



“Bajaj Corp Q2 FY17 Earnings Conference Call”

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EQUITIES**

Moderator: Good morning, ladies and gentlemen. Welcome to the Bajaj Corp Q2 FY17 Earnings Conference Call hosted by Kotak Securities Limited. As a remainder, 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anand Shah from Kotak Securities. Thank you and over to you sir.

Anand Shah: Thank you, Good morning everyone. On behalf of Kotak Institutional Equities, I welcome you all to the 2QFY17 Bajaj Corp Earnings Conference Call. We have with us the senior management of the Bajaj Corp represented by Mr. Sumit Malhotra - Managing Director, Mr. V.C. Nagori - Chief Financial Officer, Mr. Dilip Maloo - Vice President (Finance) and Mr. Kushal Maheshwari - Head Treasury. I would now like to hand over the call to Sumit sir for opening remarks. Thanks and over to you sir.

Sumit Malhotra: Good morning to all and welcome to the conference call for the declaration of the second quarter results of the financial year 2016-17.

The company has closed the second quarter of financial year 2017 with the turnover of 196.15 crores, which translates to a growth of 3.5% over the same quarter in the preceding financial year. The EBITDA for the quarter is 68.30 crores which is 34.82% of sales and is higher by 3.87% over the same quarter in the previous year. The PBT and PAT are 74.17 and 58.30 crores after adjusting exceptional items of 6.64 crores. The PAT for the year has grown at 24% over the previous year. Please note that the exceptional item that we show in our P&L statement is as a result of the amortization cost of the acquired brand Bajaj NoMarks. We had now completely amortized that brand and from next quarter onwards there will be no exceptional item on this account. As in the last quarter, in this quarter also the effects of the new Accounting Standards IndAS has been considered. The most significant impact will obviously be as a result of the cost of promotion which has been reduced from sales value. Again, as per the new Accounting Standards, the mark-to-market gains or losses have been added or subtracted from the figure reported for other income.

As against the first quarter of this financial year, the hair oil market has slowed down further with the overall hair oil market expanding at 1% in volume terms for the period of July to September 2016. Due to reduction in coconut hair oil prices, the overall hair oil market has shown a decline of 2.3 in value terms. During the second quarter, the light hair oil has improved its growth and is now growing at 1.7% in volume terms. This improvement is coming as a result in improvement in urban volume growth. The

rural growth in LHO remained muted at around 3.3%. The strain on volumes of our lead brands Bajaj Almond Drops continue, also we have increased our A&P spends to 26.93 crores this quarter which translates into a 13.73% of sales. This is against 19.19 crores that was spent last year in the same quarter. Last year, as a percentage of sales this was 10.12%.

The market share in terms of volumes of our lead brand is at 57.4% which is a 0.5% drop versus market share that was recorded March 2016. In terms of market share of the overall branded hair oil, there is an increase from 9.7% to 9.9% in value terms in this quarter. As in the last four quarters, this quarter also showed the LLP remaining benign as against an average price of 58.82 per kg in the second quarter of the last financial year. The price now stands at 44.55 per kg in this quarter. As I had informed all of you, we are contracted LLP at this rate for the remainder of the financial year and therefore there will be no major changes in average prices of LLP this year. On the vegetable oil front, the prices have declined from 82.02 per kg to Rs. 78.41 per kg on a quarter-to-quarter basis.

The acquired brand, NoMarks has closed the quarter with a turnover of 6.5 crores, this is as per the new accounting standards. The new strategy and hence the new advertising campaign will be visible over the next couple of months. The strategy has been firmed up and we are testing the same in two states within India. Depending upon the structures of this strategy, it will be rolled out across India. Over the last quarter, we have done extensive clinical trials on our NoMarks cream. The results are very encouraging and we are now considering using the Ayurvedic platform of the product along with the results of the clinical trial at the **backbone 6.05** of our new communication strategy.

On our international business front, this outlook has been very encouraging and this quarter also the business has grown at 78%. The international business contributes about 5% of our total turnover now. We will be entering Russia, Indonesia and Egypt over the next 3 to 6 months. The registration of our products in these countries has been done and the entry strategy has now been firmed up for the actual roll out into the country. Over the next 3 to 4 years, our international business will be a significant part of our turnover and even bigger proportion of our profit. The initial consumer reaction has been very encouraging outside India and we therefore believe that in most countries, NoMarks will become the lead brand. We believe that by 2018 NoMarks will contribute at least 75% of our international business. The other sales verticals like canteen stores and modern trade verticals both would contribute 4% of company's turnover have shown a growth of 32% and 16.5% by volumes respectively. Both these are doing well in terms of consumer offtakes.

Our aim to improve the efficiency of our sales system through automation continues, when successful we will be able to derive more from our existing manpower resources. We have now connected over 700 of our largest distributors and all of our focus office to our central VRP server and can now monitor secondary sales on a real time basis. In addition, our salesforce automation system is fully functional in Mumbai. We now aim to connect all of our salesmen which are around 1100 to the system over the next 6 months. We believe that the investment in technology is a must and the brands will significantly increase the same in the next quarter and also in the next financial year. We are now open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on your new launch, the discounted pricing for the Amla, you already have Amla, now this is going to fight with essentially Marico's Shanti Amla. So Marico has done well and in the past if you have done a product entry into already which is dominated by bigger players for example Kailash Parbat has not seen big success, so what gives you the reason for launch of this product and where do you see the success priority of this product?

Sumit Malhotra: Abneesh, this is not going to be a deep product and this is not to gather a huge market share in the Amla segment. This is basically to sort of ring-fence competition in the lower end of the price bracket which means that if people are down trading from Almond to the other lower priced brands which could be Amla, which could be coconut, we should also thus get an equal opportunity to the consumer to downgrade into my own brand. Till last quarter, we had launched this only in 4 states across the country, we have now moved it up to in other 5 states, so now 9 states have this thing. This is more like I said in the beginning more to ring-fence our own brand rather than take market share from the lead brands in the Amla sector.

Abneesh Roy: And the pricing is at similar levels to Shanti Amla and you have done 9 states, so any Pan India plan or these are the 9 states wherein the ring-fencing is more required?

Sumit Malhotra: These are the large states of the low cost Amla and therefore we have launched this in all the states where the low cost Amla has done well. Pricing is the same level as the low cost Amla was there around a year ago, over the last year they did try raising the price, now they have fallen back to our price which is 10, 20 and 40 for the 40, 80 and 160 ml.

Abneesh Roy: And could there be some downtrading from your own Brahmi Amla, how are you ensuring that does not happen?

Sumit Malhotra: That will happen. There will be downtrading from Brahmi but rather than it is going all to the other low cost Amla, there is an equal chance of a coming to our own Amla. This is the whole idea of ring-fencing and supporting the Brahmi as well as Almond drops now.

Abneesh Roy: And suddenly what was the reason for this ring-fencing? These are the products which have been there, for example Shanti Amla has been there for many years, of course the market is weak overall, so is that the reason why you think ring-fencing downtrading is now a more serious problem that is why it is required?

Sumit Malhotra: Abneesh, if you look at our presentation, this product in its earlier avatar has been there since 2005. This was launched under Amla Shikakai in 2005, but over the year 2005 to 2014-15, premiumization was happening at a much higher pace. Over the last 2 years, premiumization has really slowed down and therefore this effect of downtrading is being seen to a larger extent. For example, even in Almond drops, the difference between Keo Karpin which is the number 3 brand and ours has increased to around 33% and therefore you will see some strain in terms of market shares or the lower end of the consumers moving to even Keo Karpin. To avoid it all going to competition, we started pushing this all again in a different form, it is now not called Bajaj Amla Shikakai, it is now called Bajaj Amla.

Abneesh Roy: Sir my second question is on the mineral oil and this entire advertising, Patanjali's pricing is much higher, so it is not a direct competition but when I see the ads of Patanjali, they highlight this mineral oil very prominently with studies of U.S. etc. So do you see customer aware enough to start checking in your product also that whether mineral oil is there, LP is there. So is there a shift possible, is your product does it need a product formulation change also at some stage?

Sumit Malhotra: No because if you listen to the ad very carefully, it quotes one study, so unlike what you said studies, there are no studies, there is one study done in the U.S. which is actually effect of mineral oil on skin because mineral oil is what used in nearly every skin cream also. So it has been misquoted and as you are aware as he has already asked them to stop advertising this because there is no backing to it. It is just one study done on skin using skin cream and not hair oil, right? They say that mineral oil causes cancer and tumour, that study if you read carefully it is not on hair oil, it is done on skin cream and in USA, not in India. So to cut it short as he has asked them to stop but knowing that company, they have neither stopped, only taken **14.52** to court.

Moderator: Thank you. We will take the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Three questions, one on the market share bit while you alluded to it in the earlier comment, just to be clear the question essentially comes from the fact that the sequential market share and also if I look at the relative shares at the state level which you disclosed, there appears to be some deceleration on that or rather some decline in that actually in fact in this. Is that the only reason which you said downtrading or is it something more to it which you are kind of..?

Sumit Malhotra: That is exactly that even if you look at that, you will see the biggest differences happened in the states of UP, Bihar and West Bengal, right. All of these 3 states are fairly price conscious markets in India and the gap between up and the brand that is taken a little share in these 3 places is now around 33%. Looking at the environment, we believe that this is one of the reasons that the downtrading is one of the reasons that it could have affected us.

Manoj Menon: And in terms of this cyclical nature of it, what is your sense, so what you reckoned where are we in the cycle? We are in early stages, mid cycle or kind of how do you see this downtrading phenomena?

Sumit Malhotra: I think we are towards the end of it because we are very hopeful that once the monsoons come back and disposable income in the rural areas which is actually driving our growth comes back, our brands will be the first to recover because currently we are overspending the competition by around 4 times. So our spending on communication continues, I think we just need a little uptick on the disposable income which will help us to get back into the high single or double digit volume growth.

Manoj Menon: So essentially it means that, can we assume that your business plans for 2H is for a better growth than 1H or the last 12 months, just a directional comment.

Sumit Malhotra: That is on growth Manoj but the strategy is that we will invest more in advertising, in Q3 you will see our new campaign, I am pleased to announce that we have actually signed on Parineeti Chopra for our brand ambassador. So you will see the new ad with the new brand ambassador in the coming month and the increase in spend should ideally combine with the increased disposable income in the rural areas should help us recover the temporary blip in market share.

Manoj Menon: Understood and second question, requesting some qualitative comments on couple of things sir. One on the beefing up the managerial talent with Sandeep coming on board

and if you could talk about that facet which has been playing in your company for the last nearly 10-11 months now, may be nearly an year now. If you could talk little bit more about the recent hires and kind of things what are you doing on that part of it and the managerial talent part of it and secondly on any qualitative comments you would want to make about new product pipeline and how are you looking at it, is it just that the macros are keeping you kind of away from launching something new or just qualitative comments on these 2 facets.

Sumit Malhotra:

I will do the second one first. In terms of new product line, we obviously have it, we have been having it over the last, as long as I can remember, it is only when do you get the product ready. To give you an example, which is like, our Kailash Parbat, we had it around 3-4 years before the product was actually launched. So as of now, as we are sitting, we have around 6 products that are ready for launch. It is the confidence we have the feedbacks from the consumers and the overall economic scenario that will decide which one comes on first and when it comes on. So yes, we do have a pipeline, we have a fairly robust pipeline considering the size of the company we are. I think it's the question of time that you would start seeing these products in the market. In terms of talent, I think we have now got good reputed and capable people at each of our functional department, that stage is over. So you are talking of Sandeep and talking of each department having a fairly well, very capable person heading it now. We are on to the second step which is building a second line to each of these types. If you notice the organogram that we publish in our investor presentation, you will see that, now the second line is also becoming visible with the exception of maybe 1 or 2 departments, we are well on the way of even having the second line in. This is a part of not only building capability but also building such a succession plan so that one of the things you mentioned in your report withstand that the company depends on Sumit Malhotra, this is something we had been definitely trying to avoid over the last 3 years. It was unfortunate that you still felt so, so we will prove it that you are wrong there.

Manoj Menon:

No Sumit, let me explain. So the idea was to get a little bit of more insight with some specific details, for example in your presentation you actually talk about what Sandeep's background, he comes from HUL, if you could be a little more detail in terms or some of the key hires and what is the background, maybe one line each would be very helpful for the larger audience?

Sumit Malhotra:

Okay, let me take you through the departmental heads and I will stop at that after on this question because otherwise giving biodata of each of these guys does not make sense. The head of marketing is the new hire from J&J, if you see that the name of the guy is Ameya Dangi; the head of sales is from Britannia, his name is Rajat Ghosh; the head of operation is Kabir Sahni, he is from Marico; the head of planning and purchase

is a person called Devender Jain, he is from GSK; the head of IT is the person from the TATA; the head of internal audit is again from TATA and our stalwarts of Maloo, Nagori have been here for the last 25 years. So we have the decent mix of the oldies like me and the new guys coming in from big, well reputed companies with processes because I strongly believe that the strengthening of processes and systems in this company will take it forward into the next 3 years of time.

Moderator: Thank you. We will take the next question from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.

Karthik Chellapa: Three questions from my side. Firstly, you alluded to the volume market share loss to downtrading trends visible in a few markets. Apart from downtrading, have you seen any escalation and competitive intensity in the form of either Keo Karpin doing little more of promotions or ad campaigns and tactically have we made any move in these markets to arrest this market share apart from our new broad ad campaign, that is my first question.

Sumit Malhotra: One is this yes, we obviously have done tactical because if you believe downtrading is an issue, consumer offers that is giving things like toothpaste, shampoo, soap free along visit not to discount the brand but to offer the consumer something extra the same price, we have done it already. So you see results of that because even these take around 1 or 2 months to show results, advertising takes much more time to show results. You will also see that the focus on our low unit pack, which is the sachet and the 20ml has increased, in fact sachet is now growing at something like 28% and the main reason for going back on this is that we really want to push and avoid between the people falling out of Almond into other products and offering the same people on a cheaper alternative within the brand itself. That is another thing that we have already done.

Karthik Chellapa: Sir can we say that the volume market shares that we are seeing right now is more or less bottomed out for us?

Sumit Malhotra: Again one mistake we all make as you compare last year's volume market share to 6 months. So if you were to compare it for the smaller period, it always swings right, for example if you see the presentation, you will see that between last financial year and first 6 months of this year, the volume market share is 1% lower, actually it is 0.5% lower, if you compare 6 months to 6 months. So that is one mistake. The second mistake is also that you are now seeing a lean period, the main season actually although main uptick also starts in the second half of this year. Then the coconut hair oil users

actually dropped in the North and a lot of them shift to light hair oil in the North which is the biggest market or the biggest growth market for Keo Karpin.

Karthik Chellapa: Got it, sir my second question is slightly on the medium term growth trajectory, so now we have had pay commission amounts being released you had the OROP, you have also had a normal monsoon and anecdotally when we look at tractor sales or two-wheeler sales, they have all starting to show some recovery. So from our point of view, the staples are still showing very subdued demand, so do you think it is just a question of time lead lag or do you think there are other structural issues in the medium term for demand not to revive at least on the staple side?

Sumit Malhotra: Karthik, just be a little careful, you have heard this but most probably forgotten this. Whenever recession or slowdown happens, the last industry to become affected is actually FMCG, as when recovery happens, also the last segment to sort of come up is again FMCG. The reason is that the big ticket items normally slow down faster but when the recovery happens, this returns in the form of what we call pent up demand. For example if you have not re-painted your house or not changed your scooter for may be last 10 years because of low improvement in income, when the income starts improving, you normally do this first rather than start buying more of toothpaste, soaps and hair oils. So yes, the demand is going to come back sooner rather than later whether it happens in quarter 3 or quarter 4 of this financial year, I do not think I have the data points to be able to answer it, most of it will be gut feel but the numbers that are showing is that the urban after many a quarter has actually become positive in terms of growth in this quarter. To give you an effect, last quarter's urban demand for light hair oil declines at 2.7%, this quarter for light hair oil has actually grown by 0.7%. So delta is 3.4% in the urban area. In the rural area, this is flat. Whatever was the growth in the first quarter of this year is the same in the 2nd quarter. So yes, I think there is a green-shoot in terms of urban growth recovery. Rural will happen more when the results of the good monsoon translate into good harvest and therefore money coming into the farmer or the landless labours' hands.

Karthik Chellapa: Got it and sir my last question is on NoMarks, which has been kind of slow at least from both investor point of view and I am sure from your own point of view as well. So would you be in a position to share a little more granularly, what is the change in strategy and what exactly is the change in positioning and campaigns that you are running compared to what you used to do in the past and over what period of time should we expect to see some impact or our initiators bearing some fruit?

Sumit Malhotra: As it as a cost of sounding stubborn, I do not think strategy should be discussed over the concall right, but in terms of timelines, I have said in my opening address that we

are testing this for the last 2 months in 2 states in India. We will see a definite time over the next 3 months when the new campaign hits those 2 states. So hopefully in the last quarter of this month you will see a Pan India roll out or may be to be a little more conservative in March-April of next year you will see the new campaign roll out post the success in these 2 states.

Moderator: Thank you. We will take the next question from the line of Chanchal Khandelwal from Birla SunLife Insurance. Please go ahead.

Chanchal Khandelwal: Sumit, just few questions which has not been inserted. On the international business, you said that our growth was strong and you want to make it up bigger portion in next 4 to 5 years. So what is the game plan here, you want to enter different market and play the same value proportion and also correct me if I am wrong, you said NoMarks will be a bigger part in international business, is that true?

Sumit Malhotra: Good question, Chanchal. Chanchal, the problem that we had up till 2 years ago was that we had hair oil as our lead brand and therefore the number of markets that we would actually get into was very limited. For example, if I wanted to enter Russia with the hair oil, it was next to impossible if at all only may be the few hundred odd Indian families in Russia could use the hair oil right, so that was the restriction. When we took over NoMarks, we started working on how to make the brand in terms of acceptable in the other geography. So now what we are talking of is getting into other geographies with other products, there will be specific products for all these markets which will not be in India and also much better price realization. If you heard my opening address, I said it will be a significant part of our turnover and a bigger part proportion of our profit. So our profits even now are significantly better in international business than in India. So what we are saying that if you have to quote-unquote deals, you can either do more products in the same geography or do more products in more geography. What we are currently undergoing is just building of capability to get into other geographies with products that those geographies required which will be more in terms of, in case rather than hair care.

Chanchal Khandelwal: Understood. So may be skin care through NoMark will play a bigger role in international business and little bit of margin business also.

Sumit Malhotra: Currently, it is a low-hanging fruit. This year we would double our sales from last year, last year we ended up at around 28-30 crores in international business. This year we should touch 70 crores in international business, but that is mainly because of again our presence in larger number of countries, also the trust behind hair oil, the real kicker

will come once all registration and product improvement happen that we can push into the international business through skin care.

Chanchal Khandelwal: Sir, second question is on the margin front, EBITDA margin almost at 35% what is our view, LLP has bottomed out and vegetable oil, I know you have tied up for this year but can next 3 to 5 years where are we headed in terms of margin?

Sumit Malhotra: That is a long term because 3 to 5 years margin will mainly depend on the crude price and at least I do not have the capability to predict.

Chanchal Khandelwal: Assume that crude is here, would you like to retain margin at 35% or is it 30% is the margin you.....?

Sumit Malhotra: 35% has always been stated Chanchal, it is very high, right? The only reason I am not investing even more in advertising is because the volumes are yet not happening. So if the environment turns and volume starts going up, we have the capability of increasing our advertising spends by as much as 3% or 4% very easily because what we have been saying is that we are more comfortable with EBITDA between 25% to 30% and not 34%-35%.

Chanchal Khandelwal: But international business may help in maintaining this margin?

Sumit Malhotra: Yes.

Chanchal Khandelwal: Okay, lastly on the excise part what is the excise, I just wanted to understand the entire hair oil industry if you have some insight because coconut oil excise you not paid and they treated as edible oil, what is the excise stretch in different hair oil, sir if you can just explain me and with GST, how will that pan out?

Sumit Malhotra: It is zero because we are in excise free zone. What will happen is that is what last week I think the government announces this GST you will have to pay excise, take all the rebates that are there and then you will get some refunds from the government on the excise that you have paid, from unit in excise free zone, right.

Chanchal Khandelwal: Some refunds as in not the entire refund?

Management: We have not quantified and this HSN code number is 330510 for hair oil, so you can see the rate of excise duty from that code.

Chanchal Khandelwal: Okay and do we pay VAT also today?

- Sumit Malhotra:** Yes, VAT is anyway paid.
- Chanchal Khandelwal:** VAT is 12.5%, understood.
- Management:** It varies between 12.5%-15% depending on the state.
- Sumit Malhotra:** The base is 12.5, then each state is adding something or the other so you could have as I have 16% in a state also because of the extra tax that is added by the state. All of that will go because under the new GST thing, it will be a single point thing and then the division will happen between the state and the centre.
- Chanchal Khandelwal:** And this excise free productions which we have they will till which year?
- Sumit Malhotra:** 2018.
- Chanchal Khandelwal:** 2018, so 2019 will go to full excise assume that the GST..
- Sumit Malhotra:** No, it is not as simple as that. We are opening a factory in Guwahati, which will come up by December of this year. That will last another 10 years.
- Management:** And if GST rolled out effective from April 1st 2017, then excise will also margin to GST?
- Chanchal Khandelwal:** Yes that's the point I was asking.
- Management:** Thereafter only GST will be levying.
- Chanchal Khandelwal:** Yes, which will be in the range of 21%-22% assume that the rate?
- Management:** No idea till now.
- Moderator:** Thank you. We will take the next question from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Sir, my first question is regarding the value and volume growth that is being reported in Bajaj Almond, I see that the gap has been widened because if I compare from the last quarter, has there been any price hike or any promotion withdrawal or is this just a mix change, can you just give a little detail on this?
- Sumit Malhotra:** This is basically a mix change one and second if you know under the new IndAS, those promotions are added or discounted from the sales price. So, one is obviously the change in mix between the SKU and second is reduction in price offs.

- Sameer Gupta:** Okay, so there has been some withdrawal in price offs?
- Sumit Malhotra:** Price offs is the wrong thing, it is discount, we don't give price offs. For example, schemes and all that you get to the retailer that has been reduced prices, but majorly because of the change in the product mix.
- Sameer Gupta:** Okay, does the product mix as in the higher SKUs now are getting more traction, is it?
- Sumit Malhotra:** Yes, 300 and 500 both are growing much better than the 50 and 100.
- Sameer Gupta:** Okay sir and sir these volume numbers as these are for the entire domestic plus export trades, so could you share for the domestic market the number?
- Sumit Malhotra:** So domestic is more or less flat for Almond Drops.
- Sameer Gupta:** And that is for the Almond?
- Sumit Malhotra:** Almond Drops, Yes
- Sameer Gupta:** Okay and value growth sir?
- Sumit Malhotra:** Value growth will be around 5%.
- Sameer Gupta:** 5% in domestic, okay sir thank you. Sir second question is on your other income, there has been big increase around 90% this quarter and while investments have also materially increased, now my question is more on like what should we build in, like for FY17 we should expect this run rate to continue or this was an exceptional quarter?
- Sumit Malhotra:** It is not an exceptional quarter, see one thing that has happened with the IndAS is that we have to start quoting in mark-to-market losses or gain in your other income, actually that income has not been realized, it is only a book income because under the new standards you should recognize if there are any major gains or losses that could happen if business gets closed today. In this quarter itself, that mark-to-market gain is around 3.67 or 3.7 crores. So if you remove that, it will become much more in line with the trend that we look at. So this is something that you really cannot predict. So I would rather model it on income from treasury and the mark-to-market will be the plus and minus that you can really not predict in future.
- Sameer Gupta:** Okay sir, but any tolerance level that you can give on this mark-to-market gain as in plus-minus?

- Sumit Malhotra:** Really not because we do not have any trend because we have started this only two quarters ago.
- Sameer Gupta:** Perfect sir and the last question on NoMarks, even if I look at it the base has become favorable from this quarter onwards but still the volume de-growth has been pretty significant so is it part of the strategy that changing strategy that we are saying or something we should like any SKU rationalization, any details you can give on this sir?
- Sumit Malhotra:** No, I think this is basically like I was telling you this is the actual consumer offtake. The first year you saw with NoMarks was consumer offtake plus pipeline filling. The real consumer offtake happened only over the last 12 to 18 months when the pipelines got killed. Post that, we have done, obviously product rationalization, we have done ground stocking but it is actually not a decline that you see, it is actually the offtake that you really see on the brand now. So the way I would look at is track this figure on a quarter-to-quarter basis thereby seeing that is offtake actually increasing or not increasing. Once the Nielsen figures stabilize, we will start giving you the Nielsen figures also because currently it has a small market that the Nielsen figures are fairly inaccurate, if I can put it but over a long period, this will become a little more accurate and then you will see the reflection of increase or decrease in offtake through Nielsen, remember Nielsen is tertiary, we are giving you primary figures.
- Sameer Gupta:** Sir one follow up on this, so this pipeline filing, this was there in the base quarter you are saying so going forward, from 3Q onwards we should expect that this pipeline filling effect is not there in the base quarter?
- Sumit Malhotra:** Yes.
- Sameer Gupta:** So up till 2Q that was the pipeline effect?
- Sumit Malhotra:** Yes.
- Moderator:** Thank you. We will take the next question from the line of Chitrangda Kapoor from Sameeksha Capital. Please go ahead.
- Chitrangda Kapoor:** I have one broad question, basically since we are primarily a hair oil company, I just wanted to understand your view as to what would be the growth drivers for this industry going forward, very broad view if you can give for this industry and in that context where are we placed since we are a leader in a fastest growing hair oil category, where are we placed and what is the strategy to grow further?

Sumit Malhotra: Okay, at the cost of boring a lot of people but I have to answer your question. The hair oil industry is very peculiar industry. It is very highly penetrated. So, we are not going to grow the industry by getting new users. We are going to basically grow the industry by either getting people to use more hair oil or getting people who are using unbranded hair oil to start using branded hair oil. So, very unlikely also given the current environment that we will get people to use more hair oils, so your growth will basically come from people who are using unbranded hair oil which means the cooking oil as their hair oil into branded hair oil. Within that, if you know our lead brand, which is Bajaj Almond Drops is the second biggest hair oil brand, so the reason why we have been able to achieve this kind of thing is we are getting conversions from unbranded hair oil users and also within the branded hair oil that is the other brands in the coconut, Amla or the value-added coconut are moving to Bajaj Almond Drops. The reason is that this product is less sticky than the others and therefore in addition to the nutrition value, we also get the cosmetic values of the ease of styling your hair and not appearing as too sticky when you go out and meet your friends. So all of that has actually helped us grow the brand. The category will continue to grow the faster people upgrade from unbranded to branded. That has slowed down because of the economic scenario in which people are looking at cheaper option or not willing to experiment. So if I am using coconut, I will continue to use coconut, why should I experiment when I know my income is not going up as much as I would like it to grow. So the growth will come from conversion, within conversion we are being getting the maximum uptick from unbranded and the base branded hair oils. If we do our strategy right if the communication continues and the growth environment in disposable income comes back, you will see the growth coming back.

Chitragda Kapoor: I have some bookkeeping questions sir. When I look at your half yearly data, your account receivables have actually increased significantly, even if I compare it the same half year versus last year. So, is that going to be a trend going forward or if I just convert it into rough calculations, it is increased to about 29 days, this half yearly data shows whereas the same half last year was about 13 days and usually we are in the band of what 6-10 days.

Sumit Malhotra: We do not give credit to anyone except to the canteen stores department. Like I said in the opening of our address is that my business has grown by 3.5% right, CSG or canteen stores has grown by 32% and exports has grown by 78% and in exports, the realization of your LC or the letter of credit **(Inaudible) 45.26** also takes between 30 to 60 days. So, if these businesses continue to grow, your account receivables will continue to grow. To give you insight CSG paid in around 45 to 50 days and your LC gets realized in around 60 days.

- Chitrangda Kapoor:** Okay and second sir, the Guwahati plant that you are setting up, how much is the CAPEX that you are undertaking for that plant currently?
- Sumit Malhotra:** See, we are not buying the building, so all the CAPEX is in machinery rather than anything else. It will be around 8 crores.
- Chitrangda Kapoor:** 8 crores and going forward sir, next year?
- Sumit Malhotra:** See, we also have taken a piece of land in Baroda, which we plan to start building once there is a clarity on the GST, that will take another 10-11 crores, that is about all. In addition, there will be a minor spend on the corporate office that could possibly start in the next financial year.
- Chitrangda Kapoor:** Okay, so about 15 to 20 crores?
- Sumit Malhotra:** Maximum.
- Moderator:** Thank you. We will take the next question from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Sir last quarter you had spoken about Keo Karpin, now aggressive it was getting in your main states like UP. So if you could just please speak about Keo Karpin and in your presentation, opening remarks you also mentioned that it is a number 3 player, if you could talk about Keo Karpin as well as the number 2 player as to in terms of competitive intensity as to what they are doing?
- Sumit Malhotra:** The number 2 player is the brand by Marico called Hair & Care. The peculiarity of these brands is that while Hair & Care market shares are very stable over the last 10 years, Keo Karpin has actually dropped from around 30% to 12% now. So, that market share in light hair oil, please remember we are around 60% of the light hair oil market. What they have done differently this year is that they concentrated only on 1 or 2 states and not all India. So in these 2 states and looking at the environment, the price is very important and they are 33% cheaper than Bajaj Almond Drops, they have been able to pick up something like 0.6%-0.7% market share.
- Moderator:** Thank you. The next question is from the line of Ruchi Mittal from CD Equisearch. Please go ahead.
- Ruchi Mittal:** Sir earlier you said that the FMCG is the last to recover in case of good rainfall, but sir I can see all your products have registered a decline, so what do you plan to do going forward?

- Sumit Malhotra:** The market is declining, how do you expect improvement? FMCG is the last to recover, so we are a part of the FMCG, so this change will happen much later for us than for same to like paints and scooters and all that. Also remember most of our brands that we have out there are brands we are not focussing on. For example, Kailash Parbat, Brahmi Amla, Jasmine, we are not focusing on, so and they are very marginal in our thing. I think the brand you should look at is primarily Bajaj Almond Drop, you get NoMarks and if at all look at Amla because that is the strategic introduction into our products really.
- Ruchi Mittal:** Okay, and sir what kind of growth can we expect for Almond Drops going forward, sir both volume and value?
- Sumit Malhotra:** I do not give the guidance at all but if you all asking the question, I think LHO should come back to mid-single digit growth in the next two quarters.
- Ruchi Mittal:** Thank you and sir I missed out in the beginning, so you have mentioned a few countries that you are planning to expand Russia, Indonesia?
- Sumit Malhotra:** And Egypt.
- Moderator:** Thank you. The next question is from the line of Diwanshi Dhruva from Dolat Capital. Please go ahead.
- Diwanshi Dhruva:** Most of my questions have been answered actually, I just wanted to ask one small thing. Firstly, NoMarks, how much does it contribute currently to our export?
- Sumit Malhotra:** Currently around between 10% and 11% of pie.
- Diwanshi Dhruva:** And this we expected to grow to contribute somewhere around 75% by 2018?
- Sumit Malhotra:** Yes.
- Diwanshi Dhruva:** Okay and one more thing was that in how many countries are we already present for NoMarks actually?
- Sumit Malhotra:** That is more than 4 or 5.
- Diwanshi Dhruva:** 4 or 5 and this Russia, Indonesia and Egypt we planned to enter this quarter itself or?
- Sumit Malhotra:** 2 quarters.

- Diwanshi Dhruva:** In this next 2 quarters, okay and also the thing is that you mentioned about Keo Karpin losing market share to 12%, so what was it earlier, 14% if I am not wrong if I heard that?
- Sumit Malhotra:** 14% is Hair & Care. When are you talking of?
- Diwanshi Dhruva:** Right now I think in someone's previous question, you mentioned Keo Karpin is losing market share, so..
- Sumit Malhotra:** I did not say it is losing market share, it has lost market share over the last 5 years from Keo Karpin. 5 years ago it was 30%.
- Moderator:** Thank you. We will take the next question is from the line of Rajiv Anand from Narnolia Securities. Please go ahead.
- Rajiv Anand:** Sir what is your outlook regarding inorganic growth of the company going forward?
- Sumit Malhotra:** I just said we do not give guidance on growth in our company and the reason why we do not do it is that we believe that we should give you enough data so that you can make that projection yourself rather than us making the projection and that is why you will notice that our investor presentation is by far the most elaborate in terms of details and all the data points we actually need or if I would need to give you that answer, I already did.
- Rajiv Anand:** Okay and certainly sir what could be the cost of employee cost and other expenses going higher in this quarter and will this trend continue?
- Sumit Malhotra:** Like I said that we are in process of getting capable people from other large organizations to head our function and currently we are managed to get in our opinion very good people to head all our functions, in fact in one of the questions I actually named the buyer, the background to each of these guys. If you get good capable people and if you are getting more and more people to buck up your second line, the cost of employees will go up. Even after that, it is a fairly reasonable cost if you compare it to the other large organizations that are there because we are at around 7 odd percent employee cost versus 10%-11% that the other companies are.
- Rajiv Anand:** Okay sir and what about other expenses?
- Management:** Other expenses are the same.

Sumit Malhotra: Without that, other expenses are broadly same. A big jump has actually happened only in employee cost which is around 1%-1.5%.

Moderator: Thank you. We will take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, most of the questions are answered, in any of the states any variance in the growth you are seeing or it is a slowdown everywhere, sir the drought prone states still are they growing much slower than their overall average, which were drought prone last year?

Sumit Malhotra: For example things in Maharashtra, MP and all that are still bad. The only states that are doing decently are basically Bihar and West Bengal apart from that belt they are all under strain and actually UP is quite bad in terms of growth in the hair oil and with the light hair oil market.

Abneesh Roy: And what is the specific reason for that?

Sumit Malhotra: I think to the effect of drought is coming to be larger in states where the rural population is higher than the urban population and if you see the proportion, we also put the proportion of Almond from rural and urban. Wherever the rural proportion is high, we have got hit even more than.

Abneesh Roy: Sir last question in terms of the online, of course your portfolio is relatively on the smaller side. In terms of online, what is the focus, how you are present in the different key online sites and what is the plan to scale up there, are you planning to have some specific products for targeting that distribution channel?

Sumit Malhotra: Not specific product, we are already in Big Basket, Local Banya, Amazon, all of these we have already got registered. We actually have a special team to handle online itself, so we are trying to push more NoMarks than hair oil because the category which is hair oil is not that attractive and if it is not attractive, very few people will actually go online to buy a very category like hair oil. So we have special kits, special for the gift boxes design for NoMarks which are available on these sites. As we go along, this will become bigger and bigger. Currently, it is not even 0.1% of our total turnover.

Abneesh Roy: And this team have already been identified?

Sumit Malhotra: They are made. Actually Abneesh, the team is not a sales team, it is actually a marketing team for NoMarks because it is not selling, actually marketing on online that is more important and that you would have heard from many company itself.

- Moderator:** Thank you. The next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellapa:** Sir, of course we are the first FMCG company to report so we would not know the trends of the others but if I just take a look at 1Q where we said the overall hair oil market is in negative territory, but if I were to look at let us say what Marico reported in their hair oil which is still like a high single digit growth although the value growth was negative, the other companies in hair oil have reported slightly a higher growth than what Nielsen seems to be indicating. So I am not sure how do I read this, is that just like channel filling or do you think that the extent of downtrading could actually be much higher than what Nielsen is actually showing?
- Sumit Malhotra:** If it was higher, it would happen again and again and again. I do not know how to answer this because I do not have figures of other company, what they report is they never show you their volumes and values, they give you a figure and you go by that figure, so I do not know how I can react to that. I have in front of me Nielsen figures for the last 10 years and I would rather rely on Nielsen figures than on single point figure reported by one of my competitors.
- Karthik Chellapa:** Okay, fair point and sir in the last 12 months, when we had this campaigns for NoMarks especially with the focus on face wash by signing up Saina Nehwal, what has been our learning's, what do you think did not work for us to re-calibrate our strategy, any quick thoughts on those which you can share with us?
- Sumit Malhotra:** I think face creams that did not work. One is the link of Saina with the consumers of face wash, second competitive intensity which was much higher than face wash than in cream or even in hair oil. Face wash is a fairly cluttered category at this point of time and the third is I don't think we had enough spread of distribution that could have really goes up the benefit in face wash because cream is available in more number of outlets than face washes.
- Karthik Chellapa:** Got it and sir lastly to an earlier question you said you had about 6 new products which are ready to launch which you will launch at an appropriate time based on consumer feedback and economic recovery, did I hear that right?
- Sumit Malhotra:** Yes, you are right.
- Moderator:** Thank you. We will take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

- Tejas Shah:** Sir just wanted to know if you can throw some light on how is the inventory scenario in the channel right now and if you can give us some trend versus last quarter and last few quarters?
- Sumit Malhotra:** Actually inventory in all except the wholesale channel is more or less the same. To give you numbers, our inventory that is inventory in factory and our depot is around 12 days. Inventory in distributors is around 31 days; inventory in retail is currently around 45-46 days. I do not have the exact figures on the wholesaler's inventory but wholesale inventory has dropped significantly.
- Moderator:** Thank you. We will take the next question from the line of Diwanshi Dhruva from Dolat Capital. Please go ahead.
- Diwanshi Dhruva:** Sir, I just wanted to ask what is the current distribution network for NoMarks, in how many outlets, Pan India?
- Sumit Malhotra:** Which category are you asking for because NoMarks cream and face wash and soap all are different distribution, unlike hair oil which is one distribution I can tell you 3.7 million retail outlets. For example, cream this will be close to around 400,000 outlets, in face wash we will be around 3.2-3.3 per lakh outlets. Soaps will be much less.
- Diwanshi Dhruva:** Okay and sir in domestic market, are we losing any market shares in NoMarks?
- Sumit Malhotra:** Yes, again if you remember what I said that once Nielsen figure stabilizes, I will start putting it into the investor presentation. The reason is that when you have a small category, the estimation errors and we should realize that Nielsen is actually estimation, they do a small sample and from the sample they extrapolate and give you market shares. Currently, category is small, the estimations would go bunker, right and therefore we consciously are not giving that figures in the investor presentation because we will start seeing swing, one month we have stand out number one, the second month we have numbers fallen to number three, then again we become number one because there are massive sampling errors in small categories.
- Diwanshi Dhruva:** Okay, sir Amla hair oil, we are seeing some kind of a volume de-growth, was it because of some pipeline filling that was happening when it was launched previously?
- Sumit Malhotra:** We launched last year.
- Diwanshi Dhruva:** Yes, so because of the pipeline filling, is it that we see some volume de-growth right now?

Sumit Malhotra: Yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.

Sumit Malhotra: Thanks again for the questions and I am sure a lot of questions would have gone unanswered because you did not have the time to answer it. We now have Kushal who is looking after the Investor Relations and if you do have any questions post this conference call, please free to speak to him and he will answer, otherwise I will let him answer that question because whether we like it or not because we are the first company to start of this result season, you will have a lot of questions with unanswered. Please go ahead and ask us, we always ready to answer question. Thanks a lot for logging in and thanks a lot for the time you have given us.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kotak Securities, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.