, they are 50. Our cooling oil is 48 and their cooling oil is 50.
- Arpit Kapoor** Okay and we would also be stressing sachets as the strategy. So we would also have the similar LUPs?
- Sumit Malhotra** Yes.
- Arpit Kapoor** How would it be different from promoting lets say a 100 ml pack if I compare it out to sachets so to that extent do you think that the acceptability of a sachet would be more or less as compared to a 100 ml pack?
- Sumit Malhotra** In cooling oil? Yes, basically please remember cooling oil is a problem solution product. It is not hair oil in the true sense, but the image benefit is basically one of nutrition. Cooling oil does not provide nutrition it provides a solution to a problem which is high heat, right? And therefore any small SKU will always do better because currently I have a problem, my head has become very hot, summers had touched 50 degree centigrade so I buy a sachet. It is only after you regularly use it and you see a benefit in this on a continuous basis so you move to a bottle. So 100 ml not an entry point for cooling oil. The entry point is the sachet.
- Moderator** The next question is from the line of Anshul Mishra from ING Mutual Fund. Please go ahead.
- Anshul Mishra** My question was firstly, I think I might have missed this figure. This is regarding your cooling oil if you can tell me what's the pricing vis-à-vis Navratna?
- Sumit Malhotra** Yes the largest selling size is 100 ml we have priced that Rs 48 versus Navratna Rs.50.
- Anshul Mishra** Rs.50?
- Sumit Malhotra** Yeah but that's not by design. Just that we lunched that 48, last week Navratna raised it from Rs.48 to Rs.50.
- Anshul Mishra** No where would Himgange be here?
- Sumit Malhotra** That's still at 48.
- Anshul Mishra** Now the second question is more on the gross margin front. Basically wanted understand the thought process in terms of when the raw material price moved, what's your thought process in terms of increasing the prices? Obviously you would be looking at the other categories in the sense how coconut oil category is moving in terms of prices and stuff. Do you have any kind

of spread vis-à-vis a coconut oil or other category of oils, when you look at your pricing in terms of increasing pricing and stuff if you can give clarify on that?

Sumit Malhotra See what happens in future I don't think I would be able to comment, but what happened in the last quarter, I can comment.

Anshul Mishra Comment in terms of thought process basically....

Sumit Malhotra That would give you the thought process that we will have in future. See what happened was that in the last quarter both copra prices and LLP prices were going up. The first quarter weighted average LLP prices were around Rs.66 per case. In the fourth quarter it went up Rs.75 per case. Now at point of time the option opened to us was whether to take a MRP increase hold prices as therefore take hits on your EBIDTA margins. At that point of time what we said was that this copra prices are increasing and the source of gain for us is much more from coconut than from other light hair oil. To explain a little further, see if 100 new users come into the Almond oil franchise as much as 60% come out of coconut oil. Around 20% come out of Amla and only 10% from other light hair oil. So cautiously we said that, lets hold our prices, thereby get more conversions. Now the advantage of having conversion this that we have a 60% stickability to our product which means that if 100 people try Almond around 50% continue to use post their first pack and therefore we bid on this. If our thought process is right, you see them sticking on with Almond despite of price increase the first quarter of financial year 2012 that is April onwards. That was the thought process. Its basically you have to see how you define your competition.

Anshul Mishra I understand your point, you are talking about conversions that could be really a source of future volume growth, but my question was what level of spread in terms of coconut oil pricing vis-à-vis your pricing are you comfortable in terms of conversion because then suppose tomorrow Parachute were to increase prices by another 10% and your LLP prices were to go up. You would still feel that let's stick to the price right now and take the EBIDTA margin hit because we can gain more conversions. That's why I wanted to understand where would this...

Sumit Malhotra We haven't done the right arithmetic from this, but what we did see that its the differential between Parachute and us became 100% like it happen in June July then we were negatively hit. Now what happens if it becomes 20%, we really don't know because this has never happened in the past.

Sumit Malhotra I would like once again to thank everyone and I'm happy that you have faith in our stock and will be a still a very-very small team but with your support and performance that we have been showing in the last three quarters we will one day become big. Thank you.

Moderator On behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us