



“Bajaj Corp. Q2FY13 Earnings Conference Call”

**October 8, 2012**



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**MODERATOR:** **MS. AMRITA BASU – ANALYST, KOTAK INSTITUTIONAL EQUITIES**

**Moderator**

Ladies and gentlemen, good day and welcome to the Q2FY13 Earnings Conference Call of Bajaj Corp. hosted by Kotak Institutional Equities. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Amrita Basu of Kotak Institutional Equities. Thank you. And over to you.

**Amrita Basu**

Hi, everyone, on behalf of Kotak Institutional Equities I welcome all of you to the Bajaj Corp. 2QFY13 earnings conference call. I would like to welcome the Bajaj Corp. team; Mr. Sumit Malhotra – Managing Director; Mr. Narayan Raman – President, Corporate and Investor Relations; Mr. V.C. Nagori – Chief Financial Officer and Mr. Dilip Maloo – Vice President, Finance. I will now hand over the call to Mr. Sumit Malhotra to discuss the recently announced earnings. Thank you. And over to you, sir.

**Sumit Malhotra**

Thank you, Amrita. Good afternoon to all and welcome to the conference call for declaration of the results for the second quarter of the financial year 2012-13. With me are Mr. Narayan Raman – President, Corporate and Investor Relations; Mr. V.C. Nagori – the CFO and President, Finance; and Mr. D.K. Maloo – Vice President, Finance.

The company has closed the second quarter of this current financial year with the sales of Rs. 135.86 crores and profit after tax of Rs. 38.40 crores. This translates into a year-on-year growth in turnover of 27.2% and growth in PAT of 33.6%. There has been an expansion in operating profits during the quarter. The EBITDA has moved up from 25.7% in Q2 of the last financial year to 28.8% in the current quarter. For the first half of this financial year the turnover was Rs. 273.9 crores and PAT of 76.2 crores. This is a growth of 28.4% in turnover and 33% in PAT. The volume growth for the quarter is 18.7% and for the first half of the year is 20.5%. The EBITDA for the business during the second quarter was 39.07 crores; like I said it is 28.8% of the sales recorded during the quarter. This is an expansion of 315 basis points on a year-to-year basis. Even on a quarter-to-quarter basis the EBITDA has gone up by 16 basis points. This expansion is mainly on account of the price increase that we took in April 2012.

On the margins front, the ASP-to-sales ratio is up by 132 basis points. This is basically on account of increase in spends in sales promotion. The sales promotions were up from 7.03 crores in Q2 of last year to 10.24 crores in this quarter.

Our new brand – Bajaj Kailash Parbat Cooling Oil has completed its first whole season with the market share of 3% and distribution close to 4 lakh outlets. The consumer reaction to this product continues to be encouraging and we anticipate that the next season will be significantly more encouraging. The performance of our lead brand – Bajaj Almond Drops Hair Oil continues to be good. The volume growth for the quarter is again more than 20%. Our strategy of combining investment in advertising with the thrust of distribution continues to pay off. The

brand is now available in over 24.25 lakh outlets and is distributed through 6456 distributors all over the country. During the period, Jan-August the Nielsen figure for September will be available only post 20<sup>th</sup> of October. The Light Hair Oil has seen a volume growth of 15% whereas the total branded Hair Oil market has grown by 6.1% by volume. This growth is mainly due to our investment behind Bajaj Almond Drops.

On the cost front, prices were relatively stable during the quarter. The average price of our key raw materials like Liquid Paraffin during the second quarter was Rs. 81.43 per Kg, this is a 5% reduction on a year-to-year basis. Even on a quarter-to-quarter basis the price has remained fairly stable. The prices of vegetable oil has gone up by 26% on a year-on-year basis and 6% on a quarter-to- quarter basis.

On the LLP front, we have entered into deals with our suppliers whereas the average price of LLP would be Rs. 78.5 per Kg during the third quarter and Rs. 73 per Kg during the fourth quarter. This indicates that the current EBITDA should be maintainable provided the volumes continue to be as robust as have been in the last seven quarters.

On the merger and acquisition initiatives our efforts continue. Though we are evaluating over 15 targets there is nothing that we can disclose at this stage. Needless to state we are not desperate to close a deal urgently. As we strongly believe that this being the first acquisition being undertaken by our company we should evaluate each opportunity very closely before closing any deal in a hurry. We are now open for questions.

**Moderator**

Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy**

My first question is obviously, on the volumes if you could give us more color, how are you seeing rural versus urban, how is the gap versus the earlier quarters? Because pricing of your main product is slightly ahead of the other comparables in the Hair Oil space, do you see the risk of discretionary consumption being cut impacting at some stage in the coming quarters? That is the first question sir.

**Sumit Malhotra**

The rural growth of our brand which is Bajaj Almond Drops has actually gone up this quarter. It has gone up to 25.8% by volume. Whereas the urban has also gone up but not that much, it is around 13.5%. So you still have a 12.3% difference between the growth rates of urban versus rural. What has also happened in this year is that the proportion of rural versus urban share of our sales has gone up in the rural areas. What used to be 34, 35% is now 38% which means that for this quarter 38% of our sales came from the rural area. So I do not believe that there is any slowdown in the rural segment and also in the urban segment.

**Abneesh Roy**

The gap 12%, how much was it say, a few quarters back?

**Sumit Malhotra**

Last quarter it was 11%-odd, before that it was 8.5%.

**Abneesh Roy** Increasingly if you see the cities Hair Oil as a category is seeing some issues. So from a rural split, where do you see these numbers stabilizing over a longer term? Already 38% is a very healthy number from rural areas and population of rural is obviously well ahead around 70, 75%. So where do you see these numbers stabilizing from a three to four year perspective?

**Sumit Malhotra** One thing which is hidden in all these numbers is that these are branded Hair Oil numbers. So you still have around 30% of Hair Oil being sold in India which are unbranded. So in terms of even urban areas there is a conversion from unbranded to branded, mainly coconut but also like Hair Oil. So even though the difference maybe increasing it basically says that the rural growth are catching up with the total Hair Oil. Hair Oil around 40%-odd of the total branded Hair Oil being sold are basically in the rural areas whereas in our case now it is close to 38%.

**Abneesh Roy** We have seen a very healthy gross margin expansion. How do you see pricing for us? Have we seen price cuts in the past five, six years? In the immediate period do you see promotions increasing? And how do you see Dabur's pricing? Some color on Dabur's performance if you can share.

**Sumit Malhotra** In terms of the margin expansion, yes, the margin has gone up. But in the last five years or even the last ten years no branded Hair Oil with the exception of Parachute has ever taken a price cut. So I do not see any price cuts happening. If the margins continues to expand the proportion between advertising to sales promotion will move towards sales promotion. There would be more sales promotion than the percentage being spend on advertising. Not the absolute. The absolute on advertising will continue to be robust. In terms of Dabur Almond I would not like to comment. I think these are questions that the management of Dabur would be better suited to answer.

**Abneesh Roy** One follow-up on that, what is the split of ASP in the current quarter and what was it for the full year FY12?

**Sumit Malhotra** The ASP this quarter was 13.2% out of which around 60% was in sales promotion versus advertising. Like I said in sales promotion it is actually versus last quarter. Last quarter was 30% on sales promotion.

**Abneesh Roy** Next question is if you can tell us for Kailash Parbat, how many states presence we have and how does our distribution compare with the market leader? Because you have done good expansion in market share although still a low number, where do you see this number stabilizing over a two to three year timeframe?

**Sumit Malhotra** In terms of our spread, we are there in all the states with the exception of three southern states which are Karnataka, Kerala and Tamil Nadu. In terms of distribution, I think it would be unfair to compare our distribution with the market leader who has been there for 20 years. But just for your sake the Navratna which is the market leader would be present in around 27 lakh outlets as of now and we are present in approximately 4 lakh outlets. In terms of market share I believe we are in the right path and therefore we are moving towards what we believe is the

breakeven market share point of 6%. When that will happen? I am not a soothsayer, I do not think I can predict that. But the rate we are going it should happen soon.

- Abneesh Roy** What is our distribution for our flagship brand?
- Sumit Malhotra** 4.25 lakh outlets.
- Abneesh Roy** Wanted to understand, what are the issues in taking this 4 to 24, how difficult because it is the same distribution?
- Sumit Malhotra** It is the same distribution but I do not think this is the forum to give you a marketing lecture but there are two parts of distribution; one is direct, one is indirect. Our direct distribution is around 4.5 lakh outlets which is approximately the number of outlets we could possibly put Bajaj Almond Drops, the remaining is indirect which is basically wholesale-driven. If you see Navratna, a very large proportion of distribution is wholesale-driven. And even though you talk about 24 lakh outlets for Bajaj Almond Drops, out of which only 4.5 would be direct, the remaining is wholesale. You would appreciate that wholesale picks up only stocks that have significantly high market share. And to get that market share we need time, we need investment behind advertising and direct distribution.
- Moderator** Thank you. The next question is from the line of Chintan Desai from Ventura Securities. Please go ahead.
- Chintan Desai** My question to you is if we come on the Page #9, the presentation, we have witnessed a fall in the market share, e.g. Chhattisgarh, the share has fallen to 57.8% from 62.2% in the same quarter of the previous year and again with Madhya Pradesh, the share has fallen down to 59.9% from previous year's quarter of 61.3%. Could you please tell us the reason for the fall?
- Sumit Malhotra** These are state wise and please remember these are Nielsen figure. Actually the trend you should look at rather than look at absolute numbers. So trending you can say that gaining market share in place like M.P. is becoming even more difficult because of the size, Chhattisgarh being a much smaller state the figures could be arbitrarily long it is quite arbitrary in the case of Nielsen. Because in our case it is the second fastest growing state. So this is not what is the turnover number. These are Nielsen numbers and therefore you should actually not read too much into these numbers.
- Chintan Desai** Then how do we plan to reinstate or strengthen our position from here on?
- Sumit Malhotra** In what way?
- Chintan Desai** Supposing, we have an increased KPCO's market share from 2.1% in Q1 of financial year '13 to 2.9% in Q2 of financial year '13, can you give us an idea of the competition in the category that is the top three organized players and the top three leaders including the unorganized in the category? How do we plan to further penetrate this category?

- Sumit Malhotra** In Cooling Oil, the biggest player is Navratna who is basically a national player. The number two is more or less a regional player. He is called Himgange. Himgange would be basically present in the four states of U.P., Bihar, Chhattisgarh and Jharkhand. After Himgange, you would have Himtaj, who is basically the third biggest on a national basis. He is perhaps one of the oldest but he has been losing market share because of internal issue. Basically what we believe, it has got to be a mixture of consumer reaction to your product that is you have to have a good product. Second, you have to invest behind communication. That is to tell the consumer that you have a product which he should try. Third, initiate trial. Fourth, distribute your product. We are working on all four of them. Like I have been saying to everyone that it normally takes three to five years for any brand to succeed and it takes approximately the same period to breakeven. We are continuing to do invest behind this, rather in fact we would be losing again this year. And we are not sort of shy of investing in this brand at all.
- Moderator** Thank you. The next question is from the line of Shailesh Kumar from Indsec Securities & Finance. Please go ahead.
- Shailesh Kumar** My first question is what is the volume growth on quarterly basis? Because if I see the sales figures they are virtually flat. And had there been no inventory gain our profit could have gone down on QoQ basis. So if you could help us understand.
- Sumit Malhotra** Number one, please remember that we sell on cash and therefore what you normally see in other FMCG companies that the stock has gone up, the stock does not go up in our case because it is all paid inventory. But if you like to know our QoQ for the last five months, Q1 of last year we had a volume growth of 20%, Q2 of last year we had 22%, Q3 of last year we had 20%, Q4 we had 22% and Q1 of this year 22%.
- Shailesh Kumar** So basically we have maintained that?
- Sumit Malhotra** We have maintained despite the fact that our base has gone up significantly over the last five quarters.
- Shailesh Kumar** We can expect to grow in coming quarters. What do you mean to say?
- Sumit Malhotra** We do not give guidance but if you look at the trend, the trends are very attractive.
- Shailesh Kumar** I have come across an interesting thing. Two of the products in your category, Brahmi Amla and Amla Shikakai, actually they are losing volume in last two years. If you could help me understand why?
- Sumit Malhotra** Like I have been saying that we believe that you should focus on what you are doing well. And we said that we knew that we had a winner in Bajaj Almond Drops but that differentiation in Amla which was Brahmi Amla and Amla Shikakai was not as strong. Therefore, over the last four years we have really not invested behind these brands because we could not find the differentiation between us and the leader in the Amla category and therefore knowing that we

would lose volumes we have not invested behind these brands. And what you see is basically a result of lack of focus behind these brands function.

**Shailesh Kumar** Third and final question, you are holding significant amount of cash compared to your balance sheet size. Till the time you come across a good investment target do you plan to hold that into liquid form only?

**Sumit Malhotra** Yes.

**Moderator** Thank you. The next question is from the line of Aruna Bharti from Pari Washington. Please go ahead.

**Aruna Bharti** I just have a very high level question, Sumit. Of late with the proliferation of these different formats of the modern retail in the form of cash-and-carry store and so on and so forth, a lot of traditional distributors actually seem to complain about the flow of goods from modern, retail on to the traditional markets. As a consumer player, how do you address this conflict, Sumit, if you can just help us understand this that will be helpful?

**Sumit Malhotra** This is really a high level question. A few data points and then a holistic reply. Data points in Hair Oil, the contribution of modern trade is very low. In our case we get the 2% of our turnover from modern trade. The third point is that in modern trade we are the second largest Hair Oil brand. After Parachute, we are the second largest. Fourth, since the turnover is low, we avoid being desperate to get sales. By desperate I mean trying to give extra margins to modern trade or giving differential consumer promotions to modern trade to get into their outlets. We try and avoid that because like you rightly said that 98%-odd of my sales come through traditional trade. If I invest very heavily in this 2% my 98% gets disturbed. Having said that we are present in each and every modern trade chain that is available in India, whether it be Bharti Wal-Mart, whether Carrefour, whether it be Aditya Birla, whether it be Trents you name it we have presence there. But we avoid being desperate to get sales there. We do also have problems in the cash-and-carry trade which sometimes yields to stop flowing into the traditional trade but we monitor it very carefully by controlling the amount of stock I give to these chain.

**Arun:** Sumit, this is Arun, I just have a more specific follow-up. Could you tell us what percentage of your Almond business now come from sachets?

**Sumit Malhotra** 17.5%.

**Arun** And if you look at it on a regional basis are there any states where it is over 20, 25%?

**Sumit Malhotra** Not states, but areas. For example, western U.P. we have gone past 25%. So we are containing it there. Apart from that, part of Gujarat, that is the Ahmedabad belt of Gujarat we are past 25%.

- Moderator** Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.
- Riken Gopani** Just wanted to first check the larger packs that we had introduced, the plastic ones, 500 ml kind of packs, how has been the growth in that particular segment?
- Sumit Malhotra** That continues to be the faster growing after sachets. The growth in 500 ml is now 47% by volume and it is currently more than 9% of my total sales.
- Riken Gopani** And is there any specific trend, in the sense, is it more rural areas where you are seeing more offtake of these, is it modern trade, any specific trend then?
- Sumit Malhotra** It is very difficult to divide it in terms of rural/urban. But yes, modern trade is close to around 18% of the modern trade volumes. In traditional trade is marginally lower. Like I just said that modern trade is a 2% of my total business.
- Riken Gopani:** We wanted to also understand whether the packaging change from glass to plastic, does it have any difference to the consumer experience, and can it lead to any further changes in our packaging going forward?
- Sumit Malhotra** See, it is always a temptation to move from glass to pet because of the packaging costs, but like I have been always saying, we will be very cautious and do it very, very slowly. To specifically answer a question, no other **size 25.25** would move from glass to pet this financial year.
- Riken Gopani** Okay, okay. Just one thing, you mentioned on the LLP deals that we have entered into for Q3 and Q4, so are these price deals as well, or in a sense these are more quantity deals.
- Sumit Malhotra** This is quantity and price, so for example, we would be picking up around 2000 kiloliters every month, so you would ideally going to a contract of 6000 kiloliters at 78.5, which would take us through let us say January and then pick up another let us say 5000 for the remaining part of this year as 73. There would be an overlap. I am saying 78.5 in third quarter because of some carry forward higher price stock. The final result could be slightly higher than 78.5. But it will definitely be less than 80, 81.
- Riken Gopani** Okay, okay, and Q3 average was how much?
- Management** Q3.
- Riken Gopani** Sorry Q2 was how much?
- Management** 81.3 or something.

- Riken Gopani** 81.3, and so this would mean that we would even have to have, so the inventory in our balance sheet increases to that extent or .....
- Sumit Malhotra** No. You do not buy and stock. You do a deal and add it when you want. You keep on picking up. The stock has gone up because they have picked up some stock and kept it. Earlier on we used to take some, keep some 4 or 5 days of stock, now we keep more than a month of LLP.
- Riken Gopani** What would be current price for LLP for us the price, I mean at the market rate, or the way .....
- Sumit Malhotra** The current market rate would be close to 79. This is landed and per kg. You would get many prices, this would be basic rates or on liters.
- Riken Gopani** So would the dollar-rupee benefit you any further from here, I mean
- Sumit Malhotra** Not directly, but it is a part of the deduction in cost.
- Moderator** Thank you. The next question is from the line of Aruna Bharti from Pari Washington. Please go ahead.
- Aruna Bharti** Sumit, what is the CAPEX plan for this year as well as for the next year, Sumit.
- Sumit Malhotra** This year, like I have been telling you that we have been looking around and trying to close a deal on buying some land in Vadodara. Basically, this is in anticipation of the GST coming in next year or the year afterwards. Because then it makes sense to keep a plant in Baroda to cater to the best of India because currently all the raw materials are basically traveling all the way from West to the hilly regions of the north and finished products traveling back. So, we are buying land and keeping it this year.
- Aruna Bharti** Okay and what is CAPEX outlay on this?
- Sumit Malhotra** This would be close to around Rs 28 crores.
- Aruna Bharti** Is it all the numbers in terms of CAPEX spent for this year or is there any other money that that is....
- Sumit Malhotra** Nothing else.
- Moderator** Thank you. The next question is from the line of Paras Adenwala from Capital Portfolio Advisors, please go ahead.
- Paras Adenwala** I was just looking at your volume growth rates for the last 6 quarters and in the second quarter of this year, that is the last quarter, the volume growth has been the lowest so far. Is that any indication about slowing down of sales in the urban area, which is the largest contributor to your turnover?

- Sumit Malhotra** No, not yet. Because the total Neilson figures that are coming in, the volumes are more or less the same.
- Paras Adenwala** In terms of again, dependence on your key product, that has increased to 96% as compared to 94% in the earlier quarter, which means rest of your products, they continue to languish, so any thoughts on that.
- Sumit Malhotra** In fact this was one of the questions asked about Brahmi Amla and Amla Shekakai, basically you would invest behind a brand where you have a reasonable chance of success, here there is hardly any differentiation between our brand and the leader, which is Dabur Amla, and then until you can provide a differentiation I would be hesitant in spending money behind this brand, and if need be it may continue to languish for another few quarters before which we get our act together and start reinvesting behind this.
- Paras Adenwala** It also indicates that Kailash Parbat probably the contribution to sales, has reduced in this quarter as compared to the earlier quarter.
- Sumit Malhotra** Yes, summer is April, May, June. In July, August, September, normally it is only July, or July this is summer season. In the coming quarter, it will drop even more because winter, it is not a product for the winter.
- Paras Adenwala** If you have to split up your improvement in margins 250 basis points of improvement that you have seen, how much would be from price increase and how much would be from saving in raw material cost.
- Sumit Malhotra** Like I said between last year and this year, the price of LLP has gone down from Rs 86 to Rs 81.
- Paras Adenwala** That I understand, but if you have to break up this 250 basis points of improvement, can you put a number, say 100 basis points.
- Sumit Malhotra** I cannot put it at this point of time, but I can most probably, if you connect with me tomorrow, I would be able to answer that.
- Paras Adenwala** Okay, alright. You mentioned that you have increased the inventory of LLP, any specific reason, is it in any way indicating your outlook for the future.
- Sumit Malhotra** No, basically what was happening is that the price of LLP was fluctuating too much, so we said that to avoid fluctuations either way, it is better to increase your inventory, right, and therefore last year, we took a cautious decision to raise the inventory from the 5 days that we were earlier holding stock up to 30 days, this meant that we had a longer period to be able to negotiate with the supplier and look at better rates, otherwise we were always desperate to close a deal within a day or two, otherwise we would run out of stock.

- Paras Adenwala** And finally in the first quarter, you notched up an operating margin of 28%, this quarter also it is (+28%), and this is despite the fact that Q2 is not one of your best quarters, it is usually Q1 and Q4. Does it indicate that the new rate in terms of operating margins, new number could stabilize at around 28%.
- Sumit Malhotra** I would love to answer that. I would hope so too, but I think in terms of all our calculations we take it at 25% and not 28%, whatever comes over and above that it is basically a bonus then.
- Moderator** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Ltd, please go ahead.
- Kaustubh Pawaskar** I have three questions, the first one is that in the presentation, you have mentioned that you will be coming up with a corporate office at your land on Worli by mid-2015, so what kind of CAPEX you would be looking for this particular venture and for 2014 how much should we consider for this in your capital expenditure.
- Sumit Malhotra** At this moment, we have not even appointed a designer or architect for this. To give a number on the actual CAPEX, I would not hazard a guess at this point in time, but if you were to put me up against the wall, it would be something like 15 odd crores over the next three years. Since we do not have this plan ready as yet, I would not be able to tell you how much of this would be spent next year. This year nothing would be spent.
- Kaustubh Pawaskar** Sir, my second question is that, we have not seen that for the past several quarters Bajaj Almond Drops is consistently growing above 15% in terms of volumes. We have seen that Kailash Parbat cooling oil, the market share is inching up every quarter, and now it is around 2.9%, so you don't think that it the right time to come with another product in your basket because we still believe that Bajaj Almond Drops contribute considerably to your top-line, and any volume moderation would act as a key risk for the company. So you don't think that it the right time now for the company to come out with some other product which will add on to your growth prospects in the coming years.
- Sumit Malhotra** Kaustubh, there are two parts of this question. One is, de-risking by launching a new product, right. The second is, when do you launch a new product? In terms of de-risking, if you look at a major number of FMCG companies, in the Fortune 500 companies, you would realize a lot of them are single product. So, it is not about being a single product and therefore being risky. It is basically how much of a focus you provide behind the single product. We believe we can provide focus behind Bajaj Almond Drops only because we don't have too many other mouths to feed. Tomorrow, if I go launching new brands, I would enter a situation in which I would have to reduce advertising on Bajaj Almond Drops and therefore provide for money behind the new brand. There is a strategy that we have, is basically, you look at launching a new brand when the last brand that we launched, which is Bajaj Kailash Parbat, had stopped losing money, it breaks even. That would happen when we reach a 6% market share. Now, you may argue why do you not want to reduce that advertising or sales promotion on Bajaj Almond Drops? You are looking at a figure, which says that we are 55% of the light hair oil market.

We look at a figure that is slightly different. We say that we are just 9% of the total branded hair oil category, and therefore we still have a long way to go and therefore investment behind Bajaj Almond Drops comes before the greed of de-risking and launching new brands to sort of de-risk or reduce the dependence on Bajaj Almond Drops

**Kaustubh Pawaskar** So, we should expect some new product when Bajaj Almond Drops again achieve certain level of market share, even KPCO reached to 6%, but at that moment I want to ask whether we are going to have any product, which will come into the market, or you are like in terms of R&D, are you consistently looking out for formulations that can you, be one, which you can bring it into the market.

**Sumit Malhotra** In FMCG, there is no major technology involved, so therefore bringing out a new brand is not very, very difficult. For example, as we speak now, I have 5 products ready, already. So, once we decide, we can turn around and bring that product out between three to six months from that time.

**Kaustubh Pawaskar** My third question is on the vegetable oils, I just want your view on, now we are seeing that the other vegetable oils are cooling off from their highs, so should we expect a vegetable oil also to stabilize at certain level in the coming quarters, which will further help you in terms of margin expansion.

**Sumit Malhotra** See, we always hope for reduction in the vegetable oil prices because this is one commodity that did not see that much fluctuation, let us say two years before, but in the last two years there has been escalation. Only the last week, we have seen some softening of the prices, so, we are still hopeful that once all the other vegetable oils start reducing in terms of their prices, we would see some softening of the vegetable oil that we procure.

**Kaustubh Pawaskar** Sir, my last question is on the acquisition front. Are you keenly looking out for any acquisition in the domestic or international market? For the past several quarters we have been listening from you, that you are still in search of an adequate buy, but can you just throw some more light on what exactly you are looking out for and when can we expect really that the company will be doing an acquisition in another three to four months from now, or may be around, we can expect acquisition by the end of 2013.

**Sumit Malhotra** You cannot take any such prediction, because you are only part of the deal maker, you are only the buyer. There is a seller whom you do not control. For example, over the last six months, we actually, or near nine months nearly now, we were very, very close to signing two acquisitions. In one case, somebody else got it. The other case, the fellows 40.16 walked off. So, these are things, which are not in your control. So, having said that, acquisition is a very important part of your growth strategy, putting dates or numbers or targets, or deadlines, I don't think it is a practical way of looking at M&As.

**Moderator** The next question is from the line of Chetan Vora from AlfAccurate Advisors.

- Chetan Vora** I wanted to just understand the acquisition as we understand there could not be any timeframe setup, but could you elaborate whether the acquisition, if at all, would be in the same line of your product category, internationally or nationally, or whether you would like to go into some territories on the FMCG side.
- Sumit Malhotra** You will have to look at the acquisition logic. The logic in India is that you are built to distribution system and therefore it is an acquirer brand in India, you can push it through the same distribution system, and therefore in India you would probably look at some brand or brands that go through your distribution system. Our current distribution system is basically All India mass distributed grocery led distribution system. Therefore anything that goes through this system is possibly a target. Outside India, since you do not have this synergy, therefore you could possibly look at any personal care brand. Needless to say, the size of acquisition outside India would be much smaller than the size of acquisition in India.
- Chetan Vora** Okay. Also, whenever we launch our product, what will be the cost of economy, just to understand how much cost it get to launch a product?
- Sumit Malhotra** This is really a hypothetical question because it depends on which industry you are launching it. If you are launching, let us say, a hair color, you could get away by spending some Rs 20 crores. If you launch a soap, even 100 crores is less than what is required. So, I think, I don't have an answer to this question because I do not know which category, we would be launching.
- Chetan Vora** I was specifically to the oil segment.
- Sumit Malhotra** There is hardly any oil left. We have oils everywhere except coconut, which we are not interested in.
- Moderator** Thank you. The next question is from the line of Sanjay Dam for Motilal Oswal Securities Ltd. Please go ahead.
- Sanjay Dam** I have a couple of questions. Number one, you said that the market share to breakeven for Kailash Parbat would be 6%.
- Sumit Malhotra** Yes.
- Sanjay Dam** So, what would be the approximate number of distributors you would have to reach for that?
- Sumit Malhotra** Distributors?
- Sanjay Dam** Yes, you said you currently have 4 lakh distributors, Right.
- Sumit Malhotra** Four lakh dealers, outlets.

- Sanjay Dam** Outlets, so what would be the approximate number?
- Sumit Malhotra** It is not a one to one relation. So market shares alone, theoretically, there are times when your market shares can increase without increase in the dealers. In other cases, your dealers can go on increasing and your market share may not increase. It is actually the consumer that matters. So, it is, because market share is equal to the number of consumers buying your brands. It is not the number of dealers buying your brand.
- Sanjay Dam** My second question is, you have mentioned that a long term strategy continues to be 65% market in the next three years. So, that implies about 3%, asking run rate for the next three years. Right.
- Sumit Malhotra** Right.
- Sanjay Dam** So, what would be next big product that would you that, because you have been adding about 1% market share over the last three years. So for that to triple, there has to be a big product in the pipeline.
- Sumit Malhotra** Big product. I think Sanjay, I don't understand your question because 65% market share is Bajaj Almond Drops. So you are talking of an existing product and not a new product. So can you rephrase the question please?
- Sanjay Dam** You said aim for a market share of 65% by 2015-16.
- Sumit Malhotra** Yes.
- Sanjay Dam** So that is only from Almond.
- Sumit Malhotra** Yes obviously. This is 65% of Light Hair Oil. If you look at the previous years, you gain between 2 to 4 percentage points every year. This year is a slight exception because we have not yet gone into our key selling periods, which are the third and fourth quarters. So by that way if you gain 3 percentage points, you would be touching approximately 65% in three years time of Bajaj Almond Drops in Light Hair Oil.
- Sanjay Dam** Sir, do you mentioned the almond oil market share in the slides anywhere. Would Slide #5 be relevant to this.
- Sumit Malhotra** Slide #5 is related market share, and if you look below it is market share in Light Hair Oil.
- Sanjay Dam** Right. So, this is at 54 right currently?
- Sumit Malhotra** Yes.
- Sanjay Dam** And this should go to 65?

- Sumit Malhotra** Yes.
- Sanjay Dam** So, as I said, right, over the last three years 50 has gone to about 54, and this has to go to 65 over the next three years.
- Sumit Malhotra** That will happen because of distribution, but because of more investment behind advertising with the same product. You are not talking of a new product launch in that.
- Sanjay Dam** Okay. And the last question, your guidance of maintaining the 50% that ratio holds, right.
- Sumit Malhotra** Again, we don't give guidance. This dividend as a policy will depend on what we are doing with the cash we have. If we do an acquisition this dividend rate payout ratio versus last year could drop. If we don't have an acquisition, it could remain same, or maybe even go up.
- Management** Our stated policy is that at least one third we would like to distribute.
- Sanjay Dam** Exactly. But FY12, you had increased to 50%.
- Management** Yes, because there was cash that was lying idle and we thought that since there is no acquisition, that has heated up or come to a stage where we would require immediate deployment of the cash, we increased the ratio, because the board thought it very prudent to do so.
- Sanjay Dam** Makes sense. Yes.
- Management** This kind of stable policies, what we would like to communicate to our investors.
- Moderator** The next question is from the line of Shailesh Kumar from Indsec Securities and Finance, please go ahead.
- Shailesh Kumar** Just a few follow-up questions Mr. Malhotra. Though you have categorically said that you don't give any guidance, seeing by half yearly numbers, will it be safe to assume that on yearly basis, this same volume growth will be maintained.
- Sumit Malhotra** I said that I don't give guidance that means exactly that I cannot answer your question. The reason is very simple, it is not that we don't want to talk about it, but there are two parts of growth. One is, the growth in market share, the second is growth in the category. Now growth in the market share is more in my control because the amount I invest, the amount I distribute will actually drive my market share gain. But the market growth, which is growth of light hair oil actually depends on what my other competitors, which are people like coconut or Amla, or other hair oils do, which is really not in my control and that is why we shy away from given guidance on growth.

- Shailesh Kumar** Okay, Sir, one more housekeeping question. I mean what is your policy regarding vegetable oil procurement. I mean, how do you go about that.
- Sumit Malhotra** Normally vegetable oil is procured from the mandis of Gujarat, mainly Rajkot. Since vegetable oil becomes rancid very fast, we don't procure very large amount. Secondly, since our quantities are much less, you don't go into things like hedging and that like because for our kind of quantities, remember vegetable oil is mainly used for cooking. Right and that quantity is much more than the quantity we require. So, we cannot hedge. We cannot store because it becomes rancid very fast and therefore it's mainly spot that we do.
- Moderator** The next question is from the line of Amar Maurya from India Nivesh Securities, please go ahead.
- Amar Maurya** Thanks for a lot for the opportunity, Sir, first of all about the CAPEX for this year, probably I missed it, what is the guidance for this CAPEX?
- Sumit Malhotra** Like I said in the previous question, if there will be a CAPEX, it will be on account of land purchased in Gujarat, which we are doing so as to get ready for GST as and when it comes in. We are not going to build any plant out there until we get more clarity on the GST.
- Management** But we are sure that it will happen over a period of time and if we delay procurement, then what happens is that we will end paying much more than what we are paying for the land that we are currently negotiating and purchasing.
- Amar Maurya** Okay, but any figure for that.
- Sumit Malhotra** I gave a figure of around 20.
- Amar Maurya** 20.
- Sumit Malhotra** Yes.
- Amar Maurya** Okay, and second thing, what was like, on an average one liter price for almond hair oil, on an average.
- Sumit Malhotra** One liter price is Rs 500.00
- Moderator** Thank you. The next question is from the line of Sanjay Singh from Standard Chartered, please go ahead.
- Sanjay Singh** Just wanted to know your tax rates, currently at 20%. I am sorry, I am not aware when where your factories in the tax free location set up. So, how do the tax freights increase all in all. You could give the exact timeline on the factory setup, then we can calculate accordingly, how the tax rate will move. So can you just give some sense on the tax rates in the next few years?

- Dilip Maloo** Yes, we, right now we are having all our facilities in tax free zones like Himachal and Uttaranchal where we have to pay only MAT, which is at present 20% and all our units will be eligible till 2014-15, financial year 2014-15 under MAT. Thereafter 30% will be exempted and 70% will be taxed at normal rate of tax. That is up to 2018-19.
- Sanjay Singh** Yes, I got it, I got it. So both your tax-free locations will complete their 5 years in FII5.
- Sumit Malhotra** Between '14 and '15.
- Sanjay Singh** Between 14 and 15.
- Sumit Malhotra** There are four locations Sanjay. Two in Parwanoo, one in Paonta, one in Dehradun. All in HP and Uttarakhand.
- Sanjay Singh** Okay and thank you very much. Secondly, Sumit I wanted to know on this, I was seeing the Nielsen numbers for the category for the category. Category numbers for the first five months have come off quite dramatically at per Nielsen from may be around, if you see over a long term, it has come down to 6%. I understand last year was also a bad number for Nielsen. But, your light head oil number seems to be pretty good. So any sense, is it the right number as per your sense, or is there anything wrong here.
- Sumit Malhotra** You are quoting controversy. You are asking me to comment on Nielsen figures...
- Sanjay Singh** No, no, your sense. I am not saying.
- Sumit Malhotra** I will tell you. Since I am more in Light Hair Oil, I can give you the figures of Light Hair Oil, more or less tallied with my numbers, and even if you look at the Nielsen figures for Bajaj Almond Drops, they are fairly close to the numbers that we report.
- Sanjay Singh** Yes, I understand. That is cooling oil is Light Hair Oil numbers are very much matching.
- Sumit Malhotra** Total hair oil growth could not be very way off. The biggest issue is that if total hair oil is growing at 6%, light is growing by 15%, cooling is growing by 11. Amla is growing by 13. Who is slowing down? And the obvious answer is coconut. When you see the biggest coconut oil player, which is Parachute that does not show these kinds of slowing down. Therefore this is the doubt in most of the analysts' mind.
- Sanjay Singh** That is what I was coming from. Yes.
- Sumit Malhotra** I am trying to capture your thought process. The big issue you see is what is a branded hair oil versus an unbranded hair oil. Now unbranded is 30%. If Nielsen by a statistical error shifts one or two small brands or local players into unorganized, the whole thing could change. So, even though Nielsen may not admit it, I think it's the figure is not exactly right, but not very way off also. I know I am being fairly diplomatic, but .....

- Sanjay Singh** Assuming Nielsen is right, the only it can happen is, if some of the local brands are now being categorized as unorganized or labels....
- Sumit Malhotra** That could happen.
- Moderator** Thank you. There are no questions at this time. I would now like to hand over the floor back to Mr. Sumit Malhotra for closing comments.
- Sumit Malhotra** Thanks a lot to all the people who joined. Over the last two years that we have been listed, we have been trying to answer all investor queries in an honest and open manner. We will continue to do that and we hope you will support us in that endeavor. The investor presentation has been updated till August and it will be updated for September post the receipt of the data from Nielsen and I am sure all of you will agree that the Investor Presentation is a good starting point for any analyst who wants to analyze hair oils. Thanks a lot again and hope to see you seen.
- Management** Thank you very much. Thanks everyone for your participation.
- Moderator** Thank you. On behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.