



“Bajaj Consumer Care Limited  
Q3 FY2023 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Consumer Q3 FY2023 Conference Call hosted by ICICI Securities. 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 “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhuwania. Thank you and over to you.

**Karan Bhuwania:** Thanks Mike. Good morning everyone. It is our pleasure at ISec to host Q3 FY2023 Results Conference Call for Bajaj Consumer Care. From the management we have Mr. Jaideep Nandi - Managing Director, Mr. Dilip Kumar Maloo - Chief Financial Officer, and Mr. Richard D’Souza – AVP - Finance. I would like to hand over to Mr. Jaideep Nandi for the opening remarks post which we can open it for the Q&A session. Thank you.

**Jaideep Nandi:** Thank you Karan for hosting this call. Good morning everyone and best wishes to all of you and your families for a wonderful 2023. I am delighted to have you all join us for this call. Let me take you through the performance of the company for the quarter and nine months ended December 31, 2022 before we open up the house for questions.

We continue to witness unprecedented inflation across a wide basket of commodities impacting disposable income as a result consumer spending adversely. While there has been some easing of commodity prices and supply chain pressures, inflation still remains a significant challenge. The overall hair oil market as per Nielsen declined by 4.4% in terms of volume with similar value decline in Q3 FY2023 over the same period last year. While urban markets have seen a value decline of 2.1%, rural markets witnessed a steep decline of 7.5%. The decline in rural is in line with similar trends in the previous few quarters as consumers especially at lower income levels feel the pinch of both inflationary pressures and reduced disposable income leading to downtrading and prioritizing essentials over discretionary. The long term MAT December 2022 decline was witnessed across all categories in hair oils with steeper declines in premium categories as against mass categories which also underwent some decline. The company reported quarterly sales of Rs.225.5 Crores translating to flat value growth over the same period last year. For the nine months ended, reported sales were at 696.8 Crores delivering a growth of 7.3% in terms of value and 4.2% in terms of volume over the same period last year. Sales of NPD doubled in Q3 FY2023 and is now contributing to 13% of the overall company saliency. This expansion of NPD is in line with the long term strategy of the company to build a robust portfolio beyond ADHO.

The gross margins of Q3 FY2023 was at 53% which was lower by 240 basis points over the same period last year mainly due to steep commodity price inflation. Change in product mix also contributed to the same. Sequentially, gross margins saw improvement of 120 basis points with softening of material cost. For the nine months ended, gross margins was at 53.1% as against 57.6% for the same period last year. The prices of LLP for the quarter were higher by 32% over the same period last year due to surge in crude prices post the Russia-Ukraine war, depreciation of the INR against USD and tightening of refining capacities. Sequentially, LLP prices have corrected by 8% on account of overall weakness in demand. On the other hand, RMO prices remain stable in the current quarter over Q2 FY2023. To mitigate the inflationary trend cost saving initiatives continue to be driven to bring structural reduction in material costs and overheads. A&P spend for the quarter was at 18.9% of sales which was higher by 6.4% in absolute value terms over the same period last year. For the nine months ended, A&P spend was at 18.6% of sales translating to an increase of 26% in absolute terms over the same period last year. The significant increase in A&P spend is on account of increase investments on the new products. The EBITDA for the quarter was at 34 Crores with a margin of 15.1% whereas the PAT for the quarter was at 33.7 Crores with a decline of 15.8% on year-on-year basis. For the nine months ended, EBITDA was 102.9 Crores with a margin of 14.8% whereas the PAT was at 98.8 Crores. Retail continues to scale up with a double digit growth on the back of loyalty programmes which has also helped build the NPD portfolio across urban areas. Retail as you are aware has been a focus for us for the last two years as a company. Rural slowdown continues to remain a concern and offset the growth in urban driven by retail activations and wholesale revival.

Both the focus businesses of modern trade and e-commerce have registered excellent growth once again as both channels continue to scale up well. The performance of non-ADHO portfolio in both these channels have been very encouraging as is the ADHO performance as well. Modern trade grew by 41% in Q3 FY2023 over the same period last year and now contributes to around 9% of total sales. Modern trade business has scaled up 2X over the last two years in the first nine months of the year. Our strategy of focusing on channel specific SKUs in select key markets as well as the new products have been yielding good results. During the quarter, we acquired a significant market share in top retailers. Canteen business also saw a revival in Q3 over last year. E-commerce continues to scale up well achieving a growth of 84% in Q3 FY2023 over the same period last year and now contributes to 7% of total sales. Contribution of non-ADHO portfolio is scaling up sequentially. E-commerce business has scaled up 4X over the last two years for the first nine months of the year. We recorded highest ever market share on a leading e-commerce platform in a non-event month. Growth in almond drop extensions that is Almond Soap plus Almond and Argan and Serum with Oil have also been very encouraging. The

consolidated international business reported a strong growth of 36% in Q3 FY2023 over the same period last year. New channel partners appointed in major countries in Middle East, Africa region have been starting to yield results helping drive topline growth. Nepal saw muted growth due to macroeconomic environment in the country. Rest of the world performed well backed by new geographies and new portfolio introduction. During the quarter, ADHO registered a mid-single digit value decline due to weak demand conditions in key HSM especially the rural markets. Share of amla portfolio remains steady in mid single digits at an all-India level. Steady progress is seen in Bajaj 100% pure coconut and consistent sales is now driven by repeat demand and distribution, Bajaj Coco Onion saw good traction in modern trade and e-commerce. Almond Drops soap is supported with TV, media, plus digital and continues to receive positive and encouraging feedback from consumers. Listing of the brand has been done in large modern trade chains this quarter. Almond Plus Argan oil and Serum with Oil under the Almond Drops extension portfolio have been live on e-commerce and will drive offtakes in the coming quarters. Our range of digital first brands Bajaj 100% Pure and Natyv Soul are also being supported with digital marketing and are scaling up as per plans. We will continue to invest strategically in these two brands in the digital space going forward.

We continue to provide media support for ADHO across TV, digital as well as print supporting key markets. The company has recently signed up with popular Bollywood actor Kiara Advani as its brand ambassador for ADHO. The latest creative with Kiara “Boring Nahi, Ban Ja Toofani” campaign aims to connect the brand with young women to further consolidate its market leadership in the segment. As the new face of the brand, she will feature in a series of high energy marketing campaigns and events in the coming months. The social media activity towards the new ADHO campaign “Daro Nahi Dare Karo” registered 1.3 Crores views over December-January. Community marketing for ADHO on beauty, parenting, and lifestyle reached 63 lakh people in around 200 online communities. The Almond SOV has increased from 8% to 17% in these communities.

We continue to make visible progress in our ESG program in line with our 3R philosophy of Reduce, Recycle and Reuse. We continue to take initiatives for reducing carbon footprint and greenhouse gas emissions. These initiatives has led to reduction in consumption of glass bottles by 8% this year, over and above 16% reduction achieved last year. Similarly, for laminates we reduced our consumption by 6% on top of 14% reduction last year. The company continues to focus on reduction in usage of natural resources like water by monitoring the water consumption sources and installation of controls at critical places. This helped us reduce water consumption by 34% in nine months FY2023. Steps taken in process improvements at the plant help in reduction of wastage of certain critical categories like laminates by around 25% over the last year. So while we see raw material slowly

coming off its peak and the gross margin pressures easing slightly, the company will continue to invest in its existing brands as well as new launches to support its long term growth aspiration of diversifying its portfolio beyond ADHO. As we expect the markets to normalize in the coming months and RM prices to soften we believe we will be in a much stronger position to reap the benefits of the portfolio expansion which we are already seeing yielding results. This would lead to derisking ADHO, having consistent and robust topline growth as well as better EBITDA margins going forward. With that I end the opening remarks and open the session for questions. Thank you.

**Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Varun Bang from Bryanston Investments. Please go ahead.

**Varun Bang:** Thank you for the opportunity. I have a couple of questions, so first one is on ADHO segment so if I were to take a slightly longer term view on ADHO segment given how the consumer preference is evolving around hair oil in a normalized environment what sort of opportunity do you see in ADHO segment. Does it still have potential to grow 4% to 5% in volume terms over long term is it possible or can you share your thoughts?

**Jaideep Nandi:** If you look at currently the way we are witnessing downtrading, in urban if you look the downtrading is not that obvious, in fact in urban markets even ADHO has been performing pretty well. It is because of this sharp decline that is happening in rural markets and especially the HSM markets unfortunately that is the trend we are seeing as far as our company is concerned that in spite of so many initiatives especially exactly where it is hurting us most is the markets of let us say UP, MP, Bihar and Chhattisgarh and Jharkhand that belt which has been a consistent story for the last 3-4 months even Nielsen data specifically shows let us say UP is down by 12%, Madhya Pradesh is down by 10% so which is hurting us most. Other than that if you ask me in terms of expansion of ADHO is concerned there are a lot of pockets in the country where we feel ADHO can still further grow and those are where we are seeing the growth happening as well for ADHO whether be it in the western and eastern markets and some parts of south maybe not the entire south so we are seeing good green shoots happening as far as ADHO is concerned and because of the democratized market through modern trade and e-commerce there also we see proliferation of ADHO in markets which are beyond our traditional strength HSM markets. It's the HSM markets which is today a concern and if you ask me is the markets normalized, if the demand conditions were to come back overall demand where the discretionary basket for the people they are able to spend money on disposable income I personally think that kind of growth is easily doable.

**Varun Bang:** In new products so in the products like Coconut, Amla, Coco Onion and then we have range of products in Bajaj 100% Pure and then range of new products we have launched under

Almond Drops category as well, so given that this market is crowded with lots of new age products what is our right to win in this market and how do you think we stand vis-à-vis the competition and if you can just share your thoughts over slightly long term how do you think we were to position ourselves?

**Jaideep Nandi:**

So absolutely right, in fact when we launched the soap we are absolutely aware in 20000 Crores completely saturated market but as we had made the commentary at that point of time and we are clearly seeing the results bearing out now. The launch was not only a part of a product launch in soap category we wanted to launch in the entire Almond category itself, we wanted to own the entire almond category and that is where you see now plethora of products coming up. We have the serum which is tracking well in the e-commerce and modern trade channel. We have Almond Plus Argan Oil which is already tracking well. Soaps has already started showing good traction obviously it is a cluttered market as you have rightly pointed out so there will be a slow growth but with our consistent push in terms of TV ads, etc., we are seeing traction coming in and now there will be one or two more products which you will see coming up in the next few quarters as far as Almond. So Almond Drops extension category is something that we want to develop as a 10 to 15 products over a period of three to five years which we want to push and I think that category of Almond Drops which is where we feel that we have some ownership that we want to proliferate across consumers and wherever we have done consumer dipstick, etc., we see the fact that it is coming from the house of Bajaj with the Almond Drops umbrella that itself is a good right to win. As far as the hair oil portfolio is concerned or the oil portfolio if you look at whether be it in Amla, whether be it in Coconut I think there is enough proven record for us that we are seeing good traction. Today you see the new products which used to be one of our key concerns that we do not have a portfolio beyond Almond Drops that NPD is now sitting comfortably at 13% both your quarter number saliency as well as your year saliency is at 13%. If the hair oil market were normalized it was not at this minus 4.5% overall market situation and then I think we would have been in a far better situation. If you look at the commentaries of the various hair oils players and if you look at us, I think in terms of hair oils with the growth of about 7% yearly I think we are doing fairly well as far as hair oils itself is concerned. It is just the market, if there were more buoyant you would have seen the results coming up in terms of our portfolio expansion and these numbers would have been far stronger.

**Varun Bang:**

Is there a way to track successes in these products how would be the repeat demand for some of the differentiated products, is there a strong pull factor that we are seeing what is the sense that you are getting?

**Jaideep Nandi:**

Except the Almond + Argan Oil and Serum with oil these have just been launched so none of them we are doing too much of primary sale quite a few of them are let us say e-

commerce focused except soap which is obviously GT focused. So it is now beyond the level of where only primary sales has happened and consistently our focus has been to continuously focus only on secondary sales. If you look at both the quarter as well as the year, our secondary sales for the quarter in general trade for example has been 5% more than primary sales because that has been the conscious focus to reduce inventory get it as low as possible so that at least you can focus on actual sale that is happening so that way I think most of the sale that you are seeing is actual sale happening right up to the consumer.

**Varun Bang:** I am assuming that we cut down on our ad spends two years from now so would this product continue to see traction is what I wanted to understand?

**Jaideep Nandi:** Different products will see different kind of let us say tracking that is happening. If you look at today, ADHO gets about 60% of our ad budget and new products get about 40% of our ad budget and roughly about 25% of our spend is on digital. Now slowly the digital component of our ads spend itself is going up and the moment you increase the digital component of our ad spend obviously your total cost itself will also keep going down and moment these products start showing traction. Today it is 13% and we have far higher aggressive plans as far as taking these NPDP numbers higher so as a percentage obviously the ad spends will keep falling, so today we are at 18-20% we intend to keep it like that somewhere till maybe next year and then slowly start bringing it down to the levels of that 16% or so which is what we want to stabilize it at.

**Varun Bang:** Thank you. We have the next question line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** Sir I just wanted to make sure I heard that correctly you just mentioned that you have grown 7% in the hair oils segment is that right?

**Jaideep Nandi:** That is correct on a 9 month basis.

**Percy Panthaki:** On a 9 month basis and how much for this quarter?

**Jaideep Nandi:** The quarter is actually flat. Our value sales overall also is flat, hair oil is also flat.

**Percy Panthaki:** Understood secondly just wanted to understand what is the percentage contribution of ADHO to the total company now?

**Jaideep Nandi:** Total we have now 85% contribution coming out of ADHO, 2% is coming out of the traditional brands and 13% is coming out of the new product.

**Percy Panthaki:** So when you say new products you are including this onion oil and Natyv Soul, Bajaj Pure everything put together is it?

**Jaideep Nandi:** Yes absolutely. See the definition of new products is everything that has been launched in the last three years. Anything that has been launched in the last three years and we will keep dropping anything that goes outside the three-year.

**Percy Panthaki:** Understood and this 13% even if you are not giving exact numbers but any kind of flavor you can give how it is distributed this 13% among the various initiatives?

**Jaideep Nandi:** So if you look at in general trade the launches has been only a few products. It has been basically the Amla range, the Coconut range and the soap, so general trade the distribution is of that and as far as e-commerce is concerned it is all of this as well as let us say AD extensions of serum and almond oil as well as the digital first brand. If you look at the e-commerce and even the modern trade quite a bit of it, it is very, very democratized. All of these are tracking well. If you look at our partners like Amazon and even Flipkart all of these brands are tracking very, very well. As far as general trade is concerned obviously the product range is restricted, it is as I said the amla range, the Coconut range and the soap and it is distributed between these three only in General Trade.

**Percy Panthaki:** Just looking for like at least the sequence in terms of size which is the largest amongst Bajaj Pure, Natyv Soul, the coco range, the onion range out of these four or five if you can just arrange them in descending order of size or something like that it would help?

**Jaideep Nandi:** Because of your sheer general trade presence both your amla range as well as the coco range that is the entire coconut portfolio as well as the amla portfolio both of them in terms of size is much bigger and beyond that if you look at all of them are tracking in similar trajectory, soaps are little higher and I think Natyv Soul, the serum, etc., has just come in but showing good traction in fact the almond extensions are showing pretty good traction and we are very buoyant about both the oil in serum as well as the almond argan oil has been showing good traction and we are planning to launch a few more in this almond extension category because we are seeing that they are tracking very, very well.

**Percy Panthaki:** So over a three year period I think the ADHO salience has gone down from some 92-93% to maybe 84-85% so if I look at only ADHO over a 3-year period is that product flat in terms of revenue or has there been a revenue decline and if so by how much?

**Jaideep Nandi:** This year you would have a little bit of a revenue decline but overall if you look at a three-year period it has a little less than a mid-single digit growth it is close to about 3% growth over three year period.



- Percy Panthaki:** Value wise right?
- Jaideep Nandi:** Value wise in fact volume wise it is more or less flat.
- Percy Panthaki:** Understood. Next question is on margin. If we look out two, three quarters from now what kind of margins do you think at a company level we can clock are we sort of set to go back to a high teens EBITDA margin in two to four quarters or will it take longer than that?
- Jaideep Nandi:** If you look at the entire cost basket, the two costs which are basically impacting our EBITDA margins are basically the gross margin as well as the marketing costs. Marketing costs I have already told you given that we are investing and we are seeing traction that 18 to 20% is roughly going to remain for the next four quarters or so and then I think as the business scales up we will see a natural reduction of these marketing costs coming down to about 16% that is as far as A&P spends are concerned. If you look at the gross margin dilution that has happened just to give you a sense of where we are seeing it is roughly, let us say a 5.5% gross margin dilution that we see. About 4.5% is coming straight out of, if we do a pure math it is about 4.2-4.3% is coming out of just RM prices which is basically impacting our gross margin and the balance of about just a little more than 1% is due to the product mix because what we have also decided is we will go ahead with products other than maybe only one product in the hair oils which is Amla range other than that we will go ahead with products which have decent gross margins and EBITDA margins for us to meet. That is the direction we have taken for us so all the products that we mentioned have decent gross margins and going forward also that is a basic benchmark we have put for ourselves that only products which has decent gross margins or high gross margins are the ones we will launch. This is how the breakup stands, so as the raw material prices stabilize you will see this one straightaway flowing back into us that margin dilution of about 1.2% or so that happens due to the product mix that obviously will not flow back and that we are comfortable with that.
- Percy Panthaki:** So given where the spot prices not consumption but the spot prices where they are today if they were to maintain for the next several quarters at that level then do you think there will be any improvement in gross margin because you are using input costs which are priced higher than spot or that is not the case?
- Jaideep Nandi:** We have had a 200-basis point improvement on the current spot prices. You already see an improvement also on our gross margins happening itself right so it will be more a function of how we see the LLP prices moving in the next two, three quarters. We see that the prices have already stabilized or rather normalized quite a bit and with the weakness of demand we feel that LLP prices can further go down a bit.

- Percy Panthaki:** What I meant was our today's spot prices higher or lower than the Q3 consumption price?
- Jaideep Nandi:** Today's spot price is lower than Q3 consumption price.
- Percy Panthaki:** Q4 should naturally see some more gross margin benefits over Q3?
- Jaideep Nandi:** See this is just the middle of the first, second month so we see how this pans out but if this trend remains yes.
- Percy Panthaki:** Sure. Okay that is all from me Sir. Thanks and all the best.
- Moderator:** Thank you. We have the next question from the line of Gaurav Gandhi from Glorytail Capital Management. Please go ahead.
- Gaurav Gandhi:** Hi Sir thanks for the opportunity. Sir our advertising and promotion spends I want just the breakup of how much is for the incentives and how much is for advertising?
- Jaideep Nandi:** This is all advertising. This incentive is not part of A&P this is accounting.
- Gaurav Gandhi:** Alright, as that is pretty much higher so that is why I was asking.
- Jaideep Nandi:** This is how we have always kept it and as I said 60% of the cost goes into ADHO and 40% goes in new products.
- Gaurav Gandhi:** With our new products so that serum with oil how much are you confident with this product and how will it perform because serum is the category younger India is attracted towards that so how much are you confident about that product?
- Jaideep Nandi:** So we have launched this product both this as well as almond with argan oil which is about 50% premium over the ADHO itself both these products has gone into e-commerce first and now into modern trade and we are seeing good traction happening as far as the serum is concerned, in fact as a product all the products that we have launched in terms of consumer we are getting good traction and good feedback including our AD Soap itself so as far as the almond extension is concerned we are slowly seeing that niche is getting carved out as far as our portfolio of Almond Drops products are concerned and as we see more products getting launched and you will see more products coming up.
- Gaurav Gandhi:** My question is it a regular serum or serum with oil what is the product exactly serum with oil will it be something different from the regular serums which are present in the market?

**Jaideep Nandi:** It is a very similar product. It is serum with oil which basically adds to the nourishment not only does it reduce frizz control it adds oil also. The oil is one of our key things so this just accentuates the oil part of the product. Serum is for frizz control this oil adds into the nourishment.

**Gaurav Gandhi:** The next question is on the Nomarks brand do we produce that or have we stopped producing the Nomarks brand soaps because what my observation on ground says that the almond soap which we have launched has a similar appeal to many other soaps for the people at large a bit saturated but Nomarks soaps are something different and we might create a differentiation with that product in the soap category so what are your thoughts about that?

**Jaideep Nandi:** Actually, I would like to politely disagree with that. The Nomarks soap actually did not bring in any specific attribute itself because Nomarks by the name itself means that you leave no marks and it was more like a no scar kind of a brand, it was not. Really was a very different portfolio which was through the OTC channel that we are servicing and mainly in the Bihar, UP markets, etc., so the Nomarks as a brand remains but the soap itself I would like to think that the AD Soap has a far higher product proposition than Nomarks Soap itself so Nomarks soap itself is not get pushed, AD soap obviously yes.

**Gaurav Gandhi:** Last question is do we have any plans to get into some of the products where the growth is higher and include those products in our basket because our existing portfolio is almost saturated and Bajaj has very fine goodwill in the markets to penetrate easily so how should we look at that and also how should we look at the company, say a slightly longer term say 5 to 7 years of time frame can you throw some light on that?

**Jaideep Nandi:** As we embarked on the journey earlier maybe a few years back the objective was to derisk ADHO and create a portfolio where Bajaj has a right to win so we had identified two areas where we saw with our consultants, etc., that we worked and with consumer studies the two areas is where Bajaj can work which is the hair oil space itself which is what we have filled up with quite a few products offerings and now we cover about 85% of the overall hair oils market in terms of product offering and on the other side using the almond drop extension in skin and hair category we have taken up for the next three to five years to take on so this is what we have been pushing. We also feel that there is some more scope of the Bajaj brand name which is an Indian brand name which is a very traditional Indian brand name getting more categories as far as the personal care. This is under consideration and as and when you see it coming we will come back to it. Again the criteria will be where we see growth potential and where we see gross margin, only products where we feel that can be exploited with a right to win is where we would like to get into.

- Gaurav Gandhi:** Alright Sir. Thanks a lot. Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Hi Jaideep good afternoon. Thanks for the opportunity. Just two, three observation when we go back a year before and we started saying that we have launched coconuts and we are trying to look at the penetration and then we launched the amla segment and if you look at the observation last three years amla knowing amla has grown very fast and there was a downtrading which is happening but right now when I connect the dots with Nielsen the rural is still declining 7.4% in volume terms what you have stated in the presentation can you give some benefit what exactly we are trying to make because if almond drop equity is premium and we have launched amla but the growth rates are still falling and as a company would you guide what is we can expect in next one year?
- Jaideep Nandi:** If you look at Shirish in terms of hair oil overall if you do a comparative analysis I think we have performed well. Either if you look at the quarter number in isolation only for the hair oils or you look at the 9 month period I think across all companies put together I think we are tracking pretty decently. Having said that specifically amla we have taken a strategic call saying that given the kind of bloodbath that is happening in the amla market today as the market stands today we wanted to stay out of some of the lower price products as well as the amla is concerned which is more than Rs.10, Rs.20 pack specifically because we thought with the current structure of LLP and RMO and all the other raw materials you really cannot make too much of margins with the kind of pricing that is happening in the market so we actually took a conscious call in Q3 this year end of Q2 and Q3 this year where Rs.10 and Rs.20 packs of amla that we defocused on because there was no money to be made. You would have got topline growth, margins would have collapsed further so this is what we have taken up. Amla still the larger packs have been doing well tracking well we will continue to support that and as we see RMO, LLP if they were to stabilize, etc., this is a segment even though LUP is something that we will definitely forecast into, so this is where as far as the hair oil market is concerned.
- Shirish Pardeshi:** That is helpful. My second question on HSM markets. Last four quarters we have been talking about HSM market there are pain points we started saying that we are expanding the van distribution and then in between we try to escalate the efforts on the wholesale packs where are these initiatives, are these initiatives really yielding any efforts because quarter-on-quarter we are seeing that HSM is becoming a pain point for us.
- Jaideep Nandi:** If you look at even HSM markets yield it is again a very consistent commentary unfortunately. The entire HSM as a block is not what is doing badly neither for the country

nor for us. The northern part of the HSM market which is Delhi, Punjab, Haryana, Rajasthan that belt is still good even for us as well as Nielsen data is concerned. Yes there are some blips here and there market wise but otherwise overall it is doing well. It is this market of which I called out which is UP, Bihar, Madhya Pradesh, Chhattisgarh, Jharkhand which is where the problem has been for the last one year and not only Nielsen data even as we are facing. Unfortunately our saliency is high and so this is what we are grappling with currently but we are seeing some green shoots coming up and hopefully they should slowly start normalizing as the year goes by.

**Shirish Pardeshi:** My last question on the gross margin or EBITDA margin. A year before exactly you guided that we will take a hit on the EBITDA margin but we will spend money on the advertising so maybe if I look at next four quarter not the guidance per se but if you can provide that direction where we are heading for the gross margin given the context that the RMO prices are softening and the input material is also softening so maybe your qualitative comments on that?

**Jaideep Nandi:** I will give you this thing on gross margin how it has got diluted and what is the recovery back so out of 5.5% gross margin dilution that we saw about 4.3% odd was coming out of the raw material itself that is after the price increases that we have taken and about 1.2% because of the product mix change that has happened. That 1.2% is a deliberate conscious call and we are comfortable with that. The 4.2 is a function of how the market price has stabilized. We have seen already a gross margin improvement that has happened over Q2 because of the raw material softening and we are expecting that in Q4 and Q1 it might further stabilize. We expect the RMO prices to come down a bit with a good crop and LLP we have to see. This is a function of how it is but if these prices were to go down you will see a direct contribution happening as far as EBITDA.

**Shirish Pardeshi:** Okay thank you Jaideep and all the best to you.

**Moderator:** Thank you. We have the next question from the line of Mohit Mehra from Guardian Capital. Please go ahead.

**Mohit Mehra:** Good morning thank you for the opportunity. I wanted to ask you about the demand recovery especially in rural areas now that commodity price inflation has started coming off how do you see that and secondly how have Jan volumes been so far?

**Jaideep Nandi:** The easy question of the second part is that I cannot give you guidance on January so we will have to leave January out of this discussion. The second part is rural demand unfortunately we have been hearing commentaries earlier after the Q2 earnings call that rural outlook in Q3-Q4 is expected to be better. I think after Q3 we hear the earnings call to

be far more muted and I do not think there is a very clear directionally improvement in terms of rural demand. I do not think there is a very, very clear near sight of that the rural demand is going to be much better than what it has been in Q2, Q3, so Q4 I do not think there will be a huge improvement. Having said that we clearly see urban doing pretty decently well and some of the markets which I called out earlier have been still okay. It is more the poorer markets which is where the low income markets is where the problem in rural remains and I do not think that is going to get sorted out in Q4.

**Mohit Mehra:** Got it. Thank you.

**Moderator:** Thank you. We have the next question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

**Kaustubh Pawaskar:** Good morning Sir. Thanks for giving me the opportunity. Sir my question is on the new product launches so currently NPD contribution is around 13% at what level of contribution you expect it to contribute materially to your profitability so that there would be kind of this for you over the period of time for example if you say 20-25% it should start contributing materially to your profitability?

**Jaideep Nandi:** If you look at on a net contribution basis quite a few of the products are today profitable except the ones which are getting very, very high media investments disproportionate to the sales that is happening only those are EBITDA negative at the current stage but some of the products are already EBITDA positive and that is why we talked about rationalizing of some of the products that we are selling in terms of SKUs that we wanted to sell, etc., because keeping it EBITDA positive is one of the things that we wanted to do as a structural thing even when we started the business. This gross margin reduction that we see is what is hurting us otherwise in terms of basic fundamentals of business, in terms of how we want to see each of these products except one or two all of them are keeping them to be net positive in terms of margins and by net positive that all the marginal costs for the product is taken in not only just the gross margin.

**Kaustubh Pawaskar:** Can you explain which are these products which are currently profitable of the new launches?

**Jaideep Nandi:** Except for the ones where there is high media investments happening except those most of them are positive.

**Kaustubh Pawaskar:** In last one year have we lost any market share in almond drops?

**Jaideep Nandi:** Almond Drops the market share remains more or less steady it is between 63 to 65% because the LHO market itself has also declined substantially if you look at the Nielsen data LHO market itself has declined by about 8.6%.

**Kaustubh Pawaskar:** The new product launches which you did into general trade are some of these launches done in smaller unit packs or you are comfortable launching them in bigger packs where the traction is good for whatever launches you are selling them on general trade?

**Jaideep Nandi:** You really cannot launch in bits and pieces in terms of not launch the entire range as far as the product is concerned so launches happen across all ranges but the support may not remain across the LUP at this stage, so the low unit packs which is typically the Rs.10, Rs.20 pack is not something that is supported by the company because of the gross margin profile that currently is, not to say that they will not happen in the future but at this stage that has not been getting support.

**Kaustubh Pawaskar:** Okay Sir. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Sanket Malpani from Precision Capital. Please go ahead.

**Sanket Malpani:** My question has been first on the buyback side so what was our intention with the buyback and how do you see that happening and again cash on the balance sheet the current investment close to 700 Crores is there a plan to invest it further in other ventures?

**Jaideep Nandi:** Coming back to your buyback and usage of cash. See buyback is basically a way of rewarding your regular shareholders so we wanted to go into some steps of rewarding back our long-term shareholders and that is way we have got into our buyback. We have finished so far statutory mandatory 50% of our buyback which is the minimum that you need to do before you can decide to follow up or not so we have finished that and we have about 3 months still pending as far as the closure window of the buyback is concerned and the buyback is still continuing as you see. As far as the cash utilization is concerned again that is again a way we will have to see how we can both look at the interest of the business as well as the interest of the shareholders so we have the dividend policy which has been there and we will see how that will pan out as well as we are looking at investments we had called out even earlier we will keep exploring. We have not done any M&A till now but we are actively looking at in terms of profiles where we want to invest in and we are also looking at some of the markets outside India where we wanted to invest as well as some investments going in there so this will how the cash will get deployed. We are not a very debt friendly company so we are not looking at leveraging ourselves too much at this stage

but if the situation arises whether be it in terms of large M&A opportunity, etc., we are not sure of those.

**Sanket Malpani:** Alright Sir. Thank you very much.

**Moderator:** Thank you. We have the next question from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

**VP Rajesh:** Thanks for the opportunity. My first question is on the NPD side what percentage of revenue do you think it will be coming from these products let us say next three years, like right now it is 13% where do you see that percentage going up to?

**Jaideep Nandi:** So our long term aim for the next three to five years at NPD just organically we think that the NPD can go anywhere between 30 to 50%, 50 would be on the higher side but 30 is clearly doable, 30 is very, very clearly visible with the current portfolio that we have and maybe taking it to about 40% is what I would say within the next three to four years is what we would be looking at but that is just an aspiration at this stage. It will also be a function of some of the launches and how they track that we have for the next let us say for eight quarters.

**VP Rajesh:** Then ADHO at that point is it fair to assume will become less than 50% because some of your new products that have been launched in the last one year will no longer be part of NPD?

**Jaideep Nandi:** Let me then rephrase it so technically you are right, so I will rephrase myself. I am including the product that we have launched taking us to that number.

**VP Rajesh:** Understood so what you are saying is like whatever you have launched in the last few years plus whatever you will launch in the next 3-4 years will totally contribute to..

**Jaideep Nandi:** Whatever we have been launching after the COVID period if you were to look at those products that should contribute about 50% maybe 40 is more what we are aspiring for and ADHO should take up the balance that is what we are looking for. Your current 85 should be looking at 60 and obviously the investments will continue on ADHO.

**VP Rajesh:** If you do something inorganic then obviously the situation will change.

**Jaideep Nandi:** That is a different thing.



**VP Rajesh:** My second question is couple of times you mentioned certain states which are hurting us more so I am just curious what is your observation is it a temporary situation or there is something specific going on with our products or is everyone hurting if you can just give more commentary around those markets especially UP, Bihar which are very core to us that would be helpful?

**Jaideep Nandi:** We were looking at all the Nielsen data across other categories so whether it be soaps, etc., all the other categories. If you look at even categories like soaps which is the largest category there though there have been value growth because of the amount of price increase people have been able to take if you look at the volumes in fact soap is in a worse situation as far as UP is concerned than hair oil so overall it has a minus teen kind of a growth rate that it is having, so across all other discretionary categories wherever disposable incomes have gone down so all the products that come under that category we are seeing the risk so it is not specific to hair oil. Hair oil usage has not really gone anywhere. In fact in the urban markets there has been strange changes that we observe and we have been able to ride that and take some benefit out of that which is you see our growth in modern trade and in e-commerce but in terms of the rural markets or let us say the core markets of UP, Bihar, etc., we do not see so much of change that is happening. It is more the money in hand of the consumer today free money in the hands of the consumer or disposable money and once that comes back we feel that we have enough where it has to be able to get back. We do not have any specific issues either be it on our distribution or in terms of our retailing or in terms of the product offering, etc.

**VP Rajesh:** If I may ask a followup on this are you saying that you are continuing with your market shares and there is no competitive intensity that has gone up in those states it is just that consumer does not have the money to buy our premium product is that really the issue?

**Jaideep Nandi:** Competitive intensity is up but the competitive intensity is not a like-to-like product there has been downtrading there is no question on that. Both in terms of downtrading and down purchasing that we are looking at. LUPs have gone up as well as the lower quality or lower price products have gone up so we have seen a surge in the amla products that have gone up. The lower end of the amla products which have gone up the Rs.10, Rs.20 pack which have gone up. They are clearly not margin making products. They do yield volumes but they obviously will erode your gross margins quite drastically so we have decided not to play very strongly at this level.

**VP Rajesh:** Understood. Thank you so much. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Vaibhav B from Honesty and Integrity. Please go ahead.

**Vaibhav B:** Thanks for providing the opportunity. On ADHO for the overall almond based hair oil market what can actually drive the increase in the overall almond based hair oil market as compared to the overall hair oil market is what I am trying to understand because we have been seeing that this market is a little bit stagnant or declining as compared to the other hair oil market so is it price based action, is it more marketing what can actually turn our cash cow around in terms of growth is what I am trying to understand?

**Jaideep Nandi:** So there are two aspects of the question as I see it. One is growing the light hair oil market itself is concerned other is growing ADHO which I think is a little two different things. As far as ADHO is concerned I think we are taking two steps. One is obviously we need to get back our core, the core itself is now in a little bit of a difficult time but that is not too much of internal issues that I see it is more external and we hope that when the external issues come back we will be in a position to take benefit of that. The other two core areas where we think it is a part of our growth strategy which we could take. One was basically looking at the unexploited markets of ADHO especially in the western and eastern markets those are where I think we are seeing some good traction even today coming up not maybe the way we would have wanted to gain the demand scenario but I think that is clearly tracking much better than our HSM markets. South is not somewhere we have still been very strongly present and that I would have to admit is still an area that we need to track and I hope when the demand conditions come back it is something that we are focused on. The other area is looking at the modern day, the young customer of today who is more in the urban and the semi-urban towns I think there we have done a pretty decent job through our digital marketing getting connected with young generation consumers and you can see the results coming out in terms of both e-commerce and modern trade. The B2B part of modern trade and e-commerce they are doing fantastically well. We have also been very, very conscious that we do not want to push the B2B part of it so with the B2C part of both modern trade, e-commerce has been doing very very well and there is a lot of new gen customers who are talking about it and that is a very conscious strategy. A lot of money has been shifted to digital media as far as ADHO is concerned and I think when the market stabilizes, when demand conditions were to come back I do not think there is any inherent problem in the Indian economy as such that demand should not come back. I think we will be in a good position to take advantage of these through growth legs that we have been pushing as well as coming back off the core which is the market that I talked about.

**Vaibhav B:** Do you want to touch our pricing premium as compared to other hair oils or you do not want to touch that?

**Jaideep Nandi:** At this moment I do not think the pricing premium is making too much of an issue except for when you are looking at strategically but other than that I do not think the pricing premium is hurting the brand, so we would not. While yes you are absolutely right if we

look at a 5 year period our brand has taken a little higher premium than what it was compared to the top two brands in the hair oil market that is how we also see but I do not think that is resulting any loss of business or strategy is concerned. One or two packs maybe we might want to do something but we would also want the prices of raw materials to stabilize before we take on any action on that.

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

**Moderator:** Thank you. We have the next question from the line of Abhimanyu Godara from Antique Stock Broking. Please go ahead.

**Abhimanyu Godara:** Hello Sir good morning. Sir can you give some flavor on rural demand and urban demand there are some entries regarding rural demand revival and the urban consumption growth, some moderation in the urban consumption growth because of already high base so can you give some flavor for the coming quarters on that?

**Jaideep Nandi:** What you are saying is correct on overall basis. For us, most of our urban was based on what we used to do in wholesale and our retail was comparatively not as strong as if you were to compare with some of our other competitors so retail has been a focus for the last two years as far as the organization is concerned. We have been seeing good growth happening in retail throughout in spite of this kind of a debacle that is happening in the marketplace we have had good strong double digit growth in fact it is higher than mid single digit it is actually in the range of 20% plus as far as retail growth is concerned on 9 month basis and about 15% as far as the quarter is concerned so retail is something that has been doing very, very well as far as urban is concerned. In fact if you look at even wholesale today is positive. We did a wholesale revival last year. Last year we did lose out some wholesale we did a wholesale revival, a lot of work happened as far as the wholesale was concerned so wholesale has also revived, so wholesale is also positive it is obviously not as strong as retail but positive. So as far as urban is concerned we are pretty strong and we feel that for the next few quarters also urban will continue to do well as far as BCCL is concerned. The rural if you were to sort out and if the rural market stabilize I think we would be in a pretty good position.

**Abhimanyu Godara:** Thank you.

**Moderator:** Thank you. That was the last question. I would now like to hand it over to the management for closing comments.

**Jaideep Nandi:** Thank you everybody for joining in this call. I think we witnessed a very interesting quarter as far as we are concerned. In fact, all the legs that we have been wanting to push in the last

two quarters is now slowly starting to bear fruit. The new products have been good giving us good traction in the modern trade and e-commerce also has been doing well. Even in general trade it has been a mixed bag while the overall numbers in general trade is not very healthy but overall in quite a few of the markets that we wanted to push in terms of the western markets, some of the eastern markets and the up north market they have been also doing pretty well. It is one block of market in general trade which has actually been pulling this company down and I am very, very hopeful that once this were to sort out and as we see the raw material prices softening a bit going forward if this market were to sorted out I think we will be more or less back on track and with the commentary that we have been talking about in the last two, three years of where we want to take the company both in terms of growth as well as in terms of EBITDA profile. So thank you all for joining us and wish you all the best. Thank you.

**Moderator:**

Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.