



“Bajaj Consumer Care Limited  
Q3 FY2022 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Bajaj Consumer Care's Limited Q3 FY2022 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions 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. Manoj Menon from ICICI Securities Limited. Thank you and over to you Sir!

**Manoj Menon:** Good morning, good afternoon, good evening depending on the part of the world you are joining from. At ISec it is our pleasure to host the 3Q FY2022 results conference call of Bajaj Consumer Care. The company is represented today by Mr. Jaideep Nandi - Managing Director, Mr. Dilip Kumar Maloo - Chief Financial Officer, and Mr. Richard D'Souza - General Manager - Finance. Over to Jaideep for the opening remarks and we will open it for Q&A after that. Thank you, Sir.

**Jaideep Nandi:** Thank you, Manoj for hosting this call and good morning from India. Along with me Mr. Maloo and Richard, we have some more colleagues from my management committee. So let me take you through the performance of the company for Q3 and 9M of FY2022 before we open the house for questions.

The unprecedented inflation in the economy due to the steep rise in material prices across industry including ours has impacted disposable income as well as consumer spending adversely especially in the rural markets. The hair oil industry was not spared with the overall hair oil market remaining subdued in Q3 and volumes declining by 2% against the same period last year.

Hindi speaking markets where we have a larger presence has a much sharper decline of 6.2% compared to the overall hair oil market decline while the markets of south and west continued to grow. The company reported a sales turnover of 225.3 Crores for the quarter, which is lower by 7.2% on a high base of 18% growth last year. The volume decline for the quarter was 5.9% with the hair oils declining by 3.5%. The two-year CAGR sales growth in Q3 FY2022 was 4.7% and a two-year volume CAGR was at a growth of 8.5%. On a sequential quarter basis, the sales were higher by 6.2% and volume was higher by 10% over Q2 FY2022. For the 9M FY2022 the sales were at 649.5 Crores, a decline of 1% while volume growth was 1.3%. The hair oil sales value was higher by 3% while the overall hair oils volume grew by 5% for 9M FY2022.

With the high dependency on LLP and RMO, which is witnessing unprecedented inflation, the company's gross margin was also adversely impacted in spite of price increases totaling to 7% taken during the year in ADHO. LLP and RMO prices for the quarter were 27% and 54% higher respectively over the corresponding quarter of last year. Over the sequential quarter, prices of LLP and RMO further went up by 6% and 11% respectively. The gross margin for Q3 FY2022 was at 55.4% as against 63.5% in Q3 FY2021 and 59.1% Q2 FY2022.

We continue to keep a close watch on commodity prices in the coming quarters as well as in terms of market reactions and we will take any corrective actions if and when necessary. The company will continue and has been continuing to invest in its brand for long-term growth. A&P spends for the quarter was at 17.8%, which is close to 2% higher over the sequential quarter. The EBITDA for the quarter was 41.6 Crores with the margin of 18.4%, PAT for the company was at 40 Crores against 58.2 Crores for the corresponding quarter last year.

As we have been witnessing for the past few years the consumer downtrading continued in the quarter especially for the premium oils with the coconut and Amla categories growing faster while all the categories of premium oils remain under pressure. Although our presence in the category is lower currently, our direction to complete and balance the portfolio in the hair oil should derisk topline in the mid-to-long-term.

With rural market is slowing down, key wholesale markets in the north, east, and central parts of the country continue to see reduced business volume. Our company had a double-digit decline in wholesale and a single-digit decline in rural while the retail for the quarter remained flat. While the overall performance was affected, most of the key initiatives taken at the beginning of the year as we are doing well, retail presence is being strengthened across top towns and new royalty program outlets are being rolled out to increase focus in the top urban cities.

In rural various efficiency initiatives through technology intervention help us optimize the VAN operations. With portfolio expansion in progress the focus has been to see the newer brands in the rural markets as well. Expansion of the hair oil portfolio will continue with further launches in Q4, premium range of hair and skin care product launch planned under the Almond Drops will start from Q4 onwards.

Both modern trade growth and e-commerce scale up have been as per plan, B2C modern trade registered a 16% growth on the back of better off-takes and footfalls in Deepavali across most chains, better store execution, assortments as well as optimization of our distribution footprint. E-commerce business for our company continued to scale up well

with 45% growth for the quarter and 95% for the 9M with the business now contributing over 4% of turnover.

Listing expansion across key retailers, investments on brand visibility on key platforms, activation of the non-ADHO portfolio continue to yield results as per plan. More than 25% of the sales are now coming from non-ADHO brands in the B2C e-commerce space. Almond Drops continue to get media support across TV, social media platforms and print media, supporting key markets with increased investment in advertisement during the quarter. New youthful thematic campaign dialing up the element of style for younger consumers along with newer claims of 2X hair fall reduction has been launched in January. The campaign has been integrated for both traditional and digital mediums.

The new commercial on TV has been doing well on message communication and other key parameters of likability, relevance and purchase intent. Digital marketing for ADHO has been continuously dialed up and we are now actively using new age influencer to reach out to younger consumers. Bajan Amla Aloe Vera has been making steady progress with the share of more than 3% in the Amla category. The new TV campaign for select HSM market has been on air and has been received positively. Bajaj Sarso Amla which was launched in December 2021 to leverage the equity of the Bajaj brand name and rural distribution strength saw good initial placement.

The Amla category grew by 27% in the quarter and 40% in the 9M period. The initial response to Bajaj Pure Coconut Oil, which was launched in select markets of east, west and south has been encouraging. The product will improve our distribution footprints in these markets. The product was also launched in the e-commerce channel followed by launches in select modern trade outlets in January. Our newer digital first premium brand in hair and skin care in Natyv Soul saw four variants launch in quarter in mask and serum. This is continuing through in Q4 as well. New range of digital first premium pure oils Bajaj 100% Pure with three variants, Castor, Jojoba and Olive oil was launched in the quarter. This is integral part of the e-commerce strategy as we scale up further activations and support in e-commerce space.

We will continue to expand our portfolio in the coming quarters with premium hair care products launch planned in GT in February and March. The digital first brands will also see more variant launch on both Natyv Soul and Bajaj 100% Pure brand supported by a push in digital investments. We are in process of building an organization structure to ensure agility in launches, faster GTM and scale up the digital marketing thrust. In the international business, Nepal business continued to perform well with double digit growth while infrastructure corrections are underway in UAE and Saudi. International business will be a thrust area from the next financial year.

The ESG initiative to reduce carbon footprints, greenhouse gas emissions especially in case of packing materials continue to progress well. There is a reduction in consumption of approximately 16% in glass bottles, 7% reduction in paper and 14% reduction in laminates through optimization and rationalization or specifications. Plans are also underway to ensure that bulk of our packing material is of recyclable material as part of our extended producer responsibility, we are on track with our target to effectively collect and co-process 100% of our post-consumer plastic with 90% achievement of target already in 9M FY2022. Conservation of natural resources like water, reduction of carbon footprint, wastage of factories remains key focus area.

Water conservation effort saw us measuring the water consumption sources, installation of controls at critical places helping us reduce 24% of our water consumption in Q3 FY2022. While the market conditions have been challenging currently both from demand slowdown as well as raw material inflation perspective, the company will continue with its mid to long-term strategic direction of expanding its hair oil portfolio and distribution footprint, continued investment in marketing both conventional and digital, launching a premium personal care range under the Almond Drops brand and scaling up the digital first brands Natyv Soul and Bajaj 100% Pure.

So, with that I end the opening remarks and open the session for questions. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait be for a moment while the question queue assembles. The first question is from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.

**Prakash Kapadia:** Thanks for the opportunity. I had two questions, if I look at the current quarter results, second quarter in a row sales have declined, gross margins have fallen and if I look at the other companies with a more broader product portfolio in the hair oil, they are growing despite the market really not growing, so is it fatigue which we are sensing in almond oil category and secondly a couple of quarters ago we said obvious the EBITDA margins could trend lower, but the focus would be on growing EBITDA and PAT on an absolute basis, so from here on what do we expect to happen and what is our game plan, will there be more price hikes, will there be some reduction in material cost, some product mix change, so in the mid to long-term what are we focusing on and how we will some of these things change for us? Thanks.

**Jaideep Nandi:** Let me address the two questions in the sequence. So first and foremost we talked about how the other larger players have been able to grow while ADHO has not grown, so if you look at actually how our company is placed with a very, very strong ADHO dependency, if

the market sentiment is strong and there is a good consumer demand that is happening ADHO keeps growing. We saw last year with a rural push which the government supported, I mean the rural economy boomed and we had a fantastic growth, we had a double digit growth in ADHO itself after quite a long time and we are facing the reverse cycle now with the rural demand slowdown itself which has directly impacted us, so all the initiatives that we had stated last year while all this activity of ADHO growing and when we are talking of that EBITDA dilution will happen, but the absolute numbers will remain, did not obviously factor in this two unprecedented and I would assume not really foreseen at that point of time. This unprecedented escalation of both the raw materials that we use that is especially related RMO that is refined mustard where we are far more over indexed than the other players and that has seen some 54% escalation, we did not anticipate that. The other is, the rural demand collapse which obviously not anticipated, is something what we wanted to do is, derisk our portfolio so that at least we have a larger portfolio where we are getting volumes from, so if you look at today all the companies that have grown the cheaper oils is where the growth has come from, none of the premium oils have actually grown for anybody today, I mean at least not in the kind of a large volumes that we are talking of ADHO. So I do not think ADHO itself has too much of an issue today. Yes, there will be a little bit of lag that will keep happening when the market collapses, but as the market comes back, rebounds back, I think there is enough that is being done for the ADHO is concerned to risk that demand. What we need to capture is the lower end of the demand, which we have not been actually targeting for a long time and this is something which will be required for the balancing of the portfolio so that the growth is arrested, so this is what the attempt has been and if you look at that is what I was saying if you look at our CAGR for 2 years I mean while the numbers look sequentially quite worrying for the last two quarters if you look at, but if you look at the two years CAGR our hair oils growth is at 8.5%, which is what more or less compare with any of this, so this is how we would want to place ourselves, have a larger portfolio so that the other wings are also firing, so you will see some more launches in hair oils coming up in this quarter itself so that we have a far more balanced portfolio as far as hair oil is concerned. Coming to your second point regarding the gross margins yes, one expectation is that with a bumper crop to understand it is a bit 25% hike in the mustard crop that has come this year, so we expect the mustard prices to soften going forward, in Q4 we will see some softening, and in Q1 onwards we think there will be a good enough softening as far as mustard is concerned. As far as, LLP is concerned yes, it started showing a little bit of a downtrend, but with the current prices that is happening as far as crude is concerned, we expect LLP to remain at these levels, I do not think it will go up significant much more. At this moment, the market we do not think we can take further price corrections because if you look at in the last 2 to 3 years ADHO has taken the highest amount of price increase if you compare to the larger brands, so I do not think we are looking at price corrections now, so the EBITDA will remain a little subdued because all

the other aspects that were there in terms of investments we will continue to do because we need to derisk and need to expand our portfolio, so that is an attempt we will continue.

**Prakash Kapadia:** Understood, that is helpful and as of now what would be the urban and rural sales mix if you could just from that?

**Jaideep Nandi:** It is exactly now sits at 50 and 50 if you look, at the primary level it is 50 and 50 that is the urban primary sales and the rural primary sales. If you go into retail and wholesale, wholesale though it has been collapsing it is still about 28% to 29% while retail is about 22% odd, so that retail component has been consistently growing for us because that has remained flat till now and CAGR is actually positive while the wholesale component has been dropping.

**Prakash Kapadia:** Thanks, that is helpful. Thank you, I will come back if I have more questions.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

**Shirish Pardeshi:** Mr. Jaideep and team, good morning. Thanks for the opportunity. Jaideep, a little worried, if I follow your commentary last 3 to 4 quarters, we started saying that we have now gone back and investing a huge money in the VAN operation and we are trying to do lot of activities in terms of ramping up our direct coverage while it did show some number and I give the benefits saying that our base was higher and that is I am considering 2 year growth, but maybe problem or the challenge which I am finding the wholesale market coming back and you did mention at least 3 to 4 times that it is a market is still having, so internally structural derating which is happening and people are preferring more on the low end of the product likes of Amla and coconut and that is where we have lost our price and product position is that the thing which is worrying you or maybe if it is not then how we are able to correct the situation or we will have to wait the consumer sentiments to change?

**Jaideep Nandi:** I would think it is more a transient phase, if you ask me whether we are really worried about our pricing power, etc., I still do not see so, it is more a overall thing that is happening while ADHO itself has grown at little lesser, I do not think structurally there is an issue with the product or the market segment side, yes, in as far as we are concerned in specific markets which markets have overall collapsed for all other products as well, we have also declined, but that is where we need to cover ourselves with a flanker brands that we are launching Amla, Sarson and maybe coconut going forward as well, so this is what we wanted to cover. As far as VAN operations is concerned the deep rural that work has already happened and further escalation will happen as we launch a few more brands maybe we will go further deep, so that initiative will actually continues that direction, so last year

we got that fillip in terms of getting that extra sale, yes, that base is now sitting with us, I do not think we can further grow on that base even further on that VAN operations itself, but overall I think there is enough and for our other products to fire so that we have a more complete range and the growth momentum to come back that I do not see as much.

**Shirish Pardeshi:** I got that just let me have one followup on this, you did try to do the product innovation we started with Amla and our core Amla was reestablished and we also added Aloe Vera in that so I give the benefit saying that now we have good product portfolio and if HSM marketing is there which is showing the downtrading what is it not working, distribution effort these all will be a long haul, but in the short run if the product has already been established about 2 to 3 quarters in terms of AMLA, what is that missing?

**Jaideep Nandi:** As far as Amla is concerned or even now the Sarson has been launched and the way we are seeing those products are doing pretty well, I think the way a new product start I think those products are progressing quickly. What we are seeing is this down trading that is happening and the demand contraction that is happening specifically few states itself UP, Bihar, Madhya Pradesh, Chhattisgarh and this where the demand where and to a certain extent in some of our eastern markets, so that is where we see the issues even if you look at the other markets let us say the markets of Rajasthan, Haryana, Punjab they still were pretty robust, I mean far more robust than these markets, so it is more a localized northeastern kind of a market for us, north and northeastern in India that the eastern part of the north belt is where we are seeing that is very, very specific Hindi, the lower income markets and that is where we see the strain and I think that is more our temporary transient period that is I do not think that will continue.

**Shirish Pardeshi:** Just to get my understanding right, you are of the opinion that we will not have to drop the ADHO prices?

**Jaideep Nandi:** I do not think ADHO prices will drop unless there is a real connection as far as LLP and RMO prices are concerned, I do not think we would need to drop the ADHO prices, what we would need to do is maybe escalate our advertising effort because that actually in Q2 we had dropped in and I think for a premium brand like ADHO that needs to be continuously focused so that is what we have to get back.

**Shirish Pardeshi:** My second question is on the input materials. I think RMO and LLP for many years we have been buying and I am sure there is some method to buying this process so just want to understand if you can spend a minute obviously because we are the large buyer and we would be sensing how the market is going to move for this product and I am sure you are not doing everything on spot, you will have some cover and something will try and do it, so just wanted to understand the whole process how this buying and our understanding about



the prices correction, which is there, so are we competent enough to get our say that is okay we will be able to manage the cost pressures or then we will be at the mercy of the price increases or the inflation which is going to come up maybe from here on if it is going up then we will have to face it?

**Jaideep Nandi:**

I think the way you handle prices is you look at two, three options, you look at alternates, you look at alternate sources, as well as you look at forward buy as that is required, so LLP typically you do, while the efforts have been going on across for alternates at this moment we do not have a solution as far as alternatives for LLP is concerned, so it is an alternate sourcing as well as forward buying. So forward buying, etc., coverage you do some hedging and try and cover based on what is your expectations on LLP prices, but given this kind of a very, very volatile situation that is happening covering too much of the forward also may not be a great thing. We did do some cover in October, so it did cover November and December, so there were some decent tactical buying but really it gets wiped out in this entire process of the kind of escalation that we are seeing. As far as RMO is concerned yes, RMO is a very, very crop dependent product and very few people actually are into RMO for a 12 month basis that is the supply yes, we are trying to put on base while in LLP I will not be able to give to you what the sources are, I think a lot of work has been happening in terms of LLP sourcing both internationally as well as domestically, we are trying to look at much more broadening of the LLP sources that we have than we had earlier while in RMO it is more a local thing where a little more broad basing is happening, so I think going forward we will have a far stronger sourcing supplier base than we had in the past, so we are in the stage of testing and in certain stages in terms of negotiating and I think we should be having, but whether it will have a huge material impact on the LLP and RMO prices I think it will still be a function how the prices move.

**Shirish Pardeshi:**

I got that that is very helpful. Just wanted to understand do we have any idea that what is the current inflation and I am sure we have taken about 7% to 7.5% price increase so maybe if can help how is the current vetted inflation we are facing and more importantly I think if can give us some understanding that how one should look at gross margin, because the gross margin declined in this quarter was a surprise and it was very, very high so maybe in the short to medium term how one should look at the gross margin?

**Jaideep Nandi:**

If I have to just define the gross margin decline that has happened, just to give a sense of from the last quarter because that would be a bit of shock to many people as to why gross margin declined so as you saw as far as our RMO is concerned even that went up in Q3 and so there was about a 2% dilution in the gross margin that happened of the 3.7% total gross margin dilution about 2% happened just because sheer RMO itself and a bit of LLP as well, other about 1.5% is actually shared between two things, one is obviously a mix change as well as tactics change that we had within ADHO itself as well as in terms of some of the

consumer offers that we have to offer in the select markets just to holds the demand, so this is where we are seeing that some kind of corrections tactical that we did, in Q4 I do not think that will happen.

**Shirish Pardeshi:** Thank you and all the best to you.

**Moderator:** Thank you. The next question is from the line of Aniket Shetty. Please go ahead, Sir.

**Aniket Shetty:** In terms of the marketing spends just wanted to get some visibility at least from one year perspective so you have highlighted some media support even for the Amla portfolio, how are you looking to carve out spend for new brands, this is mainly because the core ADHO franchise also need some media support and the headroom to increase absolute media spends is kind of limited given GM pressure at least from a one year perspective?

**Jaideep Nandi:** We would continue to have that budget about 18% to 20% that is what we had set for ourselves so as far as the new brands is concerned it will remain at that at least of the overall at this thing at least 2% to 3% spend that you would like to do as far as on the overall business so that is the minimum that you would like to spend on just sheer marketing spends as far as on the overall state.

**Aniket Shetty:** 2% to 3% on the non-ADHO front?

**Jaideep Nandi:** On the non-ADHO, 2% to 3% of the overall business.

**Aniket Shetty:** Understood and you also have been talking about the potential of a personal care portfolio under the Almond brand for some time so are you looking at a more mass offering over there or will it be limited to a low premium e-commerce kind of range?

**Jaideep Nandi:** No, so we are looking at a combination of both some of the product formats that we have might be more suited for the modern trade and e-commerce and some of them will be mass brand as well so it will be a combination of both with focus being more on the larger brands, smart brands that we want to get through.

**Aniket Shetty:** To start with what will be the focus over there?

**Jaideep Nandi:** Come again?

**Aniket Shetty:** To start with say in the next quarter or so, will we have the mass brands launching first or the premium?

- Jaideep Nandi:** In the next 2 months or by the end of April, you will see both of them at least about 3 products coming in both the formats, both the mass as well as the omnichannel.
- Aniket Shetty:** Lastly I just had a one question in terms of VAN operations if you could quantify the cost of doing these operations and how much would it be really contributing to the overall revenue?
- Jaideep Nandi:** See overall revenue it contributes to roughly about 12% or so overall in terms of revenue and in terms of costs it comes to about, overall if look at about 2% of the overall revenue it comes as a cost.
- Aniket Shetty:** Additional cost of the overall?
- Jaideep Nandi:** Yes, right.
- Aniket Shetty:** Understood, that is it from me, Sir. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** Sir, thanks for providing me this opportunity. I have 3 questions, so one is that our Almond Drops glass bottle had this drop system, so have you ever considered changing the quantities per drop, so that we can indirectly probably increase consumption you ever considered that?
- Jaideep Nandi:** Actually what we have done is, are you talking of radius grammage, I did not get your question?
- Vaibhav Badjatya:** No, I am talking about our glass bottles in Almond Drops, if a consumer is using the bottle then there is a drop by drop system that comes right, so have you ever considered changing the quantity per drop, by changing the design of the bottles so that we can increase the consumption?
- Jaideep Nandi:** I think not really, we understand what you are saying, but that is not what we have thought, I mean any of our consumer studies that have not come as a point of concern, so really speaking that is not something we have talked.
- Vaibhav Badjatya:** Got it and Sir, secondly I just wanted to understand on the wholesale part, so during the demonetization and GST, wholesale suffered we understand, during COVID wholesale suffered we understand, but in September quarter and in December quarter none of these

things was there materially, so what is exactly the problem with wholesale, is it funding issues problem or they are facing competition with new age wholesale, B2B players what is exactly the problem with wholesale?

**Jaideep Nandi:** I think new age B2B is not an issue as far as wholesale is concerned, and if you look at our business the slumberness has happened because of the rural slowdown that we see and in the rural markets where we had a higher indexing I mean the rural markets for wholesale we did quite low in fact in this particular quarter if you look at the wholesale has done better than the sequentially last quarter, but the sub-Distributor business which is the sub-stockiest that has actually gone down, so both wholesale that is feeding the rural as well as the rural wholesale itself which was happening, that has actually gone down, so clearly that sign is there, retail is the only business, which has done well, wholesale has grown on sequentially but against last year if you compare has gone down and sub business is also down, which has been doing very well till the first quarter of this year.

**Vaibhav Badjatya:** Basically you are saying it is more the issue on the demand side which is being fulfilled through wholesale channel that is why the wholesale channel has been down?

**Jaideep Nandi:** More rural demand if you look at company, really more rural demand that we see, as far as urban demand is concerned our business is concerned, it still remains pretty robust. I do not still see any issues as far as our urban business is concerned or urban retail business is concerned, it is more the rural business where the hit is, and so the HSM markets not even the other markets whatever we are under indexed alright, but we are doing pretty well, it is very, very concentrated geography where we are seeing this downfall.

**Vaibhav Badjatya:** Understand and lastly on our number overall oil portfolio, I understand that we are trying to broad base our portfolio, so in a normal situation currently there is a lot of pressure on the rural side and on our consumer side, but in a normal situation do you think that consumers will migrate from Amla to Almond given our normal economic condition at their end up or they are more comfortable using Amla and not shifting within different hair oil based on the content?

**Jaideep Nandi:** If you look at upgrade and downgrade in terms of hair oil use this process will continue, in a normal market conditions both will keep happening while there is no major marquee shift happening between these categories for this basic shifts keep on happening so that we expect and that is where is kind of brand image that we want to project, etc., and in terms of imagery that you do in terms of brand equity that you establish I would assume that in a normal situation ADHO will keep getting consumers as some of them keep lasting as well so that itself is not an issue, but when the downtrading is happening, when everybody is

conserving cash and the economic pressure is there, there you see ADHO taking that of a hit.

**Vaibhav Badjatya:** Right, that is it from my side. I will come back in the question queue.

**Moderator:** Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

**Keshav Garg:** My question is really simple, I just wanted to understand that why this FMCG companies trading at almost price to earnings ratio of 10 adjusted for cash whereas other FMCG companies are trading at anything over 50 to 70 times price to earning?

**Jaideep Nandi:** I think the answer itself is in terms of the way the company has performed over quite a sustained period of time and as well as in terms of derisking this organization has and in a situation like I mean that question is clearly answered by exactly this year's performance and this quarter's performance and that is what we need to address at some point of time we need to bite the bullet, widen the company's portfolio and have a little bit of derisking so that is you are able to make up from somewhere. Today we are because we have only remained in ADHO and remain in a very cocooned kind of atmosphere, the growths got stalled about 2015-2016 and after that we have not yet been, even today we have not been able to completely recover, so with this attempt of truly broad basing which we wanted to do last year itself and if the market conditions had remained stable, I am not saying it should have been buoyant, if it had remained normal I think all this growth drivers that you are seeing would have given you complete picture which we assume as normalcy returns it will have to return at some point. I think these growth drivers that we are putting in terms of the long-term outlook, I think will give us this strength and I would assume then the EBITDA multiples and the numbers that you are looking at should be good.

**Keshav Garg:** Sir, actually that is incorrect, if you see Procter & Gamble Health and hygiene, they have only Whisper and Vicks, so there also product concentration is there, still they are trading at 84 times P/E so the real reason is that any FMCG company if the price falls below 30 times price to earnings they will do share buyback and they will buy back and extinguish the number of shares, so per share will go up so because of that the P/E ratio will sustain but in our case there is no intention of doing any share buyback, so I mean the share will definitely keep on languishing if you are not able to increase the operating business of the company at least you can do are share buyback so that our EPS can increase?

**Jaideep Nandi:** I appreciate that tactically that is something that the board can always look at, so that is a separate call, but I think the objective of the company is not to look at this tactical methods alone but more to ensure that the performance of the organization is strengthened and it is a

far more long-term in nature. I think that is the attempt that the company will have to do whether how you should look at the dividends, how you should be looking at share buyback, etc., I would leave the board. I will definitely take your message back to the board ask them to consider options for buyback or any other such options, interventions that are possible, but I think overall we should be looking at how we can improve a long-term strength of this organization.

- Keshav Garg:** Sure, thank you very much.
- Moderator:** Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.
- V. P. Rajesh:** Thanks for the opportunity. My first question is that you called out some specific markets like UP, Bihar and others in the eastern region and you called that this is a transient problem so if can just elaborate a little bit why do you think it is transient and it will get better in the next 2 quarters or 3 quarters or whatever the time period maybe?
- Jaideep Nandi:** If I look historically in no markets you will see a slump that has been prolonged and it has never recovered at all because the intrinsic demand in terms of consumption, in terms of consumer consumption cannot really go away. Yes, we are currently facing a unprecedented time both in terms of inflationary pressures as well as there is not too much of a rural let us say initiatives or incentives there whereby there is a consumption sentiment which is better, I do not think this can continue to last or even if it last, the bases have already gone down quite a low level and it can only go up from here, so really speaking I do not think there can be for the contraction of demand from where we are sitting now.
- V. P. Rajesh:** And have we lost our market share in these particular markets?
- Jaideep Nandi:** Specific markets, one or two markets a little bit of market share loss has happened, but I do not think they are extremely marginal I mean at this stage the market share losses numbers are not showing up as far as Nielsen data is concerned. They are just 0.2%, 0.1% kind of a slippage that is there overall, so as of now it is nothing like that.
- V. P. Rajesh:** My other question is the organization side, as you said things have been quite volatile it seem 2015-2016 time period, so organizationally what is happening on the sales side are you seeing more attrition there or how you are managing that because I am assuming people are not getting their numbers so their compensation is definitely not keeping up with their peers?

- Jaideep Nandi:** I do not see too much an attrition that is happening there. If you look at the attrition numbers would be at about 15% to 20% , which is what do we expect more or less across the industry itself, so fortunately we do not see too much of an attrition that is happening, yes, there is a natural attrition which is there, but that has been there other than last year that kind of attrition we have seen across years, so that has not been so much of an issue neither we at the head office we see that much of an attrition. Where we see things that we need to improve is in the new areas that we are trying to build, we think we need to be a little faster in terms of build-up of capability, etc. that is where possibly where we need to focus.
- V. P. Rajesh:** But I am assuming your Salesforce are they hitting their numbers, like how many percentage are they their number?
- Jaideep Nandi:** Yes, you are right so obviously the numbers that people are hitting are not very high especially in these markets that I talked about, but it has not resulted in mass scale attrition as such, yes, there has been a little bit of attrition in here and there and we are also taking measures to ensure that they are protected by ensuring the incentive commission, etc., so that at least we get some stretched targets so that is a bit of base commission, it is not a very high commission.
- V. P. Rajesh:** My last question, you have been I think two years plus now so what is your honest assessment of, when do you think the ship can turn back into a growth mode?
- Jaideep Nandi:** I think this entire attempt of ensuring that you have at least 2 to 3 other portfolios to play with or rather portfolios or engines to play with it is something that needs to get established and that is the first attempt was to ensure that we have the basic processes in the systems to be able to create this growth pillars, ability to launch brands, ability to get good R&D, so that part was over that is the launch that we had planned so most of the launches are as per plans, maybe a quarter here and there other than that I do not see any of the long-term plans, which has got deviated, what has hit us is these 2 things and I fairly do not know whether we could have been better prepared or we could have anticipated this kind of an absolutely unprecedented raw material inflation or the kind of slump that has happened, but a company like us, which is very, very dependent on a single brand and owns all the boxes to be ticked for the business to go up it has not happened, but if you look at the investments that are happening or the direction that we have taken and the investments that are happening I think within the next 3-year period, I think we will have a decent portfolio where some substantial numbers will start coming in as well, so this is the direction we are taking and I think there I am pretty comfortable that we should be seeing a different company in a 3-year period where far more larger space we have and it is not concentrated only in a single block of one product only.

- V. P. Rajesh:** So my last question is just what is the EBITDA margin we expect 3 years out given all the changes that you are driving in the organization?
- Jaideep Nandi:** Earlier I am not deviating too much from that I mean we wanted to talk of a EBITDA margin would be closing it about 22% to 23%, I think going forward we would be looking at, at least 20% plus EBITDA margin with this kind of investments coming up, so maybe in the very short-term you will see a bit of EBITDA erosion, but I think 20% plus margin is something that anyway we should be looking at going forward.
- V. P. Rajesh:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir, just wanted to understand, sorry if this question has been answered, I entered late, is there any difference between the primary and secondary sales of the company?
- Jaideep Nandi:** At this stage, not much. In fact the primary is trading along with secondary, it is just a little that is not really there too much, we still remain at the 27 to 28 days of stock that we have.
- Percy Panthaki:** Second question is you had a volume decline of about 6% and a price increase of 7%, so that should have total to a sales growth of 1%, but the sales is down 11%, now I understand there is always some mix effect, but at 12% mid effect seems too large, so can you explain this?
- Jaideep Nandi:** Sorry, come again, So, we have given a 6% price increase and I think that SKU and the product mix itself has had a 4% odd impact on overall thing, so that is about it.
- Percy Panthaki:** Sir, if I do my maths there is 6% price increase and volume is down 6% so the sales in absence of mix should be flat, now you are saying mix is negative 4%, so the sale should be negative 4%, but your reported number is negative 11%, sorry sales is down 7%, it is my mistake?
- Jaideep Nandi:** Yes, 7%.
- Percy Panthaki:** Sir, I would assume the mix effect should have been positive this quarter?
- Jaideep Nandi:** So, mix effect is not positive, mix affect is because we have had a higher sale of the other products as well, as well as in terms of mix within ADHO the lower volume of sachet sales have been higher this quarter, so there has been an adverse impact on the mix as well so



both mix in terms of ADHO, SKUs, because 50 mL and 100 mL which are flagship SKUs there we have had a stress.

**Percy Panthaki:** Because it is not your urban to rural mix this quarter would have shifted a little more in favor of urban and better urban mix would not that be positive for your overall product mix?

**Jaideep Nandi:** Not really, I do not think there is a huge difference on that because the shift that you see if you look at let us say against last year the urban had really gone a little lower because if you look at compared to last year, the retail has remained flat while wholesale has gone 20% down so it does not make too much of a difference because what has got sold, the thing is the SKUs which is in the sachet packs has actually gone up and your Amla and coconut has also gone up, so that is being both the SKU mix as well as the product mix adversely impacting us.

**Percy Panthaki:** Understood and you mentioned that you would want to go back to 20% plus kind of margin soon, so how long do you think it will take for us to go back to that 20% plus level?

**Jaideep Nandi:** I think next year we would want to keep investing on the brand so we would be expecting about closer to 20%, but still remaining below 20% and once all investments are in and I think we will start seeing the results from FY2024 we should be seeing 20% plus number coming back.

**Percy Panthaki:** The margins that you have reported this quarter are they the bottom or do you think that temporarily margins could drop further because of a inflation or whatever reason?

**Jaideep Nandi:** I think margins are more or less now bottomed out, there might a plus minus few percentage points here and there, but really speaking I do not see a major shift in margins further going down.

**Percy Panthaki:** Thank you.

**Moderator:** Thank you. The next question is from the line of Devanshi Sampat from Yes Securities. Please go ahead.

**Devanshi Sampat:** Good morning and two questions from my side. Where are we on a journey of revamping the senior management and the overall hiring plans, can we expect this to 100 Crores to 120 Crores run rate for employee expenses to continue and rise in line salary hikes so can this number move up?

- Jaideep Nandi:** No, as far as senior management hiring concerned, there is no further hiring that is expected, there is a little bit of changes in terms of rationalization that would be doing and in terms of a little bit of dialing up of the digital marketing teams that we have as well as in rationalizing one of the salesforce that we have a bit of rationalization there, so that will more or less and other than that no senior management hirings are happening, no hire ticket employment will be happening.
- Devanshi Sampat:** Can you elaborate a bit on our efforts in the new product launch and the NPD team overall what investments have been made in terms of people, can you just give a sense on the efforts in this area?
- Jaideep Nandi:** I think a lot of changes has been done to the marketing team itself I think we had a far smaller marketing team which has more of just ADHO brand as well as one more very small team which looked after non-ADHO brands, so now at least we have much more broader team whereby we are looking at ADHO being handled by one team ADHO rather one team, yes, ADHO extensions by two people which is all this new brands of ADHO, we are looking both vintage pool and the Pure Oils team is being looked up after by 2 people to who we will be reporting to the digital marketing head and the oils, which is basically Amla franchise and the coconut franchise this will be looked after by 2 more people so that is the broader team that that we have as marketing.
- Devanshi Sampat:** That is on the marketing side, what about the R&D and product development?
- Jaideep Nandi:** R&D side we had already invested last year, so we have about 8 to 9 people as far as R&D is concerned so the product development team we had done last year that is how these products are coming up, so that was an investment would have happened about 5 to 6 quarters back.
- Devanshi Sampat:** Sir, just a clarification you mentioned that we are looking to expand our GT portfolio in the coming few quarters, are you referring to bringing any of the recently launched products into this or Natyv Soul we are just looking at entirely new?
- Jaideep Nandi:** Neither Natyv Soul nor the products, which have been already launched, we are looking at some more products coming up in the next 2, 3 months, so you will see products coming in GT this month and the next 2 to 3 months starting and then it will come more.
- Devanshi Sampat:** Natyv Soul and Zero Grey and this 100% pure brand are really online, right?
- Jaideep Nandi:** Yes, they are digital brands, they are not coming up in general trade, no.

- Devanshi Sampat:** So, are we targeting more in the hair care space and what about the plan in the non-hair care space any thoughts on that too?
- Jaideep Nandi:** As I said in the Bajaj name you will see most of it will be in the hair care or hair oil space, but in the Almond Drop's category it will be more in both hair and skin care.
- Devanshi Sampat:** Sir, I have not attended the last few calls if you can just update on what is happening with No Marks category?
- Jaideep Nandi:** No Marks, we have decided to scale it down and remain with a few products which work, which is basically one of them is the face cream so that is where we are seeing where we can tactically use the product with so much of a large portfolio that we want to invest in, No Marks is not a brand where we will be able to invest further, so tactically wherever we can push both in modern trade as well as in select GT markets we will be taking up beyond that No Marks will not get invested in.
- Devanshi Sampat:** Just a thought, the channels of No Marks is slightly different why not look at some of this premium Native Soul brands which are to bring it into that channel, I mean would not that make sense, what are your thoughts on this?
- Jaideep Nandi:** Yes, it would, you are absolutely right. We can obviously do that, but at this moment we are more focused in getting Natyv Soul first establish more on the digital platform itself so our focus and attention is more that, but yes, if we see opportunity to be exploited tactically in that will on that as well.
- Devanshi Sampat:** Can you just touch on the reach of our No Marks distribution?
- Jaideep Nandi:** In terms of numbers?
- Devanshi Sampat:** Yes.
- Jaideep Nandi:** Offline I will get that to you.
- Devanshi Sampat:** Sure, Sir. Thank you and wishing you all the best.
- Moderator:** Thank you. The next question is from the line of Ekta Sanghvi from Vallum Capital. Please go ahead.
- Ekta Sanghvi:** Good morning, Sir. I just had one question, so what is your outlook on the rural demand in the medium term and would you be adopting like you said that our focus has been low on

the lower end of the demand, so will we be focusing more on promoting the Amla and coconut portfolio in the rural markets till the demand is subdued or will we promote more of the small SKUs of ADHO?

**Jaideep Nandi:**

In fact both. That is absolutely correct. We will be looking at both and we will have to look at exploiting the portfolio so in very specific markets we will have to play with both let us say the Amla coconut as well as the smaller packs of ADHO, in certain markets it might be just a higher push on Amla and coconut for the time being because those are markets where you are not only underrepresented, in some of the markets, we are hardly represented so when this downturn is happening, when the larger packs are losing out these are markets which are newer market so to say for us which we need to cover up so that is where we get the volumes, if you look at most of the other players that is where the growths have come in, they have grown in markets where let us say products like Sarson etc., have grown much, much faster than their normal portfolios, the normal portfolios have not done that strongly but let us say the cheaper oils have done better so this is where we also need to cover up and ensure that we are able to clear both where we can exploit ADHO obviously the first choice will be to exploit ADHO in all markets that are there but wherever we feel that there is a stress ADHO can only do so much we will have to cover it and balance through the other hopefully, which is where I think the focus has to be.

**Ekta Sanghvi:**

What are your key areas that you mentioned UP, MP, Bihar and all? Have you explored or do you think that you have explored the coconut and Amla portfolio completely over there or would you be focusing more on these portfolio in those regions?

**Jaideep Nandi:**

So, Amla has always been there in this market that is the Amla Aloe Vera wherever these markets are selling, but in some of these markets where Sarson has higher gestation for Uttar Pradesh, Bihar, Jharkhand etc., Sarson is obviously clearly the large brand there as well, the focus has been with the launch of Sarson, to also focus on covering where we are not covered well with our ADHO itself, so that we will cover. Coconut at this moment is restricted to east, west and south where we are improving our distribution, we will see how coconut has to be taken.

**Ekta Sanghvi:**

Sir, lastly could you please comment on rural demand outlook?

**Jaideep Nandi:**

The rural demand outlook I do not see any quick fixes that will happen. I do not see in this quarter any rural demand coming back very, very strongly so we will keep playing as I said on ensuring that we cover our flanks by our entire portfolio coverage, but over as I said on the long-term I do not see there is a huge stress in the economy or there is fundamentals that was going wrong that is rural will not come back, so we expect the rural demand to come back in a quarter or 2 and by that time we should be ready and that is where we are also

investing in ADHO itself so that we are able to get back with the ADHO as well when the demand comes back.

**Ekta Sanghvi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

**Vaibhav Badjatya:** Thanks for providing this opportunity, so in terms of RMO and LLP I want the absolute numbers, for 100 mL of Bajaj ADHO, how much in mL tons is RMO and how much is LLP?

**Jaideep Nandi:** The percentages obviously I would not be able to share, but all I can tell you is that is that LLP is about 2 to 2.5 time higher than RMO and in terms of raw material these are the 2 main raw materials about more than 95% of the raw material is contributed by these 2 products as far as the raw material is concerned, packing material is obviously separate.

**Vaibhav Badjatya:** I think 2 to 2.5 LLP is more than RMO you are talking about the value terms or volume?

**Jaideep Nandi:** Volume terms.

**Vaibhav Badjatya:** Got it and in terms of A&P spending you have clearly there is gross margin share and going forward also there will be, on the top of it we are increasing our portfolio in the lower value segment kind of a thing which will obviously have lower margin so where you can make trade off in terms of A&P spending, would it be more on ADHO side or would it be more on the new brand launches that you are doing and you will probably not make too much of investments?

**Jaideep Nandi:** Let me just clarify this entire thing on A&P as well as the new product launches. As far as the new product launches, you will see two sets of any product, let me put it little more broadly three sets of new products, one will be pure trade led brands, where we have done some bit of investment as far as media is concerned that we may not do too much of investment as far as media is concerned which is the ranges of Amla coconuts, and so on and so forth because this will be more trade led, we will be using more our distribution, our real reach, etc., to push. There are set of brands which is more in the premium side both in hair oils as well as in terms of Almond drops that we are talking about, there we will be spending money on media that would be a premium brand and they will be having a far higher gross margin and we will be pushing them through media and the third leg is obviously a more of a little longish term which is Natyv Soul and 100% Pure, etc., where

will be investing in this digital brands, but it will have obviously very high gross margin, but then also high expenses. Balance is that to ensure that we fit in EBITDA numbers.

**Vaibhav Badjatya:** Correct, understand and in terms of the difference in the raw material cost structure between us and some of the other hair oil players, let us compare Almond with Amla, so I think LLP is common in both and mineral oil is also common, so I think within mineral oil they are using more RMO, but for Amla, is there is a trend difference between the vegetable oil and RMO or vegetable oils are also which is using Amla is also growing in the same proportion as what RMO is doing in terms of price?

**Jaideep Nandi:** You are right. So normally let us say product rice bran etc., they trade a little lower than RMO, but in current stage they are far, far lower than RMO competitively if you look at and our base formulations have been mainly based on, obviously ADHO is not something that we wish to change even going forward even though there has been a lot of experiments which have been done and we have had formulations with other vegetable oils, we are not very keen to change the base formulation of ADHO itself, so ADHO gets ruled out as far as the other products are concerned yes, the formulation, etc., we have been trying out, some formulations have been made and some of them have got implemented as well with replacement of RMO with some of the other.

**Vaibhav Badjatya:** So, in Amla you are saying it is more towards rice bran oil?

**Jaideep Nandi:** Yes, we are looking at different options and we will keep changing them as well, as far as sensorial remain we are looking at other various options.

**Vaibhav Badjatya:** I am talking about versus the other competitors the vegetable oils that they are using, do they have our rice bran oil content there or how does it relate to the RMO is what I am trying to understand?

**Jaideep Nandi:** It would have a little lower RMO content that we have.

**Vaibhav Badjatya:** That is it from my side. Thank you.

**Jaideep Nandi:** This is specifically Amla that we talked about. If you look at the overall portfolio obviously you have products like coconut, etc., that is completely separate track. Really you cannot compare that.

**Vaibhav Badjatya:** That is from my side.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

**Jaideep Nandi:** Thank you so much for attending the call. Yes, we understand this was a very challenging quarter being hit by both the demand side as well as the inflation side, but I think overall as far as we are concerned, we still feel that ADHO has its own strength which will bounce back as the market demand stabilizes and our investments that we talked about in terms of expanding our portfolio in this various legs that we talked about the 3 legs of expanding the hair oils portfolio, coming out with the Almond Drop brand itself as well as in terms of the digital thrust brand that we are investing in, I think we will put in a very, very strong position going forward and that is what we will be investing. Thank you so much and look forward to interacting with you in future. Thanks.

**Moderator:** Thank you very much. On behalf of ICICI Securities Limited we conclude this conference. Thank you all for joining. You may now disconnect your lines.