

bajaj corp limited

“Bajaj Corp Limited Q2 FY2019 Earnings Conference Call”

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ANALYST: MR. JAYKUMAR DOSHI – RESEARCH ANALYST - KOTAK SECURITIES LIMITED

MANAGEMENT: MR. SUMIT MALHOTRA – MANAGING DIRECTOR – BAJAJ CORP LIMITED

MR. SANDEEP VERMA - PRESIDENT (SALES & MARKETING) - BAJAJ CORP LIMITED

MR. DILIP MALOO – CHIEF FINANCIAL OFFICER - BAJAJ CORP LIMITED

MR. KUSHAL MAHESHWARI - HEAD TREASURY - BAJAJ CORP LIMITED

Moderator: Good day ladies and gentlemen, and very warm welcome to the Bajaj Corp Q2 FY2019 earnings conference call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities Limited. Thank you and over to you Sir!

Jayakumar Doshi: Thank you. Good morning, everyone. On behalf of Kotak Institutional Equities, I welcome you all to Bajaj Corp.'s Q2 FY '19 earnings call. We have with us senior management of the company represented by Mr. Sumit Malhotra, Managing Director; Mr. Sandeep Verma, President, Sales and Marketing; Mr. Dilip Maloo, Chief Financial Officer; and Mr. Kushal Maheshwari, Head Treasury. I would now like to hand over the call to Mr. Malhotra for opening remarks. Thank you, and over to you, Sir!

Sumit Malhotra: Thank you. Good morning to all, and welcome to the conference call of the declaration of the second quarter results for the financial year 2018-2019. With me is Sandeep Verma President, Sales and Marketing; Dilip Maloo, CFO; and Kushal, Head Treasury, who also handles the Investor Relations desk.

The company has closed the quarterly result of total net income of Rs.212.7 Crores. The growth in turnover was earned since the second quarter of last earnings period of 4.21%. The first half of this financial year has shown a growth of 8.1%. After adjusting the negative impact of GST, the growth for H1 is 9.9%. The EBITDA for the first quarter is Rs.61.9 Crores, which is a growth of 3.9% over EBITDA of Q2 of last financial year. The EBITDA to sales ratio, which has always been very healthy for Bajaj Corp., is still at a healthy 30%, which is an 84 BPS improvement over the last year, second quarter.

The PAT and PBT for the quarters are Rs.51.65 Crores and Rs.65.83 Crores respectively. The highlight during this quarter is that the hair oil industry, the growth continues to improve its growth trajectory. In the second quarter of this financial year, the total hair oil industry has grown by 7.4% in volume terms, whereas in value terms, this growth is at 16.3%. The difference between volume and net value growth are largely due to the growth in the coconut hair oil market.

In contrast to the total hair oil growth, the volumes of light hair oil have grown by 13.6%, with the growth being driven by our the lead brand with our Almond Drops, which is growing at 17.7% in volume terms.

The good news is that the growth in the rural areas for ADHO as well as light hair oil is back. The urban growths are also robust in this quarter, at 15.5%. I think the improvement in growth in rural areas portents very well for the coming quarters.

Within the sales verticals, Modern Trade continues to grow at an impressive 23%. The international business, which has been a cause of concern over the last three, four quarters has shown a very good percentage sales growth, and this should see the International Business sales turnover coming back into positive within the next quarter. The concerns in CSD continue, wherein the decline is at a rate of 45% in this quarter. We do not see a major improvement in this angle because the base itself is dropping quarter-after-quarter.

Improvement in volume growths of light hair oil and even better gains in our lead brand Bajaj Almond Drops has resulted in an all-time high market share of 59.8% in volume terms and 62.2% in terms of value market share.

As the trend suggests the growth of hair oils, especially the light hair oil, is continuing, led by revival in rural growth.

During this quarter, we relaunched the new packs of Bajaj Almond Drops. This is the first time ever since the launch in 1989 Almond Drops has had a sales lift. The intention of this improvement in the pack design is that we are looking at better improving the brand imagery cues of lightness, nourishment and strength.

The new bottles have gone to the market in September accompanied by high decibel-level advertising and visibility plans. In this relaunch, there has been a special focus on the Rs.10 or Rs.20 mL bottle with the express purpose of upgrading sachet users into the bottle format. The difference between the offtake and turnover growth is largely due to the drying out of the pipeline prior to the relaunch of the new pack of Almond Drops. In addition, there has been a shifting in the Diwali season from September to October, so the upstocking that used to happen in September last year will happen this year in October.

Along with our market share gains, our effort of increasing direct distribution has resulted in an all-time high distribution of our brand Bajaj Almond Drops. The brand is now available in close to 40 lakh outlets, and the direct distribution is currently at 4.99 lakh outlets, and our aim is to reach 5.4 lakh outlets within this financial year. The increase in distribution is being led by the doubling of our direct rural reach over the last one-year. Coupled with this, our dependence on wholesale has dropped to 33% and, over and above this, September has seen a very lead sentiment in the wholesale segment, which has also affected the volume this quarter.

The second highlight that we have is basically the new pack of the brand Nomarks has also been distributed across the country. Post the launch in June, the offtakes has been very encouraging, and the brand has shown a growth of 32% during the second quarter of this financial year.

The sales volume has shown similar trends and the domestic sales have grown by 16% in the quarter and 40% in the first half of this financial year.

Currently, we have focused on urban centers by creating a special task force to chemists. During this quarter, we will be targeting the rural areas of one state to strengthen our strategy of improving rural market share in anti-mark cream category.

In large parts of the country, Nomarks is already a clear #2 brand, which we will be strengthening over the next few quarters.

With respect to crude pricing, all our raw materials and packaging materials have been hit and, therefore, the margins are under pressure. To absorb the rising prices, we have taken a marquee increase of 3.48% with the restage of Bajaj Almond Drops in this quarter. Despite this the gross margin has gone down by 81 BPS. In terms of raw materials, light liquid paraffin has gone up 20% Y-on-Y. Refined mustard oil has gone up by 17%. Glass bottles have gone up by 5%. Perfumes have gone up by 6%. The full impact of these price hikes as well as the marquee increases will be seen in the third quarter. The current price of light liquid paraffin is close to Rs.80 per kg so we are still using stock bottles at Rs.72 a kg.

The positives that have been witnessed during this quarter are growth in volumes of the light hair oil industry, and this growth is being led by rural volumes; second, improvement in the leadership position of our lead brands, Bajaj Almond Drops with the improvement was volume and value market share, a healthy EBITDA of 13% despite strain on RMP and prices; marked improvement in distribution led by improvement in direct distribution and deeper penetration into the rural sector; good growth of Nomarks post launch, both offtakes and sales turnovers are up and tracking impressive figures; focus on getting our rural strategy right to ensure trajectory of market share gains in the Anti-mark category continue; and our ability to maintain gross margin by increasing our marketing and building stock of robust raw materials. We are now open to questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Ladies gentlemen we will wait for a moment while the question queue assembles. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, thanks for the opportunity. My first question you mentioned pipeline got dried up because of the relaunch and also because of Diwali shift also there was an impact, if any impacts, what could be the impact of both of these?

Sumit Malhotra: Normally, if you a period of the quarter and even if we are 15 years of down stocking, we are not seeing any significant impact in volume. In terms of the value shift, it could be around the 4% or 5% mark for that factor.

Abneesh Roy: Sir you also mentioned in September the wholesale suffered because of weak sentiments, could you elaborate on that part and will it continue in Q3?

- Sumit Malhotra:** It is too early to tell. As of now, the wholesale is down, right? It still continues to be down. But I have said that if the rural growth continues the way they are, there is no way but the wholesale picking up over the next month or so.
- Abneesh Roy:** What is the reason for this wholesale sentiments turning a bit poor?
- Sumit Malhotra:** It could be many things. It could be basically they want to down stock and convert their cash into Diwali purchases because, of course, quite a lot of wholesalers shift from FMCG to Diwali kind of thing, second could be they are seeing something in the rural areas which they have not yet been able to stock.
- Abneesh Roy:** Sir that was a follow-up, you have a good exposure to the rural economy. So we are hearing divergent pictures. One is the monsoon has been short in parts of the country. And second, of course, distress is there in palm, MSD, etc., not helping, because the prices of palm crop anywhere is because MSD. So in that context, do you see optimism for FMCG but negative for the bigger value items, like two-wheelers, four-wheelers? Is that the view of FMCG could suffer after that?
- Sumit Malhotra:** If this continues, and this negativity that you are talking about is real, it will affect FMCG. Now you cannot contain it to things like durables and vehicles, which affect us, but it normally takes a little longer for consumer non-durables to get affected, or staples to get affected. The only prime that I see is the weak wholesale market demand in September.
- Abneesh Roy:** My second question was on CSD. It was down 35% in first half, while in Q2, it was down 44%, so it seems to have deteriorated. Now for such a long period, obviously, customers would have now shifted to other distribution channels, and Modern trade has seen a very good growth of revival. So my question is has that shift has happened? And second, Modern Trade growth, what is a specific reason? Third, e-commerce, is it reported separately? Is it part of the Modern Trade or you report it separately, if you could share that number?
- Sumit Malhotra:** One is CSD. I think we are still not sure of which way to go. We obviously want to reduce the quantities being purchased. And it would mean that the other smart card in CSD is which the entitlement of each grant of the army or the military has a particular limit. That they have been constraining over the last three years, and that is one possible reason. Yes, a lot of that has shifted to general trade and Modern Trade. I think Modern Trade has got a slightly higher side of the pie in terms of the shift. The third question was e-commerce. It is included in the alternate channels. Currently, it is very, very small. But it is being added to Modern Trade in our reporting structure as of now.
- Abneesh Roy:** Sir, how much is it? Percentage of sales, e-commerce?
- Sumit Malhotra:** It will be less than 0.1% currently.

- Abneesh Roy:** Do you see that changing? Or is it a portfolio issue valuation, because some of the companies, it is already 1.5% to 2% for the larger companies. Is that a portfolio issue?
- Sumit Malhotra:** It is a portfolio issue and I think the biggest issue is it is not very attractive for the e-commerce guys also because we have a product with the put down price of Rs.60 odd, the delivery cost itself is so high, so currently there are only a few guys like Big Basket, etc., who are really pushing staples and as we go along may be the other guys will catch on, but we already have separate task force who is approaching e-commerce and the growths are very interesting, but there still very heavy small part of our total turnover.
- Abneesh Roy:** Sir, it is the last question. Ad spends do not seem to be up that much in spite of relaunch etc, happening is that because of Diwali that it has been postponed?
- Sumit Malhotra:** It is basically we relaunched late August so the advertising actually started only in September so before the relaunch you basically sort of get off the channels so as to conserve a little bit more money for the relaunch. So September has been very high decibel when the launch happened, but July, August was a dip in our main brand. Other brands are continuing to be advertised in the normal.
- Abneesh Roy:** That is all from my side. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. I have two questions. On the rural side, you talked about uneven monsoon generally impacting sales. So which part of it? Is it UP or Bihar? And if I were to look at some of the government schemes in terms of the health insurance, upcoming elections, so what kind of an offsetting impact that could have in terms of continued rural growth and the base remains favorable?
- Sumit Malhotra:** One thing we are assuming is one good monsoon will directly affect hair oil growth overnight that does not really happen, because bigger ticket items get up and filled up much earlier than the other smaller ticket items like ours, but I think it is more the enthusiasm of environment that gets positive swing because of monsoons or extra money flowing in on account of elections. On ground, I think monsoons have shown positive and negative impact across the country. I think the negative impact largely is in the central parts rather than all across the country and in terms of the positive impact of elections we have not yet seen much of it at this point. Even in the states that are going into elections now.
- Prakash Kapadia:** Okay on the ground you do not see it and on the distribution side when does the direct reach start having a more positive impact on quality of sales, continuity of sales, once we reach 20% to 25% obviously we will scale the distribution reach and derisk the wholesale contribution over the last few years, so when does that start having a positive impact?

- Sumit Malhotra:** Normally the positive impact of direct distribution helps you in range, which means that rather than only selling a few sizes of Bajaj Almond Drops the name starts getting sold and not only the Almond Drop shelves but the marginal brands get a better fillip because we should understand the problem or the flipside of wholesale dependence is only one or two of your past soothing SKUs and therefore direct distribution effect is seen much more strongly when you start launching your innovation products in the market, like we have done for Bajaj Brahma Amla Ayurvedic Oil and to some extent in Coconut Jasmine.
- Prakash Kapadia:** Lastly on the sales side you did mention the channel sales so when do we see the channel sales translating to company sales in terms of higher growth as you know GST is now out of the way, the taxation and all the channel related issues seem to be settling down so assuming if you know the channel sales are buoyant saying second half that should translate to higher sales growth of us?
- Sumit Malhotra:** Growth, basically I am talking about growth, it depends on two or things, one is the base and therefore you do see these ups and downs and difference between sales growth and offtake growth because offtakes do not swing overnight whereas sales can swing because of things like demonetisation, GST, downstocking, upstocking, and things like that, but I think on a like-to-like cases we should look at years to sort of try and match brand new sales growth is offtake otherwise if you do it on a monthly and quarterly basis I guess you will never see a one-to-one correlation, which would mean that last year the base was stable and this year also the base is stable.
- Prakash Kapadia:** Lastly Sir on the inorganic side you mentioned some bit of this thing we are looking at, so it will be more on the export side anything we are sensing our valuations or are things okay on the domestic side or in case we look at inorganic will be more on the international side?
- Sumit Malhotra:** Of course valuations outside India are much more palatable than those inside India, but I think we continue to look at both angle because it is not you have a huge number of targets available and you are going to pick and choose, you sometime need to focus your attention on international and our biggest interest obviously is in domestic sales.
- Prakash Kapadia:** Been better than what they were on a relative basis in the domestic market or still?
- Sumit Malhotra:** Very difficult to quantify this, better means what, valuations are thinner, yes I think valuations are becoming thinner even in the domestic sales.
- Prakash Kapadia:** Understood. All the best, I will come back if I have more questions.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Good morning. Sir my question is on the issue of the relaunch and its effect on the pipeline stock, which you mentioned as one of the reasons for why the primary sales growth for this quarter has been a little subdued, so just wanted to understand that a little more, see your relaunch was in the

second half of August, typically when you are doing a relaunch you would have the new product already on the shelves, so the drying up of the pipeline and refilling of the pipeline both should be done by August end and even if there is some spillover into September that is also within the quarter, so why should this be an issue impacting the sales growth Sir?

Sumit Malhotra:

Percy, I think, what you are trying to simplify is that as if we have one distributor all over the country and one depot, so the issue with this is that you have to get a uniform drying out across the country because it is not that I have one point we can dry out overnight and fill up overnight there, so you will have for a differential stock across the country and then you launch it and you want to start your advertising, you have to be reasonably sure that the old stock is out at least from the distributor point of view, so what you normally do is you stop billing or stop producing the old stock sometime in July, dry out your depots and large part of your distributors within August and start filling it up towards the end of August or September, most of the refill happens in September, by that time most of the old stocks gets out because it is very detrimental to the new advertising where you start saying, you have a new pack and when a person goes to buy a pack he still sees the old pack in the retail or distributor outlet, so since it is last product you normally have a much bigger dip in your stock, it happened in Nomarks also and if you remember last time's concall we said one of the reason why you did not see that kind of a good growth was that we dried out Nomarks in April and May.

Percy Panthaki:

Understood Sir, so just taking this a little forward and I think one of the earlier participants asked about this, you have mentioned in your PPT that offtakes at the consumer level are very healthy in high teens or even higher, so how do we interpret this number, does it mean that if let us say offtakes are 20% now two or three months later the primary sales growth will also be at a similar level?

Sumit Malhotra:

Percy, again please remember the offtake figures comes from Nielsen, it is a sample, it is a not a 100% accurate number and therefore we should look at trends and that is why in my concall I keep harping on trends, I think the trends are positive both total hair oil is being driven by good growths in light hair oil, so the light hair oil growths with a drop to something like 4% odd last year, it is now picking up and the important part is rural is picking up at a descent pace because if this continues we will see much better growth, whether it is going to be 10%, 15%, 20% it is matter of time will tell you how much of these offtakes will get translate into our growths to our distributors.

Percy Panthaki:

Understood and one more question I have Sir that basically the price increases that you have taken so far, are they sufficient to offset the cost inflation assuming that your input cost continue to remain at the current spot prices?

Sumit Malhotra:

At the current, it is only light liquid paraffin, which is currently affected, we are decently covered, but unfortunately this is one of the few times that all our RM and PM prices continue to rise and that as I said in my opening address you talk about mustard oil, you talk about class, you talk about perfumes, you talk about fit all of them seems to be going up, if it goes up any further

you would have to do a rethink about it, but it is not in the next one month or so that we will have to take a hit or we have covered at least at this time.

Percy Panthaki: Sure so my question Sir was all these five or six inputs that you mentioned supposing if we just take an assumption that all these inputs sort of remain at the current spot prices for the next two or three quarters then are we protected as far as margins are concerned?

Sumit Malhotra: You would not need it. What I am bothered about if crude is continuing to go up and therefore light liquid paraffin moving up from the current 72 that we have bought to way past 80.

Percy Panthaki: That is it from me Sir. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Rahul Jha from Bay Capital. Please go ahead.

Nikunj Doshi: Just couple of questions, what is the percentage of revenue from ADHO in this quarter and what it was in the corresponding quarter last year?

Sumit Malhotra: The percentage of ADHO has not shifted too much, Nomarks is currently around 3.5% to 4% of our total pie and the total Almond Drops would be between 92% and 93% of our turnover.

Nikunj Doshi: Okay and we have target of launching one new product every quarter, so have we launched anything new or any new product, which is under trial or pilot launch or anything at present?

Sumit Malhotra: This quarter was the restage of Almond drops, which was the very big initiative we have taken more than a year ago, I think you should appreciate that a brand that has been here for so long, if you start playing around with the packaging you have to do it very consciously and cheerfully, I think we focused all our attention on that and the media campaign that you see now accompanied by the peripheral support advertising like visibility or on the social sites or all the activities that we have been doing is a very intricate thing and takes a lot of time, so we did not launch a totally new brand in this quarter, but I think one of the biggest effect that you see the restaging of Bajaj Almond Drops.

Nikunj Doshi: And for the full year what will be our A&P target means as a percentage of revenue?

Sumit Malhotra: Again if you look at our numbers, the reported numbers are between 13% and 15%, but the part of that actually goes into reduction in the sales volume, so the way we look at it should be between 18% and 19% A&P. You will not see that, a part of that goes into deduction of sales number under the new Ind-AS.

Nikunj Doshi: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

- Shailesh Kumar:** There are couple of questions Sir. If you could throw some light on these newer products, which are there in the pipeline, which we intend to launch over next six to 12 months that will really be helpful because we really do not have any sense?
- Sumit Malhotra:** Unfortunately these things cannot be disclosed, because obviously you are opening yourself to competition, but having said that we are looking at largely the first round of innovations happening in hair and skin care before we go into any other segments rather than naming I would say that these are the two categories that we understand and we are further ahead in terms of closing on these innovative products, unfortunately obviously over a call or even one to one I cannot tell you what product these are.
- Shailesh Kumar:** And do we still sell Kailash Parbat cooling oil?
- Sumit Malhotra:** No, we are not.
- Shailesh Kumar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bharti Mundhara from CD Equisearch. Please go ahead.
- Bharti Mundhara:** How is your ADHO volume fairing pan India?
- Sumit Malhotra:** 93% of my turnover is almond itself, if you look at those numbers, we would probably see same kind of a thing. If you look at value growth is adjusted over the last quarter you will see that hair oils for the company volume is more or less flat whereas the value has grown by around 4.5%, 5%.
- Bharti Mundhara:** So which regions are fairing well for ADHO?
- Sumit Malhotra:** Like you know our main three regions are north, east and west. East is doing the best and I would say a part of north is not doing as well as the rest of the country.
- Bharti Mundhara:** If you could highlight why is it so like why west is not doing that well?
- Sumit Malhotra:** I think it is too much of a long discussion, because it depends on three things, one is obviously offtake, offtake is not different across these regions, second could be infrastructure which would mean our own manpower and distribution, third could be the rural uplifts that we have all seen, I would say that the biggest impact on downstocking and wholesale has been felt more than the north rather than across the country.
- Bharti Mundhara:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

- Ankit Babel:** Good morning Sir. First question is this time we could not find the volume details of your product in your presentation, any reason for not disclosing?
- Sumit Malhotra:** There are two parts of it. One, I actually wanted you guys to ask this question, because when you start looking at volumes, you start looking at one number and when you have multiple categories now Nomarks and skin care is becoming bigger and bigger looking at one number does not really make sense. The second thing is also that in Nomarks itself, we have various categories, for example if I tell you volume growth of Nomarks is growing at x%, if cream is growing or soap growing again does not make too much of sense, so we have actually pulled it out consciously that at least you start looking at across segments in terms of value, which is equitable number rather than looking at one carton of soap and trying to equate it to carton of cream, which is more than 10 times the cost of carton of soaps.
- Ankit Babel:** But Sir like other companies you can at least disclose underlying volume growth of your products?
- Sumit Malhotra:** It is not too much of a problem. I am saying we have grown at 4.2% and we have taken 3.48%, so volumes are more or less flat.
- Ankit Babel:** Sir my second question was that it has been around more than 19, 20 quarters that we have been hovering around Rs.200 Crores revenue per quarter and Rs.50 Crores, Rs.55 Crores a profit and at the same time our employee cost has almost doubled, so with no corresponding increase in revenue, so we just wanted to understand when they will come out of this range of around this Rs.200 Crores revenue?
- Sumit Malhotra:** I would have loved it if I could answer it, but yes what we are doing a lot of things not only adding employees, but we are adding newer products, our renovation center, we are adding efficiencies in the system, the whole idea is to bump this up to the next level and that is one important thing we are all focusing on whether it will happen now or it will happen a quarter or two down the line not only depends on us, but also the environment that we are in.
- Ankit Babel:** We really appreciate the efforts you people have been putting at least one-and-a-half years, but actually we are just waiting for that inflection point when results would come so just wanted to have your view?
- Sumit Malhotra:** Just give us time. All I can tell you is have faith, so we are still watching on it and if not only was happening internally, it is also a lot of external factors that are not in our control at all.
- Ankit Babel:** Lastly just one question you did mention that 17%, 18% volume growth is based on sample analysis, but at least you people would also be talking to your distributors, your retailers that how the growth has been, you would also be making something like that so how is the growth at a secondary or the consumer level from your end?

- Sumit Malhotra:** That is the good question, because what you have always focussed on its primary whereas secondary is a much closer thing to consumption. Secondary does not drop so much and secondary is significantly higher than the primary growth that you see in these presentations.
- Ankit Babel:** Should we now assume that the channel destocking thing is now behind, so suppose assuming if you?
- Sumit Malhotra:** That is behind because it is also something which is natural, but when you start looking at numbers on a monthly or a quarterly basis you see higher swing. Over the year this downstocking will not as any effect, because downstocking in August will see upstocking in September, October, November.
- Ankit Babel:** So that is what Sir, as investors if we have to take some call on your growth rate, so if assuming that the secondary market growth, which we are expecting say around higher double-digit of 18%, 20% then your growth will also be in that range?
- Sumit Malhotra:** Over a long period of time, but the disclaimer is never ever look at numbers on a quarterly basis, please look at a longer period.
- Ankit Babel:** We have been looking since last three, four years, we definitely are looking on a longer term only, but we just need to understand that if the secondary growth continues at 18%, 20% at what time our growth will also match that?
- Dilip Maloo:** You are asking us to do a lot of speculation here and since you are asking us to do speculation I will tell you the best way to do speculation, which is what Sumit had spoken about earlier. If you look at the overall market growth in the hair oil segment over the full year, the overall market growth in the last year, if you take Q1 and Q2 together is about 11%, 10.5%, around 11% and if you look at our H1 value growth what is our H1 value growth x of GST around 10%, we are inline with the market growth right now entirely and that is why the whole point that is being made again and again which is that look a growth, look at whether it is offtake growth or it is secondary growth. You have to look at it over a longer-term period or even the primary growth we have to look at it over a longer-term period. In Q1, we did a relaunch of Nomarks; there was obviously a destocking, which was done on Nomarks. Now Nomarks is only distributed in 2.8 lakh outlets, so it is much easier to get the stock out of 2.8 lakh outlets. Almond Drops is actually the most highly distributed hair oil brand in the country. It is distributed in 40 lakh outlets, so we do not just need to clean out the stock from the distributor end and we also need to clean out the stock from the retailers point otherwise like Sumit was saying earlier, you see an ad and you go to an outlet and you see the old bottle over there, nobody wants to buy the old bottle, so the stock gets stuck, so the clean up of the stocks from the retailers end is not going to happen as fast as it happened in the case of Nomarks and somebody else who was also making the point earlier that if you did a destocking in August then it should come back in September through upstocking that you do post the launch, so things with such a very well distributed brand with a brand like ADHO, which is the most had distributed brand, do not happen so fast, it is going to take us a full almost a full quarter to clean up. We can clean up from the distributors end and hence the

primaries would start coming back a little bit, but till secondaries start coming back in the same fashion which means that the other stock and the retailers end is also being cleaned up, the primaries would not be to that level and that is why we are reiterating again and again when you look at the volume growth over two quarters, over at least two quarters and I do not know if this long winded answers your questions, again and again, is that, look at growth look at trends like Sumit was saying and look at the overall numbers, if you see the overall numbers, you would not find too much of a difference between the offtake trends and the primary trend. And the primary is always reflects secondaries because there is no upstocking in any case.

- Ankit Babel:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.
- Rahul Ranade:** Thanks for the opportunity. Just a quick clarification to begin with so the price increase we have taken in September is around 3.5%?
- Sumit Malhotra:** Yes, on Almond Drops.
- Rahul Ranade:** On Almond Drops. And this is over and above a similar price increase that we took in April, right?
- Sumit Malhotra:** April what we have done was in two sizes we have done a size downgrade from Rs.105 it came to Rs.100 and Rs.53 to 50 mL, and took price increases only into SKU. So, Rs.300 and Rs.500, so it is not 3.5% there.
- Rahul Ranade:** Effectively that would have worked to about similar 1.4% range?
- Sumit Malhotra:** 1% odd price.
- Rahul Ranade:** Right and just was looking at the offtake data so I am still kind of if you could help me understand so the value offtake is still lesser than the volume offtake if we look at the numbers whereas we have taken some price increase, so just wanted to understand what the disconnect is over there?
- Sumit Malhotra:** There is no disconnect there. You are looking at the price increase at our production level and you are looking at volume and value at offtake level. Please remember between the time we produce and ship to our distributors and the time an offtake to the consumer happens, you have got a long lead time and that is the pipeline that we keep talking about.
- Rahul Ranade:** How long would that be in duration?
- Sumit Malhotra:** Our distributor stock is just under a month. Our retail stock is around close to 40 days, right, so even if you do a simple mathematics on average just of the river, you are still talking about more

than two to two and a half months and it does not. It happens somewhere faster and somewhere slower. Urban it will happen faster. Rural it will happen low and that is why again at the cost of sounding like a broken record, please look at trends. Do not look at these monthly or quarterly numbers so deeply.

Rahul Ranade: Sure and just one final question on the employee costs. Again, it is has gone up in this quarter, so I just wanted to understand what is driving that and where should we kind of expect it to stabilize?

Sumit Malhotra: This quarter, for the first time, we have started acknowledging the ESOP costs because as per the SEBI guidelines, if you have given ESOP you should equate that cost over each quarter rather than at the year ending, so that has added. It is not only salaries that have gone up. Salaries have also gone up because of some marginal people that employees that have been added to the business.

Rahul Ranade: Say from Rs.22 Crores in Q1 to Rs.24 Crores, the ESOP would be?

Sumit Malhotra: It is close to Rs.80 lakh has been accounted for in this quarter.

Rahul Ranade: Thank you.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. Sir I was just going through the presentation. The kind of buoyancy that we have witnessed in Nielsen data, our market share in overall total hair oil volume has moved up by 25 basis point only, so are we saying that this kind of buoyancy obviously not at this level, but we are seeing at overall hair oil market as well as per Nielsen?

Sumit Malhotra: If you see the market share, what market share did we book today? Is it a month or it a MAT market share?

Tejas Shah: It is a MAT market share, but I am saying TTM basis, the traction should be overall basis that is what I am asking?

Sumit Malhotra: The traction over the last 12 months is not as much as you see now. You are trying to equate last quarter versus what had happened over 12 months, so market share is and it is like I was just saying if we look at MAT market share, they are not month market share. If you see month market share, last month, it was 63.1% was the market share, but that is a month whereas you are trying to equate the buoyancy in this quarter vis-à-vis 12 months for the preceding year.

Tejas Shah: Let me rephrase the question Sir. The kind of buoyancy that we have seen in this quarter for us would it be at least a trend wise, would it be the same reflection on overall hair oil market or is it that HLO were driven by our numbers is an outlier?

- Sumit Malhotra:** That is a good question, yes. HLO grew by around 13.6% this quarter volume and we grew by around 17% odd by volumes, so the delta here, it will get translated into our market share gain, which you are seeing in this quarter. In total hair oil, the value growth is around 16% odd, right, which I said in my presentation, which was largely due to the increase in market for YTD, 16% odd, which is seen in our strength of our total hair oil market share. If you look at the total market share of ours, it is not going to add significantly as the market share within the light hair oil and of course, our analyst, we actually put this in our presentation. We are now putting our market share in light hair oil as well as total market share in total hair oil. You will not see that kind of a significant market share shift in total hair oil.
- Tejas Shah:** Second is there any less than average or more than average inventory primary or secondary distribution?
- Sumit Malhotra:** Again you should realize, we sell on gas and therefore while the distributor increases his inventory or investment in stock he would rather increase his investment in markets credit or service to the market rather than stock, so we unfortunately do not have that cushion of increasing distributor stock over a significant period of time. I can do it with a few points of schemes, but that will happen only may be 15 days to a month and after that it will drop to the normal level again.
- Tejas Shah:** Sir if that is the case then the 25% growth that in retail uptake that we saw and I take your point that it is just a sample and it should not be taken in totality, but even in some diluted form of this number, it should show up in primary sales in the coming quarters, is that correct understanding?
- Sumit Malhotra:** I said in my previous question, I said that you have close to two and a half months of stock in the pipeline, right. This is not which is distributor plus the retail. Consciously if I reduce distributor stock over let us a month in a period of three months, you are talking of 33% drop in your volumes. That is again as a cross subsidy if you look at a smaller period of time, these swings are very difficult to explain. Over a longer period, you will see that they will even out, even over six months they out.
- Dilip Maloo:** Let me just add something. In general, there have been many a marketeers who have died in trying to marry the off take growth to the primary and secondary sales growth, so normally what most of the companies do is that they do not look, they have stopped trying to correlate the offtake sales growth with the primary sales growth. The only thing which most of the companies do is firstly a) look at trends, so whether the trends are going up and down of late the market share is the best indicator and b) whether you are growing whether your offtakes are growing faster than the market growth or not instead of looking at the absolute numbers of 25%, which the offtake seem to be growing at. What we are more interested in whether we are growing faster in the market, so if the market offtake growth rate is 21% in Q2, we are growing at 25%, which means that over a period of time and over that period over the next one or two odd months, it will start reflecting into market share. There is no point in trying to completely correlate or do a 1:1 correlation of offtake with primary, but yes, as your offtake continue to grow faster than the

market, your secondaries, which means if you are not up stocking then your secondary will obviously grow faster as well and if your secondaries grows faster, then your primary also will grow, so there is that bit of simplistic correlation, which is the only way we can correlate primaries through offtake, but otherwise like I said if they growing faster than the market, we are happy with the growth rate because it means that our growths were competitive.

Tejas Shah: Fair enough and how is the NPD pipeline looking for resting of FY2019 in terms of counts?

Sumit Malhotra: I did not get your point NPD?

Tejas Shah: New product development pipeline?

Sumit Malhotra: They are far ahead of our requirements and it is only which product to launch and how close you are to sort of having a portfolio ready in terms of communication, packaging, products and all that and probably, you should see one towards the end of this quarter or early next quarter.

Dilip Maloo: The other addition that we have into the NDP pipeline now with the stabilization of our international business team overall, we have also added international business into our NPD pipeline, so hopefully by the end of this fiscal, we will also have one new product coming in the international market, which will help us boost the growth over there.

Tejas Shah: It will be an extension of our current product portfolio or new product for that market?

Sumit Malhotra: It could be either. It will not be from the existing portfolio. I am not talking about extending the current portfolio of India into international markets. I am talking about an NPD.

Tejas Shah: Sir what will be the effective tax rate for this year and next year?

Dilip Maloo: 20 point plus, plus.

Tejas Shah: Even for next year, Sir looking at whatever assumptions you have?

Dilip Maloo: We will continue to remain in MAT.

Sumit Malhotra: If you remember Tejas around on third of our production still happens from Guwahati.

Tejas Shah: Sir, lastly, one request. Perhaps I am speaking for the majority of participant's here if not all. Since listing through thick and thin, you have been consistent in sharing volume data and you have been praised on calls also for your consistency in presentation, so I appreciate the complexity in the businesses you are growing, but we will appreciate if you can find a way to share underlying volume data, which you have been doing for so many years now after listing?

Sumit Malhotra: Point taken, Tejas and thanks for praising me after praising after so many years.

- Tejas Shah:** Thanks and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Thanks for the opportunity Sir. Sir, how has been the trend in the offtake growth in the last four to five quarters?
- Sumit Malhotra:** I think we have been putting it and consistently unlike let us say volume data, we have been showing you those trends in our numbers. Let us say growth and volume total Q1 of this year, we were at 10.4% and 10.7% volume growth. This quarter, we are at 25% value and 25% volume growth.
- Amit Sinha:** In some of the presentation, this data is not there and so that is why I asked this question. The trend has been improving the last four to five quarters?
- Sumit Malhotra:** From 0 in Q3 of last financial year, we are talking about 25% growth now.
- Amit Sinha:** Secondly Sir, I would request you for some update on some of the new launches, which you did last financial year mainly on Brahmi Amla Ayurvedic Oil and Coco Jasmine Oil, which you have launched?
- Sandeep Verma:** Yes, so let me just start Brahmi Amla. Brahmi Amla continues to do well on offtake. So we again had an offtake growth of about 15%. What we are now doing is that we are extending the range of Brahmi Amla, so we are adding more SKUs of Brahmi Amla into our alternate channel business, so into Modern Trade and e-commerce, which we hope is going to enhance the overall portfolio. One big challenge that we are facing with Brahmi Amla is that CSD, which used to be a big customer of Brahmi Amla, there we have sort of come to a compete 0 over there and that is why the primary numbers on Brahmi Amla are hit on account of that, but like I said on offtake front, it is a growing at about 20% and we are trying to get a lot of the volumes that we have lost in CSD through Modern Trade by increasing the range over there. Then the other brand, which we launched in February of this year, was the Bajaj Coco Jasmine in Maharashtra, which is again, hopefully, we should be able to meet our launch parameters this year. Right now, this is big season time for Maharashtra, so we are doing a big pressure test what we call a pressure test plan in Maharashtra where we are going with full swing 60% and very strong consumer offers so going across all fronts. The big learning we have had in Maharashtra is that we have now managed to identify specific STRs or specific districts where we believe we can spend a little bit, the way we believe we can invest a little bit more and get a better bang for our buck, so we are focusing on those specific districts rolling out this pressure test plan and then trying to create a repeatable model, which we can then implement in all of Maharashtra by the end of this year and then hopefully extended Coco Jasmine to some of the other states where a perfumed coconut oil is becoming a big category. That is something onboard the new launch in the last one year. Nomarks Sumit has spoke about already.
- Amit Sinha:** Very clear. Thanks a lot Sir.

- Moderator:** Thank you. The next question is from the line of Jinal Sheth from Multi-Act Equity. Please go ahead.
- Jinal Sheth:** Good morning Sumit. Just to clarify because I am slightly confused has the restocking been already done?
- Sumit Malhotra:** It is in the process. Like Sandeep pointed out and before that I tried to explain it is such a widely distributed product it takes much more time than restocking the whole thing. It has happened. It started in September. I think it will continue in October and maybe the early part of November.
- Jinal Sheth:** I think that is about it. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Saurabh Kundan from BNP Paribas Mutual Fund. Please go ahead.
- Kunal Vora:** Sir on the ADHO relaunch there could have been some temporary stock out, do you think there is some loss of sales because of temporary stock out and could you comment on that?
- Sumit Malhotra:** It could happen because it is such a big country that you cannot destock and restock everywhere, so you do run a risk of getting out of stock in a few places. That could happen.
- Sandeep Verma:** Yes, in general, if you do a relaunch of a mass consumer brand, then there could even be a dip in the market share for that month or even the next month because there is a lot of sales. These are all low involvement products, so a person who wants to use hair oil will use hair oil. If your hair oil is not on the shelf, she will move to some other light hair oil, so that bit of dip is expected to happen.
- Sumit Malhotra:** Even if you look at the restage of Nomarks and if you go back and look at market share, then this before the relaunch really took off and here also September offtake, if you take only September, you would see a minor dip because of downstocking.
- Kunal Vora:** The second question how has been the feedback to your Rs.10 pet jar and is there a list that customers could down trade instead of up trading?
- Sumit Malhotra:** Not really because it is not that convenient if you are a regular user. If you are sachet user, it is a little more convenient or if you are travelling, it makes sense but a person let us say who is a 100 mL user will not move to a 20 mL definitely.
- Kunal Vora:** That is it from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Nirav Rajiv from B&K Securities. Please go ahead.

- Nirav Rajiv:** Good afternoon Sir. Sir I just need one clarification on the volumes. You mentioned around flattish for this quarter, but does that that it include the CSD or the IB business also?
- Sumit Malhotra:** Yes, included.
- Nirav Rajiv:** Because the like-for-like growth is around 1%, so flattish volumes would be around, so pricing will be around 1%, but we have taken around close to 3% this quarter?
- Sumit Malhotra:** No quarter only September it came into effect.
- Nirav Rajiv:** Any update on the international business when it could start generating revenues?
- Sumit Malhotra:** I think I told you that the secondaries have already started growing at a good pace and primary would most probably be turning around in this quarter itself.
- Nirav Rajiv:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Aman Batra from Goldman Sachs Asset Management. Please go ahead.
- Aman Batra:** Sir I just wanted to understand this Rs.10 SKU in more detail because this was a SKU, which was always there for you, so what is the relaunch about and how we kind of promote it as such? Are we advertising specifically for it or what are we looking at it?
- Sumit Malhotra:** Aman, yes, you are right. It was always there. The issue was that this was we had certain graphs earlier on and because of which we hardly made any profit on this product and therefore whenever we tried to push it through, we did not really support it well enough. Now what we have tried and done is we have moved away one from the floor. It was actually put in a laminate and hung. This time, what we have done is we have put it in plastic jars, which make it more visible and much more attractive to the retailer because what he does is he sells all the 20 mL and Rs.10 packs and uses the jar for stocking other things in his portfolio. We do not advertise both 10 mL because it is not that widely distributed, but we do point-of-sale display material to attract consumers who basically come to buy sachets and get them to move from a Rs.1 to Rs.10 bottle.
- Sandeep Verma:** Also, one of the challenges, which we figured out, which we learnt through some consumer work was that when we put it in the flow wrap earlier and the reason we put it in the flow wrap was because we said we should hang it like a sachet itself, so that it is always right next to the sachet. Now that was a good thought in principle, but did not work out because the consumers never understood that there was actually a bottle inside the flow rack and consumers typically tend to see inherent value in a bottle versus a sachet as such, so at that is why, we just took it out of the flow wrap, which made the bottle very clearly visible to the consumer and it also helped us to reduce some costs on the pack itself.
- Aman Batra:** Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** I wanted to understand what is the distribution mix we are targeting. I think for wholesale you mentioned I think we have around 23% of our exposure. Could you also comment on what is the trend on the wholesale side say one year back before GST what was the share we were having from wholesale? Is there any ideal mix, which you are targeting in terms of direct versus wholesale?
- Sumit Malhotra:** To answer the last part, there is no ideal mix. It depends on your product and it depends on the offtake of your product. If your product is not being picked up in the market, wholesale really is not there for you, but coming to predemonetization actually the downturn happened in demonetization itself because the wholesalers normally make money in cash dealings and not by paying tax, so it used to be around 54% to 55% of our total sales at that point in time. Now thanks to the external factors and also our endeavour to increase direct distribution among the larger outlets, it has gone down to 33%.
- Anubhav Sahu:** 33% and Sir in terms of direct reach what are we targeting?
- Sumit Malhotra:** I made a point in my opening address. We are targeting to hit 5.4 lakh outlets by the end of this financial year.
- Anubhav Sahu:** What is it now Sir?
- Sumit Malhotra:** 4.9 lakhs, it is there in the presentation.
- Anubhav Sahu:** Fine got it. Thank you Sir that is all.
- Moderator:** Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.
- Sumit Malhotra:** Thanks a lot for getting in on the concall and if you go back and see a lot of questions was on trying to equate Nielsen data with primary data all I can say is that yes even when I started my career, it used to be really confusing on the fact that I could never equate primary with offtake and my only contention is please look at the longer period and all of you are long-term investors in our company and therefore, over the long period, you will see both of these tallying. The confusion that you have today, it should not be there. Thanks for coming in on a very nice conference call that we had today. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Kotak Securities Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.