



“Bajaj Consumer Care Limited
Q2 FY’24 Results Conference Call”

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MODERATOR: **MR. KARAN BHUWANIA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Bajaj Consumer Q2 FY '24 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity to ask questions after the presentation concludes. Should you need any assistance during the conference, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that today's conference is being recorded.

I would now like to hand the conference over to Karan Bhuwania. Please go ahead.

Karan Bhuwania: Good afternoon, everyone. It's our pleasure at ISEC to host the Bajaj Consumer Care Q2 FY'24 Results Conference Call. From management, we have Mr. Jaideep Nandi, Managing Director; Mr. Dilip Kumar Maloo, Chief Financial Officer; Mr. Richard D'souza, AVP, Finance.

I would like to hand over the call to Mr. Jaideep sir for his opening remarks, post we can open for the Q&A.

Jaideep Nandi: Good afternoon, everybody, and Happy Diwali in advance. Thank you, Karan, for hosting this call, and thanks, everyone, for joining in. So let me take you through the performance of the company for the quarter and half year ended 30, September '23 before we open the floor for questions.

The company reported quarterly stand-alone sales of INR 228.7 crores with 0.5% value growth and 4% volume growth as compared to the corresponding quarter of the previous year. The volume growth was higher than the value growth due to changes in product and pack mix. For H1 FY'24, stand-alone sales stood at INR 488.4 crores, resulting in 4% value growth and 7% volume growth.

The hair oil portfolio grew by 4% during this period. We witnessed a shift in festival buying where purchases were postponed from September to October, resulting in a subdued quarter. Gross margins at 54.5% expanded by 280 basis points in Q2 FY'24 as compared to the previous year. Gross margins for H1 FY'24 stood at 54.6%, an expansion of 135 basis points.

EBITDA in Q2 FY'24 was at INR 38.8 crores or 22% growth over the same period last year. Margin was at 17%, an increase of 300 basis points over last year. PAT for the quarter had a growth of 21% at INR 38.4 crores as compared to the previous year. EBITDA in H1 FY'24 stood at 86.9 crores, which is 26% growth over last year, while margins stood at 17.8%, an increase of 318 basis points.

PAT for H1 FY'24 was at INR 83.8 crores, which is a growth of 29%. At the channel level, general trades saw a low single-digit decline in Q2 due to subdued rural demand. Urban markets continue to outperform rural markets, which remained subdued on account of inflation (i.e., food inflation), and below-average rainfall in certain regions.

We have supported both wholesale and retail channels in urban with loyalty programs throughout the year, yielding good results. While urban markets are expected to continue their growth momentum, we expect rural demand to rebound on the back of the festive season.

Modern trade continues to grow well, registering a growth of 19% in the quarter compared to the previous year and a growth of 27% at the half-year level. There were significant market share gains for ADHO in modern trade chains, where ADHO grew by 17% in H1 FY'24. Modern trade has grown by more than 2X in the last eight quarters. Bajaj 100% pure coconut oil performed well and saw substantial gains in key modern trade chains.

The company also participated in the Reliance Hairfest to enhance visibility. The canteen business grew by 26% at the YTD level, led by CPC and CSD, both sub-channels growing at healthy double digits. The E-commerce business also continues to perform well, delivering a strong growth of 28% in half year with B2C E-commerce growing by 55%.

E-commerce scale-up has been more than 3X for the last eight quarters. The company's first-ever online beauty fest in partnership with Flipkart to build equity around Almond Drops saw excellent results. The international business registered a healthy growth of 21% in H1 FY'24. The Middle East and Africa region continues to do well with near-teens growth supported by strong growth in the key markets of UAE and KSA. The rest of world raised a 14% growth in half-year '24.

Focused markets in Rest of World have been identified to expand our core as well as the new portfolios. Local operations in Bangladesh were supported with a mix of digital and online ground activations as we scale up Bangladesh and helping it register over 100% growth in H1 '24. At the product level, ADHO registered a single-digit growth in H1 FY'24. The growth was led by large pack initiatives including exclusive launch of 750 ml for Flipkart and launch of 700 ml with better price proposition for GT customers.

We continue to support the brand with strong media across TV, digital, print and increased investments in visibility across the various channels. So just for information, we have upped the ADHO investments as far as both digital as well as conventional media as compared to last year. Digital marketing reach was intensified with focus on community marketing and influencer marketing targeted at new-age customers for building the equity of the Almond Drops franchise.

The almond ingredient SOV in the communities went up to 37% in the Universe group and 82% in campaign group. Influencer marketing saw 300-plus influencers deployed in quarter 2, reaching out to 42 lakh consumers. Bajaj 100% pure coconut oil continues to witness strong consumer offtake and excellent distribution build-up across the country. TV media support was given to the largest market, Maharashtra resulting in a 12% SOV in that category.

Digital media support was provided in key HSM markets. Initiatives such as visibility and sampling interventions across modern trade channels also received encouraging response. Bajaj 100% pure coconut has been gaining market share across most markets and channels. Scaleup plans for the brand across the country are in place. With a strong back-end integration for the brand right from sourcing of raw materials, managing seasonality to manufacturing, the value chain of the product has also been strengthened in the last few quarters.

Our buildup of the AD extensions, Almond Drop extensions continued in the quarter with the three product launches, Bajaj Almond Drops Nourishing Body lotion, Bajaj Almond Drops Anti-

Hairfall Shampoo, Bajaj Almond Drop Anti-Hairfall Conditioner. Initial offtake and feedback on new launches of these products have been encouraging. The body lotion has been listed in all key modern trade chains and e-commerce platforms, where the Shampoo and Conditioner is being launched initially in the E-commerce channel to be further extended into modern trade and GT subsequently.

The launch of Bajaj 100% pure Henna was completed across all channels in the quarter. Consumer response have been promising on the back of on-ground activation and pan-India visibility. We will be looking to expand into a few more products in the ethnic range in the coming quarters. The A&P spend for the quarter was at INR 38.1 crores, which is 16.7% of sales.

We'll continue our investment in ADHO and NPD portfolios with increased focus on digital media to target new customers. As mentioned, the A&P spend in the year for ADHO has been substantially higher than last year. We have seen correction in prices of major raw materials, LLP and RMO compared to last year, the prices of the packing material except glass packing have also seen some reduction.

We continue to take steps to bring structural cost reduction in material costs through a combination of optimization of specs, finding a vendor base and development of alternate packing materials.

We have revamped our ESG policy and finalized targets for the medium term to reduce the usage of natural resources, minimize our carbon footprint and greenhouse gas emissions. During the first half of the year, we have taken steps to reduce the consumption of water and energy as well as reduce wastage in our operations.

As the festive season approaches, we have seen improved demand conditions in October, which bodes well for the near-term growth prospects of the company. So strengthening and broad basing our hair oil, having a more comprehensive range of Almond Drop extensions and entering into the ethnic range, which started with Henna and more products in the coming quarters. This will be our growth drivers for the domestic market.

International business, which has been a thrust area for the company, has been scaling up as per plan. We experienced the saliency of this business to keep moving up in the near term. With this, I end the opening remarks and open the session for questions. Thank you.

Moderator:

Thank you. The first question today comes from Percy Panthaki from IIFL.

Percy Panthaki:

I just wanted to ask what is the path to 20% margin for us now because see input costs are now have deflated, they are more or less at normal levels. I think from here upside as well as downside risk would be very similar. Ad spend also at around 16.5% of sales, not sort of higher than what our medium-term target would be.

And as we go ahead, the new products would form a higher and higher percentage of the revenue and they anyways would be at a slightly lower margin. So therefore, I don't understand what

would lead to a margin expansion. And how do we get that 20% kind of mark, which is what our aspiration is?

Jaideep Nandi:

The 18% to 20% is how we stated the near term. So, we are anyway looking at closer to 18% ending this year. One of the basic things that you will see is that even from quarter 1 to quarter 2. One of the reasons that there is a little bit of an erosion of EBITDA would be that while the gross margins have remained more or less at the same place, the turnover between quarter 1 and quarter 2, which anyway for us, quarter 2 has a lower saliency. There is a drop that economy of scale at the margin has been affected because your overall cost, as far as fixed cost are concerned is more or less similar.

I mean the employee cost and the factory overheads do not change so much. So as the volumes goes up. Anywhere I see 1%, 1.5% upside in our margins, everything else remaining more or less constant. Just as a cost differentiation thing. So that itself will take it to about 19%, 19.5%. Then as your ADHO business keeps coming back, which is now I think it is at the possibly worst situation as far as demand conditions, as far as rural is concerned. If that comes back, and we are seeing some kind of green shoots in that we expect that the margins should be coming back to about that 18% to 20%, which is what we have stated.

Percy Panthaki:

So, if I just fast forward to, let's say, three years from now, ADHO logically would be a lower percentage contribution to the revenue than what it is now because we are trying to diversify our product portfolio and ADHO is the highest margin sort of business in our sort of pack right now. So, don't you think the margin mix will get adverse as we go ahead, let's say, three years, four years down the line?

Jaideep Nandi:

Maybe the gross margin, yes, a little bit might get impacted, but I don't see the EBITDA margin going down, as I said, because the cost structures will get deflated. If you look at the cost structure, a lot of it is in terms of manpower, etc our cost structures are much higher than that of competition. And even, let's say, even our ad spends etc are much higher. That, I believe would slowly start deflating as you get into larger business size and when these products actually gets established. Most of the cost elements will not multiply the way the sales growth would. I would assume that our math shows that EBITDA will go up by about 1%, 1.5%, just as I said, if everything else remains constant.

Percy Panthaki:

Understood. So, what is our aspiration in terms of volume growth over a three-year, four-year period at the overall company level?

Jaideep Nandi:

So, as we said, we have aspired for a double-digit growth at this stage. I mean that with again is if everything again remains more or last constant. In fact, it's a little higher, but with the market conditions that have prevailed, we expect at least a double-digit growth for the next year to come back.

Percy Panthaki:

And this quarter, what really went wrong with ADHO because most of the results are out. And I think across the hair oil space, ADHO this quarter would be relatively on the lower side.

Jaideep Nandi:

I would think ADHO would have performed the best in terms of a larger, if you look at the larger hair oils, I think ADHO would have performed the best amongst the larger hair oils, if you look

at, if you look at the overall hair oil portfolio of companies, yes, I mean, we will be in the middle, we will not be the highest, will obviously not be the lowest, but we will be somewhere in the middle. But if you look at the top hair oil company, clearly from both numbers as well as data. Ours would be one of the better-performing ones.

Percy Panthaki: I mean, if I am wrong this quarter, our ADHO would be approximately minus 5% for this quarter only?

Jaideep Nandi: A little less than that. And if you look at others, well, you don't have data for the others coming out, I think there some of them will be higher than that. As far as just on the larger hair oils, if you had to look at. The larger, the bigger brands, yes. And so, notwithstanding that, you look at ADHO itself, let's not worry about the other companies at this stage.

So, two things we are seeing. One is we see that some of the business has also shifted from September last year, which had happened in September because of early Diwali, we are seeing the business has also happened in October. So, we have a very robust growth as far as October is concerned, double-digit plus, I mean, quite a good growth because of the not for anything else, but for the shifting of the business that has happened. The other thing that we see is in the ADHO itself, most of the larger packs have done well.

It's only the sachet and the smaller packs, which where there is a bit of a struggle, which we see mainly happening for rural. In sachet, we don't see too much of a competition because there is not much way between any competitive product with sachet. So, sachet, there has been a bit of a drop, and we think as the rural markets improve, that should get taken care of.

So overall, I would think with the kind of work that has happened in ADHO, ADHO is still in a pretty good place. While the numbers for this particular quarter may look a little subdued, if you look at even at the H1 level, ADHO is better.

Percy Panthaki: Right. And lastly, on the new initiatives, which have grown by 37%. Can you give some color on which are amongst those, the better-performing ones, which are the ones which you would sort of hope that they had done better, etc?

Jaideep Nandi: So, it is, I think, slowly the portfolio is taking shape. Coconut has obviously been the largest of them, which has done very well. So not only in terms of number, but in terms of even distribution parameters or in terms of geographical distribution as well has been very, very strong.

Consumer offtakes have been good. Channel wise. So general trade is now contributing more than 50% of that business. So that itself is a great sign. So overall if you look at coconut has done very well. Amla portfolio is slowly stabilizing. We had also last year, not focused just too much because of the LLP prices now that the LLP prices have softened, that is a product of focus for us.

So both our amla, amla alovera which is the green amla as well as the sarson amla those two are focus areas for us. This is a season for sarson amla. So that is something that we are looking at very, very strongly. In the extensions, some of the smaller extensions have started doing well,

the serums, etc good visibility, yet small brands that good consumer offtakes have started. We have seen good responses from some of the modern trade chains.

It's still not that strong in e-commerce, but in modern trade, it has done very well, and we expect that to go on. We have seen initial very, very good responses for the three products that we launched just two months back. Even in September, we see repurchases good repurchases happening on both the shampoo and conditioner together and on the other extensions.

So Almond Drops extensions clearly is one area where we see good potential now that the range is more or less becoming a little larger and a little more comprehensive. And we see some positive traction in that range as well as hair oils that other than ADHO, we are seeing some kind of traction.

The third range where we are still started initial responses are good, Henna initial responses and very, very good. Now it is also taken up by modern trade. We have also launched a smaller pack for GT just last month in October where we are trying to see how it can go further into the general trade market. Initial response of that also has been good. We are launching one or two more products in the coming quarters as far as this ethnic range, as we call it. So overall, if you look at it, there has been a mix of products, which we are going into the new product portfolio growth.

Moderator: The next question comes from Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Sir, can you talk about the sequential movement in raw material prices during the quarter versus Q1?

Jaideep Nandi: So, LLP prices more or less remain similar to what it has been in the quarter. I mean, in fact, both RMO and LLP prices have remained more or less similar. There are some positive movements, there are higher for LLP than it is again stabilized and more or less remaining level playing. So, LLP remains range bound. RMO prices, there is an abundance of edible oil now overall, so that basket is more or less not under pressure. So RMO has been pretty deflated in terms of price. And going forward also, we don't see too much change happening as far as the RMO prices are concerned.

As far as PET bottles are concerned, we have seen downward movement, so prices have improved. Glass bottle is on the up. We have also, as you would have noticed or seen, we are trying also to see how we can reduce our glass dependency. One of the large packs that we had, which was a 200ml, we had rolled out in the East initially in PET bottle, we saw extremely encouraging response. And that is one of the again, better performing as the ADHO is concerned, now we have rolled it nationally.

So glass, which is actually on the upward movement, we are trying to see how we can reduce dependency on glass. So this is overall the entire basket of raw materials.

Ankush Agrawal: And sir, given that this quarter, the mix for, say, the NPD is much higher for Q2. So would that also have some impact on the gross margin being stable. Otherwise, I think gross margin would have expanded, but this quarter as well sequentially.

Jaideep Nandi: Yes. A bit of it will always happen. And at that 55% odd, there'll be a bit of, so two things have happened as far as the gross margin expansion, which has impacted the gross margin, just about a percentage plus.

So one is, obviously, as you rightly said, the NPD portfolio this quarter has been in terms of saliency has been higher than last quarter. So that is obviously one factor. Now there is also, as I was alluding to, which is ADHOs larger packs have sold more larger packs, I mean, we have sold larger packs a little more. So, the pack mix has also made a difference.

Ankush Agrawal: And the international business fundamentally would be a higher margin business, like for that growth in EBITDA level? Presumably, it achieves a certain salience of 10%, 20%.

Jaideep Nandi: So again, in the initial stages, we will go market by market in some of the markets where we would like to invest, maybe we'll have to take in overall terms, maybe it may not have a huge impact on our consol EBITDA.

But for that particular country in the initial stages where we are investing, then will be some impact on the EBITDA. But overall, I think in terms of the sales that we plan to have and the plans that we have for these markets. Overall, it will again balance out and come back.

Moderator: The next question comes from Aagam from Flute Aura. Please go ahead.

Aagam: I just had one question. So, in our balance sheet, we have a CWIP that's, I think, Worli building, which is our general subsidiary. So just wanted to know what are your plans for it?

Jaideep Nandi: So, at this stage, it is kept in abeyance. We have not done anything on that. Initially, there was a lot of call regarding taking it further for development, etc. So, we have decided that at this moment, we'll spend our money more into our own business and look at the options that we have.

Whatever little that we would want to do would be either in terms of inorganic, which we have not yet done any, but at least that is something that we'll keep focusing on as well as in terms of investments in our own business, whether be it in manufacturing or whether any be it any other IT, etc related assets that we would want to build. So, the money would be more into our own brands, our own assets and if any inorganic so rather than any other business. That's how it is.

Moderator: The next question comes from Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: I just wanted to understand on the soap side, to throw some color how has that performed? And secondly, would be on the variability in the on the ADHO side, the quarterly variability, you've seen it for the industry, of course, the hair oil side, but what would be the I mean, strong 1Q and then the weaker 2Q, the variability in volume growth?

Jaideep Nandi: So, let's I would assume variability would also be seasonality as far as Q2 is concerned. So ADHO that way, compared to some of the other products a little more seasonal because there are events like Abhyang Snan which happens in Maharashtra, where they put oil with some of the ubtan etc, in Maharashtra in the coastal belts of Maharashtra, Kolhapur, Solapur there, the

ADHO actually goes up 10x in the month itself. So, some of this has shifted into instead of September into October. So those kind of movements we have seen.

Even traditionally, for us ADHO saliency of ADHO in Q2 is always a little lower. This shift has actually you will see the basis has been a little different. So, it's ideally, we would like to see a July to October period feel that is a little better than where obviously it will be a little. The numbers will also look better as the basis are not really so this is as well as the ADHO is still concerned.

I would like to think that ADHO is still very comfortable good health in FY, obviously, the rural markets are under pressure, the smaller packs are under pressure. But overall, I would think that ADHO has been doing decently well across supported by whatever consumer work that we are doing, advertisements have been scaled up in double-digit plus advertising spend.

I mean last year, we spent if you remember, we spent a lot of money in national TV on Coco onion and soap that is completely out and in spite of that the investments in brands have remained. So, the investments in brand in TVCs are basically only on ADHO and a bit of regional TV advertisement, which has happened in Maharashtra last quarter. So that's the kind of money we are spending in ADHO, both TV and digital.

So ADHO, this is as far as seasonality in ADHO as path forward is concerned and how we see ADHO happening. On the other side, if you look at the soap. Yes, soap is a category which we were clear that we are not looking at soap as an individual entity but more as a part of the extension portfolio, which is now slowly getting complete.

And I would still like to see soap as a part of the larger picture from our point of view, which is part of Almond Drops franchise, which is what we are pushing in digital media, the power of almond, etc so from that point of view, I think soap has been doing what needs to do. Obviously, in terms of numbers, it could have been much higher, yes, I completely agree, but it has been filling that part of portfolios.

The skin is concerned, at least getting into the skin part with lotion now coming in. I think the skin portfolio is also as far as Almond Drops is concerned in the moisturizing part of Almond Drops on the other side, the hair oil and nourishment part as well as hair is concerned of Almond Drops, I think both the portfolio. So, in that purpose, soap is fulfilling a larger strategic intent of developing the Almond Drops extensions.

Pallavi Deshpande:

Right, sir. Sir, you mentioned about some more ethnic product launches. So how many more product launches do we have lined up for the second half?

Jaideep Nandi:

So, second half, we will not launch too many products. We have just launched Gulab Jal, which is just coming in and which is just getting launched this month. I mean it started last month and the GTM is happening this month. So Gulab Jal is the second product that we are seeing. And we will monitor we'll invest in both Heena and Gulab Jal as far as both the market is concerned as well as consumer offers and some bit of local visibility, etc.

And we see how the responses of these two products go. Heena has already started picking up well. We support Gulab Jal as well, and then we will see, how, we have two more power products in the pipeline, when and where to launch is something that we'll see based on what the response these products have.

Basic point is we would like to see that we are able to invest behind these brands both in terms of infrastructure support as well as in terms of brand support. So either in Q4, definitely not in Q3, but definitely either in Q4 or Q1, you'll see these launches.

Pallavi Deshpande: And sir, what would be the share of rural in the total for us?

Jaideep Nandi: So, the rural used to be about 50%, 50% at some point of time, the rural was more than 50%. At this time, it is 48% is roughly rural and about 52% is urban.

Pallavi Deshpande: And we see the shifting to the urban side, right, because of the new launches?

Jaideep Nandi: Not really, not because of the launches. It's more because of the demand shift that we have seen. I mean, just the food inflation. We're just looking at the food inflation numbers. I'm sure you would have also seen that in July, we had a 10.7% food inflation. In August, it was 9.9%, 10.6% and 9.9%. September, it has cooled off a bit. It is now at 6.6%, much, much higher than what we saw in the first quarter, 4.2% in April, 3.3% in May, 4.6% in June, these were the numbers as far as food inflation in the first quarter is concerned.

Quarter 2 has been ruthless in terms of inflation. And that has clearly impacted rural demand. And we have seen that impact others as well. Now that September has cooled off a bit and now, we see a bit of buoyancy in terms of festival purchase, and election coming in money spending we think that quarter 3 and quarter 4 will be much better than what we have seen.

Pallavi Deshpande: And sir, lastly, just since you mentioned the more of the influencer kind and digital media spend. So that seems to target more. I mean, is the advertising spend getting tilted more towards the urban side and because of which we are getting our demand is getting hit on the rural side was my concern?

Jaideep Nandi: No, not really. So, if you look at one of the key concerns as far as ADHO is concerned, it's not seeing too much for the new-age customers, and new-age customers are lapsing out. So that has we have seen a big amount of reversing of that and a lot of good responses we have seen. Having said that, even today, even as we speak today, 75% of our investment in ADHO is still in traditional conventional TV media and 25% is on digital. That number used to be 5%, 10%, which has gone up to 25%. That's what we have done as far as digital. It's not that we have taken much money out of ADHO.

If you look at even conventional TV, which is what I was talking during my opening remarks, even on a conventional TV, over last year, there is a more than double-digit growth as far as conventional TV spend as far as ADHO is concerned. I mean digital yes, definitely even conventional. So ADHO spends have gone up in '23.

Pallavi Deshpande: Right. But the ADHO spend would have gone up on the conventional side, you said, right, 2x?

Jaideep Nandi: It's not 2x, by double digit. Conventional spend has gone up by double digit, and digital spend has also substantially gone up. So it is 75%, 25% in terms of spend, conventional to digital on ADHO.

Pallavi Deshpande: Okay. All right. And sir, lastly, on the CFOS cash flow from operations, just seen a slight deterioration, what would any guidance for this?

Jaideep Nandi: Cash flow in terms of, there will be a little bit of movement in terms of debtors from 18 days to 20 days. That happens with an increase in, let's say, the saliency of modern trade or E-commerce. If you look at the overall net working capital, I mean, without your current assets of GST, etc. I mean it still remains very well negative.

So really speaking, there's no change in our way of operating. We still do not give any credit to our distributors in GT, which has been now the trend across many companies because they want to support and upstock. Even we have not gone into upstocking at all. We have refrained from it. And as a market discipline, that is something that we would like to be proud about that we have not gone about for short-term business gains by dumping at our distributors.

We still remain on cash only with distributors, and that's what is in it. This change, this slight change that you see is more because of the saliency change where modern trade and e-commerce do operate with two, or three weeks of credit.

Pallavi Deshpande: All right. And sir, just lastly, if I may, on the soap side, what would be any rethink on the strategy there for the soap side, any learnings so far?

Jaideep Nandi: As I said, I mean, there is no specific worry that we have as well as a soap is concerned that we need to rethink. Soap is not something that we wanted to at the beginning itself, during the launch itself, we did not we said that we do not have a particular market share aspiration as far as soap is concerned.

In an INR 20,000 crores category you are going into a INR 1,500 crores of moisturizing category. That's a category we're addressing. We're not even looking at the INR 20,000 crores category. So, it was more almond drops, the equity of almond drops, for skin and these things. So, it was more inward-looking for the brand perspective rather than from the category perspective. So, from that perspective, we see soap getting in where we wanted to, how we improve the business and how we increase the business is something that we'll work out. Otherwise, in terms of strategically rethinking, there's none required none being planned.

Moderator: The next question comes from Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: In the beginning, I have three main questions. Could you spell out what is happening in HSM market? Is the recovery is seen in September or maybe October? Second, the wholesale in these markets where it's been a pain for us. So any thoughts how it is panning out?

And third is that do you think, or optically, when you look at now rains have settled, the agrarian economy is expected to do a better thing? So do you think second half should be much better for HSM market?

Jaideep Nandi: So, answering your question in the reverse order. We think second half is anyway a stronger half for us, compared to the first half. I mean first quarter; third quarter and fourth quarter are a stronger quarter for us. And anyway, we have seen, as I said, some bit of shift of business that happened from September to October because we have an impact of Diwali because of our product, nature of our product, you'll see some upside anyway as a result of that. So that is as far as the quarter-to-quarter change is concerned.

As far as the wholesale component is concerned, I think we had specifically said that we wanted to ensure two things. One is to ensure that the market dynamics and the hygiene is kept in control, not come under pressure and take on rates, which later you then go on correcting either the inventories or the market prices.

We suffered that last year, we wanted to ensure that does not happen. That has been held on pretty well overall if you look at so wholesale markets have actually bounced that some of the markets, in fact, this is the first time the wholesale has actually done better than retail as far as we are concerned, which is a very good sign. And not that retail not that wholesale being better than retail, but wholesale itself has become stable, has done pretty well across the key urban markets.

Overall, rural business is down. So, it's not a large number that we are looking at, but at least overall health-wise wholesale has also done pretty well. So, this is where we are. And as far as the rural recovery is concerned, as I said, we have seen offshoots of that, I can't say there is a broad-based overall rural recovery, that may not be correct. But we are seeing some bit of improvement than what we have seen in the second quarter.

Shirish Pardeshi: Okay. My second question on a very heartening growth of 37% in the NPD. But could you spell out to what is the contribution which is settled in quarter 2 and maybe first half.

Jaideep Nandi: I'm sorry, can you come again, please?

Shirish Pardeshi: New product segment has grown 37% in quarter 2 and first half 19%. So maybe if you can spell out what is the contribution in quarter 2 and first half?

Jaideep Nandi: Contribution in terms of the NPDs?

Shirish Pardeshi: Yes. Of INR 229 crores, what is the contribution?

Jaideep Nandi: Yes. So, as I said, I mean, I'll rather tell the contribution of ADHO and you can do the reverse math on that. So ADHO was pretty high in the first quarter. It was about 86% - 85%, 86%. That has now come to about 81%. Our long-term aim should take a number to about 50% to 70% ADHO. So, this is about 81%. Overall, if you look at the half-year, it is about 84%. 84% is what the ADHO contribution is. The traditional range is a very small range. So, most of that is coming out of your new products.

Shirish Pardeshi: Okay. Second, on the organized trade, where is the contribution now settled? Because Modern trade has seen a very significant growth and even about three years before, we have done a very

good job on e-commerce. So organized trade put together a modern trade and e-commerce, what is the contribution now?

Jaideep Nandi: It is closer to now 19%, 20% is modern trade plus e-commerce, and if we were to add the canteen business, it will go to above 23%, 24%.

Shirish Pardeshi: Okay. The next question is on the Henna. You have now brought INR 5 SKU in Bihar. So obviously, the initial benefit would be there, setting up the pipeline and distribution gain. But what is the initial response? Because now it's almost 45 days, 50 days, we have launched the product. So, is it the pricing is it the format, is it the channels, is this showing up encouraging response?

Moderator: I think the management's line is dropped. We're just trying to reconnect.

Jaideep Nandi: I don't know why we got disconnected, so we are back. Yes. So, Shirish yes. Yes, you were asking some questions the last one. Got disconnected while

Shirish Pardeshi: Okay. So, I have the question, which I think I missed. What I was asking that you are now guiding the double-digit volume growth in the second half. So aspirationally, that's good. But do you anticipate that there will be some pricing adjustments you are either taken now or in the future, you will take and that will drive the volume growth.

Jaideep Nandi: So, pricing will not drive volume growth. I mean, it is value growth for you in so yes, we have taken a bit of price increase, as we said. We have taken price increase in October, and we will take a little more price increase in December across other SKUs in ADHO larger packs as I discussed.

And but it will not have a material impact on the value, volume growth it's not going to be material. So, we are looking at growth in spite of the price increases that we take.

Shirish Pardeshi: It's the other way I wanted to check that to lift the volume growth, do you need to do the pricing corrections? But you're saying now you will take some price increases. So how do you think the volume growth will be reaching high single digit to double digits?

Jaideep Nandi: So as far as pricing correction is concerned, let me just clarify. In terms of we do price benchmarking and indexation against competition. So as far as the larger packs are concerned, we see them a little bit price insensitive and the elasticity of it, and that's where we are looking at a price increase.

One of the smaller packs, I would not like to call out at this stage, but one of the smaller packs where we see the indexation as far as competition is concerned, it's very high. We have gone much higher as far as premiumness is concerned, there will take a drop. Overall impact on the brand will still be positive as far as pricing increase is concerned. But one specific SKU, we'll be taking a price drop, which has a larger penetration, which is one of the most maximum penetrated SKU and also a very large rural derisk. That is where we will do some price correction.

- Shirish Pardeshi:** Let me rephrase the question. You mentioned that you are increased over 16%, 17% EBITDA margin. And I also said that aspirationally, you are looking for high single-digit growth. So what I wanted to pick up your brain from the point is volume growth at this time is more important than the margin or margin will be will come as automatically as a function of volume?
- Jaideep Nandi:** I think you'll have to always keep walking the thin line. So that we had said even during the very tough period for us last year were LLP, where we are a single brand dependent product. I mean, you can always go that you invest heavily into some of the newer products. But unless you have a very strong core, you would require it to be funded by some of the profits that you generate.
- So, we would like to always walk that thin line, and we will keep investing. So, if you look at this year's performance, unlike let's say last year, we have taken some of these brands. We have pushed them in terms of our investing in the brands, we have gone about the digital way first. And wherever we are seeing traction, and we are either scaling up in digital spend from the brand itself or getting into like in coconut, etc, we have got to into TVCs and into further press, etc. across various countries and as well as digital.
- So, that's how we would like to go about rather than go straight into conventional media and spend a lot of money in built-up brand. We would rather launch brands, invest in them digitally, see where the tractions are if required selected markets, selected channels and where we see traction. So that's why at least we manage our EBITDA while also keep growing our new products, which I would like to think for the last two years, we've been slowly now starting to build up. And as demand starts coming back and the investment that remains in ADHO. We would like to see that we are in a pretty better place than what we were.
- Moderator:** The next question comes from Kaustubh Pawaskar from Sharekhan.
- Kaustubh Pawaskar:** So, I just want to understand the difference between the value and volume growth for this quarter. So, value is lesser compared than volumes. You can explain this?
- Jaideep Nandi:** I will say two, three things. One is very similar to the same history as the gross margin, both to our ADHO saliency has gone down a bit with the new products doing better and the price of ADHO is higher than some of the newer products like coconut, etc. And the other is even within ADHO, the pack mix would have an impact with the larger packs where the rupees per ml is actually lower than that in the smaller packs. So that has also had an impact. The larger packs has grown more, so you will see more volume growth than value growth. So, these are the two things. Pack mix tilted towards larger packs and product mix tilted towards the new products.
- Kaustubh Pawaskar:** And my second question is on the market share for ADHO. So have you gained any market share in last one year or so?
- Jaideep Nandi:** Market share as far as ADHO remained more or less same. I mean across the year MAT numbers, you see market share for ADHO more or less same. We have gained a little bit as we see because of the coconut addition. So that's where the slight bit of improvement in share we take the overall market, including modern trade and e-commerce.

Kaustubh Pawaskar: And sir, on the distribution front, if you could give us some thoughts or numbers? What is the reach currently? And what are your targets in terms of distribution? And also in terms of key regions like South where the focus point was more towards South also on that aspect where are we currently in?

Jaideep Nandi: Are you referring to coconut or are you referring to overall ADHO.

Kaustubh Pawaskar: Overall.

Jaideep Nandi: So, then the focus is not specifically South because we are more North, West and East based company. So North our distribution is any way pretty strong, and we'll continue to look at more the quality of distribution more into retailing and improving our overall (result of what we do), as far as the West and East is concerned, that's where we are looking at distribution expansion.

So may not be the ADHO route. I mean we have seen that happen in Maharashtra, where coconut route has helped us improve distribution. So that's where we are pushing on this. So our distribution numbers remain at 8.5 lakhs to a little higher than that, which includes that also from the vans, which is about closer to 2 lakhs, which is what we run about 450 to 500 vans across the country, which has also helped us our built our overall portfolio, and we intend to continue this and look at specific markets, which we would want to take up for our focus, increase the van direct distribution as well. So that at least we can increase penetration of some of the brands that we would like to take on. As far as GT is concerned.

Kaustubh Pawaskar: But overall reach, any aspiration in terms of expansion in margin?

Jaideep Nandi: So rather than quote a number specifically as such, I think our overall our direct reach aspirational number is about 10 lakh that is not something that we intend to do in a short to medium term, it's more a long-term kind of an approach, which would mean the expansion that we are looking at this moment in West and East with some States of the South to start with and maybe in the larger South in the little longer term.

Kaustubh Pawaskar: And sir, last one on the competition part. So, let's sort that competing intensity has gone up so in that context, how are we positioned in terms of competition?

Jaideep Nandi: So yes, absolutely. The competitiveness, given that the market demand is subdued, the competitive intensity has gone up, and you will have to react both strategically as well as tactically. In certain cases, you might have to react tactically to look at competition and thaw it and I think have done good work in certain channels, I would not like to specify good work in certain channels to thaw competition as well as ADHO is concerned that's what we have been able to see.

In certain channels where it's not very margin positive, we have tried and let it go because we would not want to go to a situation where it will be difficult to return back to that. Some of them we would like to let go because we think that those are not losses that we are making. That is something that we can always plough back as the deep discounting stops. So that is what we have taken up. But in certain cases, we have reacted and we have got a good gain. So that's how

you'll see that overall, for the last five, six quarters, our hair oils overall performance has remained quite good.

Moderator: The next question comes from Varun Bang from Byranston Investments.

Varun Bang: Sir, if you see when we started our journey around NPD we focused a lot on e-commerce as a channel and the idea was eventually to place some of these products in the modern trade. So where are we in this journey? And how do you see overall progress and acceptance to some of these new products in the other channels.

Jaideep Nandi: I just extend it further to actually to modern trade and then to also general trade. And if you look at it, it's actually not really only e-commerce. We have also looked at products which we have committed to launch in modern trade and e-commerce together as well. Just as a saying, the lotion is a classic case where we launched it in both places. There have been products which have gone to reverse way also. Henna, for example, was launched in GT, we are now seeing great traction in modern trade where one of the retailers have listed it in 300+ stores and seeing good offtakes happening.

So, it is both depending upon the nature of the category of the product. Our idea would be to take unless it's a very premium niche kind of a product to take it through omnichannel access is what we would like to give the products, some of have taken through e-commerce, like, for example, coconut started with modern trade and e-commerce, and I just said, that today GT contributes to more than half of the contribution, and this is what we would like to think that it can only further go up as contribution is concerned.

So, we'll keep looking at the channels for different products differently. Some of them getting GT into the modern trade or in the, let's say, organized trade channel, some of them launched in the organized pushing it back to General trade. Finally, at the end of it, the brand has to make sense as far as both in terms of what it wants to do in the market in terms of the size as well as in the presence in that category as well as far as assets concerned as well as the gross margin, the EBITDA that the brand delivers for us. And that is what we are looking at.

Varun Bang: So would you say the strategy is still evolving for us?

Jaideep Nandi: Strategy is -- sorry?

Varun Bang: It's still evolving for us?

Jaideep Nandi: Evolving?

Varun Bang: Yes.

Jaideep Nandi: No, it's not an evolving strategy. It is a question of every product having a different strategy of its own. I don't think the strategy is evolving in terms of what we wanted to do. We wanted to strengthen our hair oils portfolio have a comprehensive range of products.

We wanted to broad base our or rather use our equity of Almond Drops extending across various products various products in skin and care. That is something that we are pushing. The third leg

is what we are seeing where Bajaj name can be used as this thing in the Indianness ethnic range whichever you call it, in launch products where you can use the Bajaj equity.

And we may launch another category, etc that is a little further. In terms of what we want to do and how we want to do etc is more or less clear with us. All I was trying to tell you is that every product will have unique approach. Not all of them will have will not have a strategy that is fit for all. Not a one strategy fitting for all. So some of them, as I said, will be through GT extending further into modern trade some of them the reverse etc.

Varun Bang: Okay. I got it, sir. And can you talk about key challenges or difficulties that you see in placing and scaling some of these new products? And what is your approach in living with the difficulties.

Jaideep Nandi: Some of them will, as you see new products in FMCG mainly in consumer category, will always have to be fast to try out and fast to fail and decide what you want to do. And that is what we are exactly doing. Some of the ones that we have, let's say, learnings from last year, coco onion for example, we spent a lot of time, a lot of money as far as investment in the brand and then we realized from the marketplace. So maybe the proposition is something that needs to be altered. I think this year, that approach has changed. We are launching products, looking at some of them, if they are working. If you see traction of it, we keep investing in scale-up investments. wherever we are seeing maybe this is not what is working for us, either go back to the drawing board, reformulate the product or reformulate the proposition itself and come back rather than spend too much time delving on it. That's how we are today seeing a set of brands slowly emerge or set of products, slowly emerging, as I said, the serum story has started taking traction. The new Almond Drops extensions, we are pretty comfortable with. Heena has started giving us this thing, Coconut, Amla. At least there is a portfolio which is starting to evolve this year.

Moderator: The next question comes from Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Sir, my question is you gave the number, like 81% you give the contribution from the ADHO in this quarter was around 81%, right? And the balance is from NPD?

Jaideep Nandi: Balance is NPD and traditional portfolio, which is marginal. Yes.

Hiten Boricha: Okay. So can you give the same number for last quarter as well as the corresponding quarter and sequential quarter?

Jaideep Nandi: Last Quarter it was 86% and overall H1 is 84%.

Hiten Boricha: 84% for H1. And balance is from NPD. And what is this number for H1 FY'23, sir?

Jaideep Nandi: H1 FY '23 will be closer to, I think my around about 88%, mainly because if you remember, last quarter, last year, also it was pretty high because we had just launched a soap. We have gone national with our coconut and we have also launched our coco onion. So the three products had been launched, a lot of GTM had happened and then so coco onion etc, had to be returned back. So that time, it was a few set of products, which have gone just from GTM, so the numbers were

high. These are products more hardly any GTM numbers are there. These are actual sales that are happening. The secondary numbers are similar to the primary numbers as far as this year.

- Hiten Boricha:** Also, you have the similar number for Q2 FY '23 as well?
- Jaideep Nandi:** Q2 FY'23?
- Hiten Boricha:** FY '23, yes, the number from ADHO.
- Jaideep Nandi:** Yes, Q2 FY '23 will be just a little lower than this, yes. About 87%. Yes.
- Hiten Boricha:** 87%?
- Jaideep Nandi:** Yes.
- Moderator:** The next question comes Soham Samanta from Emkay Global. Please go ahead.
- Soham Samanta:** Yes. Normally, we give this value and volume growth from the sector as well, but this time it is missing. So just wanted to check in rural, like what is the volume growth this time. Is it seeing slightly negative till now?
- Jaideep Nandi:** In terms of the market you are saying, No.
- Soham Samanta:** No, volume in rural as a market, yes?
- Jaideep Nandi:** No. That is for BCCL or for the market?
- Soham Samanta:** For market?
- Jaideep Nandi:** For the market. So, it is showing signs of recovery. So, it is signs of recovery and rural is still lagging Urban.
- Soham Samanta:** But last time, it was negative 1.6%, right? But what is the number this time?
- Jaideep Nandi:** So, it is just coming towards a little positive just a little positive as far as offtake numbers are concerned.
- Soham Samanta:** Okay. And what is the value?
- Jaideep Nandi:** Just about marginally positive, as I said.
- Soham Samanta:** Marginally positive. And second thing is, like, in your ADHO extension the product like the body lotion, shampoo, what is the premium you are charging right now?
- Jaideep Nandi:** So they are put at the same price as Dove etc, as far as the shampoo is concerned, Nivea etc as far as lotion is concerned. So we are putting it at the premium end, yes, because almond drops, that's what the proposition of the brand is.
- Soham Samanta:** So you don't have to take any price hikes in this particular extension portfolio right now, right?

Jaideep Nandi: We have just launched it. So, we are not looking at the price hike. These are the just-launched products in August, we launched it. At this current moment, there is no pressure of a price increase. We will see how the market behaves and then will take calls and all.

At this moment, the listings are over, the offtakes have started. We are seeing good responses. At this moment, we don't want to disturb the dynamics of the products.

Moderator: That does conclude the question-and-answer session. I'll now hand back to Management for closing remarks.

Jaideep Nandi: So, thank you once again for bearing with us on this call. I think the quarter, as you have seen, the markets have been quite tough as far as the rural markets are concerned, but we are seeing green shoots of it coming in. But also, the fact that, as overall, the company seems to have the basics that we wanted to get right have more or less fallen in place.

The modern trade, and e-commerce business continues to do well. The international business continues to do well, the NPD portfolio has started doing well. As far as the GT is concerned, more or less everything is in place as far as business as well as our people orientation, etc is concerned. It's just that the market is slowly now seeing the shift in the positive direction, that is what we would like to encash.

For the last five quarters, we have always had good growth, this is quarter as I said, also had some impact because of the September, October shift that we see. But overall, the health of the company seems to be much better than what we were about five, six quarters back. The NPD portfolio is scaling up well, which is a good sign. So, most of the strategic pillars that we have taken up as far as the company is concerned, whether, as I said, looking at the entire NPDs and I listed down what the NPDs were. Scaling that up in terms of looking at the international markets and other channels, most of them are working well. So, we will continue to do more of the same. And as we see markets becoming better, we look forward to reaping the benefits of it.

So, thank you so much once again for bestowing faith in us. I wish you a very, very happy Diwali and a happy festival season ahead. Thank you so much.

Moderator: Thank you. That does conclude our conference for today. Thank you for joining us. You may now disconnect your lines.