



“Bajaj Corp FY16 Earnings Conference Call”

January 8, 2016



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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Bajaj Corp FY16 Earnings Conference Call hosted by Kotak Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering ‘*’ and 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: Good afternoon everyone. On behalf of Kotak Institutional Equities, I welcome you all to the 3Q FY16 Bajaj Corp Earnings Conference Call. We have with us the senior management of Bajaj Corp represented by Mr. Sumit Malhotra – Managing Director, Mr. VC Nagori – Chief Financial Officer, Mr. Dilip Maloo – Vice President Finance and Mr. Kushal Maheshwari – Head Treasury. I would like to hand over the call now to Mr. Sumit for opening remarks. Thanks and over to you sir.

Sumit Malhotra: Good afternoon to all and welcome to the conference call for declaration for the quarter results for the financial year 2016. With me are Mr. Nagori – the CFO and President Finance, Mr. Maloo who is the Vice President Finance and Kushal Maheshwari – the Head Treasury. I think we should all welcome him as it is first time he is on the conference call and probably hear more of him as we go along.

The company has closed the third quarter with a turnover of 212.77 crores which translates into a growth of 3.6% over the third quarter of last financial year. The EBITDA for the quarter is 68.82 crores which is a growth of 14.6 over the same quarter last year. As a percentage of sales, the EBITDA has further improved to 32.35%, this is perhaps the highest EBITDA margins over the last three, four years now. the profit before tax and profit after tax also remains healthy at 63.05 crores for PBT and 58.83 crores after amortization of 11.74 crores. I am pleased to announce that the Board has agreed to disperse an interim dividend of Rs.11.50 per share, the closing date would be 20th of January. The environment overall in FMCG itself remains subdued and more so in the overall hair oil market with the volumes growing at just 0.7% for the period April to November 2015. Within the hair oil industry the volume growth of light hair oil is still the faster at 6.3% whereas the off takes of our lead brand stood at 5.9% for the period April to November 2015. Within the light hair oil the growth recorded by light hair oils and specifically Bajaj Almond Drop is the highest for the period April to November 2015. The primary cost for concern is that for first time in 12 quarters the growth of light hair oil in the rural sector has fallen below the growth shown in the urban sector in the period October-November 2015, we do not have the December Nielsen figures as yet, the growth in the rural sector is just 3.9% versus 6.4% volume growth registered in the urban areas.

In the current quarter the revenue growth were adversely affected by A) the high base in the third quarter of last year, the growth in that quarter was 29%; B) slowdown in rural demand; C) disruption in sales in Nepal and Nepal is a significant portion of our international business; and D) major destocking that has been seen in the canteen stores and depot stocks during the period

October and November of this year. Even though the off takes of Bajaj Almond Drops have grown by 5.9% the revenue of this have shown just a 1% volume growth there, with a challenging demand environment this could continue into the last quarter of this financial year also. Our lead brand Bajaj Almond Drops has shown an increase in distribution figure again but a stagnation in the market share during the third quarter. The market share not stands at 60.6% by value and the brand is available in 2.9 million retail outlets across India. On the brighter side of it, the cost front during the quarter stood out because there was a further fall prices of light liquid paraffin. As against an aggregate of 58.82 per kg in the second quarter of this financial year the price stood at 54.70 per kg during this quarter. The prices of light liquid paraffin continued to drop and to maximize the effect of this reduction in prices we are continuing to stock up. As against this, the price of vegetable oil has risen from 80 to Rs.0.02 per kg in the second quarter of this year to 93.76 per kg in this quarter. Though vegetable oil is 14% of our cost but the rise in prices are significant enough to affect our gross margins. The acquired brand No Marks has closed the quarter with a turnover of 10.22 crores, this is a 25% drop in turnover over the same quarter last year.

As I explained in the last concall, the second phase of the process of integration of the brand into Bajaj Corp portfolio is continuing wherein we are trying to convert this brand from a problem solution to a more marked distributed cosmetic brand. If you look at off takes as reported by Nielsen, the category as well as the brand is continuing to grow very encouragingly, the anti blemish cream category continues to grow and has grown by 28% whereas No Marks within the category has shown a growth of 45%. We believe that this integration process that we have set out to achieve will take another quarter to show results in top-line. The margins however remain very healthy and they span out as 66%. Due to this, despite a high level of advertising in the brand the brand is still profitable at EBITDA levels.

On the international business, that is without Nepal, the outlook is very-very encouraging and the business has nearly doubled during the period April to December this year versus last year. On the other hand, the business in Nepal gets affected by the continuation of the standoff and political relation of our two countries. Business in Nepal has declined by 24% during the period April to December 2015. Another bright spot is the sales in Bangladesh, that has begun to pickup and this year in the period April to December of this year, nine months, it has shown a growth of 84%.

The market environment continues to be a challenge, states of north and south are showing faster deceleration than the rest of the country, whereas previously the growth of light hair oil and therefore our lead brand Bajaj Almond Drops was coming through improved penetration and therefore market share gains in the rural area, this is not the case in the third quarter. A further slowdown in rural growth is expected in the fourth quarter and this could hamper improvement in revenue growth in the coming quarter.

Finally, over the last few years we at Bajaj Corp are tempting to build the organization with high quality high performing individuals. We realized that one attribute which is critical for success

is what I call managerial bandwidth, this basically means having employees that are in the right number and are capable of doing multiple jobs that are assigned to them. In addition to managerial bandwidth we have also tried to work on succession planning whereby key personnel all our team members capable of taking over their position as and when required.

So this and the objectives, I would like to inform all of you that Mr. Sandeep Verma has joined our organization as the President Sales and Marketing. Sandeep has been with Hindustan Uniliver for the last 15 years, he joined HUL immediately after completing his MBA from IIM Lucknow and has worked in various functions in India and across the globe. We believe he can add substantial value to our sales and marketing function and help the organization be future ready.

We are now open to questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: So a couple of questions sir, one on sales and one on margins. While you alluded to the four reasons for the revenue deceleration particularly on the Baho part of it, is there anything non-necessarily reflected in Nielsen because Nielsen there could be delays which there is any competitive activity, let's say for example specific to Patanjali or anything of that sort of happening in your category.

Sumit Malhotra: Surprisingly you have caught the right one, there is a surprising activity that is reflected in Nielsen, there is a brand of Unilever of hair oil which they are giving free with their shampoo, so Nielsen is actually reflecting the sale of the consumer offer as sales in light hair oil, the brand is Clinic actually. Patanjali specifically is not showing too much of a thing, it's sale in the third quarter is actually less than 0.01% of the total light hair oil category.

Manoj Menon: But sir from your market visits and what your recognizance kind of tells you from the market, is Patanjali a major player at least till now in the segment which you operate?

Sumit Malhotra: If you define my segment as light hair oil, no; but if we like internally define our segment as total hair oils, yes, it is taking over a part of the Ayurvedic hair oil segment and the brands like recently two major brands that have been purchased have seen the effect of Patanjali.

Manoj Menon: And secondly on your commentary about the rural outlook, I do see a fairly tectonic change in terms of let's say the commentary till about a couple of quarters back and till now, so where it was more like yes rural have slowed down but it is chugging along, so that is more likely the feel from you as well as from the entire industry. Now for the first time I am actually hitting a statement, it does appear that, correct me if I am wrong because I am doing an interpretation here, that things seems to have kind of fallen off the cliff and that is probably the reason you are

actually calling out 4Q also would have the rural headwind. Is that interpretation right or I am kind of exaggerating it?

Sumit Malhotra: You are on the right path but falling off the cliff might be an exaggeration, but if you go through the concall of the last three quarters that we have had, I pointed out in the first quarter of this year that the difference between rural and urban growth for light hair oil was to the tune of 10%, last quarter this 10% had decreased to 5% and this quarter has become negative about 2.6%. So the trend and most of us work on these trends is the reason why I believe it will be slower than the fourth quarter.

Manoj Menon: And on the EBITDA margins basically, just only on the A&P part of it, is the reduction in A&P combined is it just only to do with promotions coming off, how do I look at it?

Sumit Malhotra: It is what you are sort of equating it, if you are equating it to the same quarter last year?

Manoj Menon: Yes.

Sumit Malhotra: It is lower by around 2%, that is mainly because of promos we had done in last year third quarter versus we are shifting it to the fourth quarter this year.

Manoj Menon: And maybe if I missed it earlier, have you announced your new celebrity and if at all there is a re-launch link to it, is it already in the market or it is still a working progress?

Sumit Malhotra: No, the new ad is already in the market, it started in November end, this time we have not taken a celebrity we have taken a Brazilian model called Isabella, she is on the new add that it is there, we have not got a celebrity currently.

Manoj Menon: No, the context I am actually trying to link the ad spends or rather APL spends, so I am a little amused that given the market slowdown you should be spending a little bit more rather than less, I mean I am just trying to understand you have withdrawn promotions, I know that there is a timing part of it there and non-necessarily investing significantly in APL despite having a lot of resources. So I am just trying to marry the two.

Sumit Malhotra: Manoj what happens is that whenever you come out with a new ad you take a hiatus in the middle because you do not suddenly change ads. So when the new ad came in there was a period there you did not have advertising, so that is what is optically looking less. Sales promotion is not coming down, it is basically shifting.

Manoj Menon: So directionally speaking, reduction of A&P as a percentage of revenue in the normal course **(Inaudible) 15.5** looks unlikely?

Sumit Malhotra: It would have been nearly around 18%, 19% if we had not taken that 15-day odd gap in November.

- Manoj Menon:** Sir on the employee cost bit, congratulations on the new recruitment. Is there anything more to it because even on an absolute basis your employee cost has been growing for the last at least a couple of quarters, is there anything more than top management recruitment you are actually currently implementing?
- Sumit Malhotra:** Yes, they are. In fact, one thing which is significant is we had only two shared resources, one was investor relations and one was legal. We are now in-housing both of it so you will see a head legal coming in, you have seen the head treasury which is Kushal come in already. We would have two more senior guys joining us over the next two or three months then and that will add to employee cost because of new recruitment rather than just increments or promotions to the existing employees.
- Moderator:** Thank you. Our next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellapa:** My first question is slightly from a medium-term perspective, you spoke about Patanjali and two other transactions which has happened, so if I just put it all together with Patanjali being quite aggressive in their Ayurvedic proposition and with brands like Kesh King and Indulekha going to players with much bigger financial muscle, does this call for a structural rise in our own brand investments whether it be advertising or distribution etc because it looks like we now have to shout louder for Almond to get its fair share in the overall hair oil market. So I would love to hear your thoughts on those.
- Sumit Malhotra:** See, in terms of benefit to the consumers all hair oils offer nutrition, so yes, when more brand come in into the segment where nutrition is the key selling proposition you have to change your communication slightly to match their noise in terms of the message that is being given. In terms of the amount being spent, we are far higher than all of these guys. So I do not see a major increase in advertising as such but maybe the communication message will change a little bit.
- Karthik Chellapa:** And sir specifically on Patanjali, although they are targeting the Ayurvedic proposition, their price points generally across SKUs has been around 25%, 30% lower, so their almond oil is somewhere is priced around Rs.50. Although in the past initiatives like Dabur or Hair & Care really have not got traction at lower price point, do you think somebody like Patanjali who has built credibility on the product quality side pricing 30% lower could be a wrong term risk?
- Sumit Malhotra:** What is the key selling proposition Kartik of theirs? In my opinion it is Ayurved, and what he is trying to do is he is trying to sell almond as the key selling proposition. So it is not actually the Patanjali reason to buy, so yes it is to be seen how much he spends on this category, what kind of innovation it does in terms of product quality but I think he has got the main platform being Ayurvedic so the brands which have bigger reason to buy being Ayurvedic should see a faster decline in market share.

- Karthik Chellapa:** And sir my second question is essentially on our promotion, you alluded to fourth quarter you will be spending slightly more on promotion etc, I am just curious that this quarter given that we have seen slowdown in our volumes, in absolute terms our promotional spend is actually lower than what we spent in the first quarter and second quarter, what was the thought process behind that? I thought we will continue to spend on promotion and invest part of our gross margin gain to try and drive higher volume.
- Sumit Malhotra:** Which we have been doing over the last two years. If we do the same thing over and over again, the returns become lower and lower. So you cannot keep on driving volumes by using promos only, you would realize that beyond a point the affectivity of the promotion on the return on investment drops so it is better to take a cut and then start all over again.
- Karthik Chellapa:** Sir a lot of talk has been done on these direct benefit transfers going directly into bank accounts and there have been a lot of examples suggested in multiples geographies where this has plugged a lot of leakage and there has also been expectations that this will drive growth for FMCGs, because the money is going directly to the consumer accounts. On the ground why is that we are yet to see tangible benefits of this?
- Sumit Malhotra:** I think the operative word that we use was expectation, and the hard point of Indian economy and what is happening in India is expectations not converting into reality on the ground there and I think that is the answer to your question and in your question actually you went and answered the question.
- Karthik Chellapa:** Sir just a couple of housekeeping issues, can we have the secondary sales growth for the quarter?
- Sumit Malhotra:** Secondary sales growth for the quarter is 6.5%.
- Karthik Chellapa:** And sir from the first quarter of the following year I believe we will have to start reporting Indian Accounting Standards which converge of IFRS, although it is more a form, from a substance point of view does it change anything, is there any impact to your EBITDA, have you done any work on that just to give us the heads-up?
- Management:** Yes, broadly it will remain unaffected, we have checked all provisions and in our case it will remain unaffected.
- Karthik Chellapa:** So it will be more in the presentation and form rather than substance?
- Management:** Correct.
- Moderator:** Thank you. Our next question is from the line of Pranoy Kurian from Centrum Broking. Please go ahead.

Pranoy Kurian: My first question is on the use of cash investments, going forward do you see an increase in the dividend, how do you plan to utilize this cash?

Sumit Malhotra: Actually this is a question I cannot answer because the amount of dividend being dispersed is not a decision we alone take, it is the board and we normally take it closer to the time the dividends are to be dispersed. But having said that, if you look at it we have given around Rs.11.5 as the interim dividend which we have declared already and that is a pointer to what we are saying that if we do not use the cash we would rather give it back to the stake holders as dividend rather than keep it on our books or use it for some other purpose there. So I think we are acting as we stated, we stated our dividend policy was one-third of PAT and if we do not use the cash generated we would give more and more dividends which we have done.

Pranoy Kurian: Is the thinking that maybe there is an acquisition down the line so leave that cash or that, is that the way the management is thinking?

Sumit Malhotra: Sorry, I cannot comment on it, because obviously there is nothing to talk about in terms of acquisition at this point of time. But the thing is, if you do not, which means that any acquisition that will take more than a year you will not leave cash in your books for more than a year just waiting for that acquisition which may not happen.

Pranoy Kurian: And then another thing is regards to raw material, so you had earlier said that you had stopped buying on a long-term contract basis, you said you had begun spot buying to take advantage of the falling rates. Now recently I think in the beginning of this call you said you are stocking up again, so is there a change now in how you are buying LLP?

Sumit Malhotra: I think it is a no brainer, when you think that the prices are going to fall you buy spot, when you think you are very close to hitting the bottom you start stocking up and I think you guys are much stronger in this concept than we are and we are doing the same thing. When we thought that the LLP prices would continue to fall I went on record telling you that we are buying on spot, now we are very-very close to the bottom as per my understanding. But daily crude nobody can predict but I think we are very close to, just to give you a standby what is that Rs.54 odd has already fallen to Rs.48 per kg in January. So you are very close to the bottom and this is the time you should stock up or go for larger longer term contracts if possible.

Pranoy Kurian: So now are we looking at something around the 50 mark for the lock in for the year or something?

Sumit Malhotra: Now no manufacturer gives you a year lock in because we have done it two times previously in the last six years and both time the manufacturers have lost a hefty amount. So there you buy and stock or you give a forward contraction I will buy this much in March and they do their calculation and give it back to you but now nobody gives you for a year, most of them are giving only for spot at this point in time.

- Pranoy Kurian:** I think it was in No Marks you had decreased the number of SKUs and that was the reason for the drop but not going forward over say three years do you see again an expansion in number of variants or number of SKUs going forward, just a three year guidance for how you see it playing out?
- Sumit Malhotra:** Not in the next two years, maybe in the third year you might see a few things coming in but most of them would be marks distributed cosmetic items and therefore in the short run which is the next year or so there would be no increase in number of SKUs.
- Pranoy Kurian:** So the growth you are seeing at 20% is on the base of 16?
- Sumit Malhotra:** I don't get it, what are you saying?
- Pranoy Kurian:** Say if we are running a run rate of around 40 crores for No Marks, so going forward say you guide for 20% to 30% that will be on that 40 crores?
- Sumit Malhotra:** I do not think I have guided any 20% or 30% but whatever growth comes we will have to use that 40 crores, because please take into consideration that last year we did 58 crores but a major part of that would be pipeline filling also because that is very good, putting it into the distributors and retailers who did not have this product for the last three years. So that advantage has gone away, what you see is now the secondary sales of the base off take levels that you see today.
- Pranoy Kurian:** Just the last question, any capital expenditure plans, anything you can guide us on that front?
- Sumit Malhotra:** See there would be two capital expenditures, maybe not in this year maybe next year but there would be two, one would be in the factory, one factory in Guwahati would be coming in and therefore that would be a minored in the context of the cash we have capital expenditure. The second could be, as and when GST is closer to be implemented you would see another factory coming in Baroda. So that is on factory, you would see another expenditure in building our corporate office at Worli, that depends on when we get the final approvals from the municipal corporation of Mumbai.
- Pranoy Kurian:** So any guidance for say 2017 or any figure you can give us?
- Sumit Malhotra:** I do not think so, we do not believe in giving guidance anyway but we actually do not know when the foundation would come in, for example Guwahati factory would cost us 9 crores total.
- Pranoy Kurian:** Okay, it is in that range.
- Sumit Malhotra:** But that is a factory, building will depend on what FSI, what kind of cost on building and setting the fixtures would take, that is something I do not have a clue.
- Pranoy Kurian:** But will there simultaneously be some sale of some asset or something?

- Sumit Malhotra:** No, why should it.
- Moderator:** Thank you. Our next question is from the line of Sachin Shah from Emkay Investment Managers. Please go ahead.
- Sachin Shah:** Thank you very much, but my questions have been answered in the previous questions. Thank you.
- Moderator:** Thank you. Our next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir, of the 40 crores turnover of No Marks, can you give a rough split of what it would be now between soap, face wash and cream?
- Sumit Malhotra:** Face wash should be around 35%, cream would be just below that 32% and soap would be around 17%, 18% and the remaining brands should be that...
- Percy Panthaki:** And what would be their split up at the time or just before acquisition?
- Sumit Malhotra:** Cream was around 60% plus and rest all of them including sales was marginal.
- Percy Panthaki:** So basically face wash has seen a significant uptick?
- Sumit Malhotra:** Yes, this is what we have been trying to do. It is tie up with my comment on moving to mass distribution products.
- Percy Panthaki:** But just I was wondering, while you need to popularize your face wash, why not at least hold the other two segments at the same level of sales they were at when it was acquired?
- Sumit Malhotra:** Absolute you can hold, that is why you are getting growth.
- Percy Panthaki:** No, because at the time of acquisition also it was around 40 crores, now it is also around 40 crores and the mix has changed, so the items which have got reduced in the mix that would have seen a YoY decline in rupee terms also, right?
- Sumit Malhotra:** I do not know where you got the figure, at the time we acquired it the brand was 28 crores out of which 7 crores was exports. The figure you are confusing is the highest they have got sold in the history of ozone was 40 crores. It is around 28 crores minus 7 crores, 21 crores, around 60% odd, you compare that to with what we landed in terms of cream.
- Moderator:** Thank you. Our next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.

- Manish Poddar:** I just had one question, I just wanted to understand that you alluded that growth in certain pockets of actually North India have slowed down, so could you comment on key markets like let's say Uttar Pradesh and Madhya Pradesh for us?
- Sumit Malhotra:** Madhya Pradesh is not north according to us, but the markets where we have seen a slowdown which is larger than the rest of the country are basically Punjab, Haryana, UP, these areas and Rajasthan.
- Manish Poddar:** Is there any other specific reason other than the ones which you have alluded or...?
- Sumit Malhotra:** I think it is the same, also if you look at north, north reacts much faster than the rest of the country in growth and decline also in FMCG, I am talking specially about FMCG. And the reason I believe is more to do with the consumer because the northern consumer is more experimentative whereas the eastern consumer is more conservative in its **(Inaudible) 31:25.3**. So when something new or something exciting happens the first consumer to react is normally the northern and vice-versa.
- Manish Poddar:** And just on the CST part which you mentioned, so in the month of December this inventory restocking has stabilized, is that right?
- Sumit Malhotra:** Stabilized, meaning it did not drop as much. What happened in CST is they gave you an order which is let's say 100, when the final order got printed and given to you this 100 became 40 for the month of November and also for the month of October. So two months they have given you orders and slashed it. In December I believe whatever they gave has been supplied.
- Moderator:** Thank you. Our next question is from the line of Jubil Jain from PhillipCapital. Please go ahead.
- Jubil Jain:** Sir can you give some more details on exactly what is happening in No Marks brand and can we see a revival say by Q1 FY17? I mean the phase two which you are talking about converting from problem solution to personal care, can you give us some more details?
- Sumit Malhotra:** At the cost of repeating myself, what we are trying to do is typically No Marks because of its brand name...
- Jubil Jain:** No, I mean the present status.
- Sumit Malhotra:** What do I talk about status, you have the figures in front of you and I do not think any company gives you brand wise details as we do, what extra would you like to know I can answer that specifically. By status what do you mean?
- Jubil Jain:** I mean simply can we expect a revival by Q1 FY17?

Sumit Malhotra: That is what we are all working for, that is why we are investing 45% of our sales behind advertising. So obviously the crux of this is this advertising works when you are spread all over and when you have a proposition which is more mass than specific and the difference between a problem solution and a mass distributed cosmetic is this that in problem solution it is mainly word of mouth of colleagues recommending a brand, whereas in mass it is more to do with communication. So in marketing terms the influencers are different in these two categories, what we are trying to do is shift the influencer or the purchase of this brand, this is a very difficult thing and that is why it takes time. I hope I have not confused you? But just to help you compare why you buy a Crocin and why you buy let's say a Gillette shave foam, somebody comes and recommends a Gillette shave foam, you normally see it in the shelf or advertising whereas crocin you normally have a family or a friend who says look I tried it, it had a very good effect why don't you try it. So the influencer is a person whereas the influencer is airwaves of media and the other thing.

Moderator: Thank you. Our next question is from the line of Hardik Bohra from Union KBC Mutual Fund. Please go ahead.

Hardik Bohra: Most of my questions are answered, just one. Sir when I look at the presentation which was four years ago and you had this target of reaching 65% market share which is still maintained, but in this financial year for the last couple of quarters we have been seeing that the market share seems to be dipping now year-on-year, so can you just give us a outlook that kind of have we reached a peak and what is the growth outlook from here onwards for the light hair oil market?

Sumit Malhotra: See when we gave this outlook of 65% we actually based it on the other brands in the hair oil saying that in the hair oil sector we normally peak and then stabilize at 65%, now there is no scientific reason to that, that is more history to do with that. That is an answer to the first part. The second part, actually if you look at the market share has gone down by 0.1% or 0.2%, it is actually not a dip, a dip would be something like what has happened to other brands in the sector where it has gone down from 69% to 38%. Those are big dips, here you are seeing minor dips that are coming out which mainly I think is on the account of down trading rather than anything else. I personally believe that there is still a lot of conversion potential in this brand and once the economy sort of comes back in it's being and down trading starts reducing you will get faster conversions into our brand rather than the other low cost brands that are there.

Moderator: Thank you. Our next question is from the line of Sundar S from Spark Capital. Please go ahead.

Sundar S: Just two quick questions, the first one is on the vegetable oil prices, what is exactly getting up the price increase of that, can you throw some light on it?

Sumit Malhotra: See the vegetable oil we use is actually refined mustard oil, now this year supposedly the sowing of mustard has been lower than expected and therefore as an expectation that once the crop comes in February and March the prices would rise, the prices have already started rising.

- Sundar S:** So would there be any stock clearance or would there be any rechecking of prices in March?
- Sumit Malhotra:** Normally it does happen each year after the new crop comes in the prices soften, but today they are working on the principle that it will be approximately between 90 and 100 post March also which is nearly as high as what it is already.
- Sundar S:** And are we stocking in vegetable oil also?
- Sumit Malhotra:** You cannot stock up because it becomes rancid very fast.
- Sundar S:** Sir on the second question you had mentioned on the distribution part in the presentation that it is according to Nielsen's new sample, so can you just give us some clarification as to what is this Nielsen new sample got to do with, has the number of distribution points increased in terms of coverage, how has it impacted the secondary sales number that we are throwing up in the presentation?
- Sumit Malhotra:** I think you are confused, secondary sales and Nielsen does not come in, Nielsen tracks tertiary, this is offtake from the retailer. Secondly is sales from your distributor to the retailer, they are not inter-related. Second thing, you should understand Nielsen is a sampling method of estimating off takes and therefore market share, what they have been doing over the last, I have been in the industry for two decades, over the last decade they keep on increasing the number of sample size. When I started it used to be 6,000 retailers all over India not I think if my memory serves me right it is around 50,000. What they have actually gone and done is that rural is now playing a much more important role in FMCG, they are not increasing the number of outlets but moving some of the outlets under coverage from urban or semi-urban to rural. So this phase was basically shipped off a sample size which is predominantly governed by urban outlets to a little more of rural and this will go on as Nielsen becomes bigger and they have more money to invest behind increasing the sample size.
- Sundar S:** Has this got anything to do with overall rural sales slowing down?
- Sumit Malhotra:** No, no. It just decreases the sample error, that's all.
- Moderator:** Thank you. Our next question is from the line of Navin Trivedi from Trust. Please go ahead.
- Navin Trivedi:** Sir my question is, just want to reconfirm it, considering the LLP prices are still falling and in that scenario would you still take price hike on ADHO going ahead, because you have philosophy that every brand should take some price hike every year.
- Sumit Malhotra:** No, I do not think I ever said that Navin, I said that if you have a brand having a premium image, to maintain that premium image you need to take a price hike, that is what I have said and we stand by it. Whether it will happen, how much it will happen I think it is a matter of conjecture which I do not want to get in at this point in time.

- Navin Trivedi:** Depending on the price fall, the quantum of fall will basically lead to a decision that should we take the price hike on ADHO or not?
- Sumit Malhotra:** See there are three decisions, one is whether yes or no, if yes quantum and if quantum is decided, when. All three questions are today in a discussion.
- Navin Trivedi:** Because considering urban market growth will be higher and say share is typically a rural market driven then we need not have to take the similar price hikes which we have taken last year?
- Sumit Malhotra:** Again Navin, conjectures. You cannot build answers around conjectures.
- Moderator:** Thank you. Our next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellapa:** Sir, this quarter for ADHO our realization growth has been somewhere say around 3% odd, lower than the last two quarters, so can we infer that our lower priced SKUs on which we did not take a price increase this year grew faster than say some of our larger SKUs?
- Sumit Malhotra:** Yes, obviously that is the reason.
- Karthik Chellapa:** So relating to that, is our current level of promotion more directed towards the larger ml SKUs like say the 300 ml and 500 ml while the 100 ml and lower they do not carry any promotion?
- Sumit Malhotra:** Obviously yes, because what you want to do, you want to block a household for a longer period, so if you block on let's say 50 ml or 20 ml, less than a month on he is again hunting for which brand to buy. So to reduce that threat you give it on 500 and 300 rather than give it on a 50 ml maybe, we actually do not promote 50 ml in terms of consumer promotion, this year we have not even promoted 100 ml.
- Karthik Chellapa:** And sir one housekeeping question, can I have the gross margin for No Marks this quarter?
- Sumit Malhotra:** This quarter it is 66.7%.
- Karthik Chellapa:** So it has actually increased compared to the last two quarters?
- Sumit Malhotra:** For the nine months it is 64.9% or 65% it has gone up to 66.7%.
- Moderator:** Thank you. Our next question is from the line of Sumit Agarwal from Mirae Asset. Please go ahead.
- Sumit Agarwal:** Sir you commented on LLP and refined vegetable oil prices, but can you also comment on the glass bottle prices, have they been coming down?
- Sumit Malhotra:** No change in glass.

- Sumit Agarwal:** But sir is there an indication because of this liquor ban and all this thing would lead to some kind of a deflation over the year?
- Sumit Malhotra:** Not liquor ban, actually the main cost component for that is the power and fuel, they actually use a fuel of which the cost is actually going down, so you would see a reduction. I do not see increase in the costs.
- Sumit Agarwal:** And sir here what is the contract sir, like do we...?
- Sumit Malhotra:** Ever year we renew.
- Sumit Agarwal:** So is it coming for renewal in the near-term?
- Management:** Yes, in the beginning of next financial year.
- Sumit Malhotra:** We discuss in February and implement in April.
- Moderator:** Thank you. Our next question is from the line of Dhaval Mehta from Emkay Global. Please go ahead.
- Prashant:** Good morning sir, this is Prashant here. Sir just one question on the Amla market, so if you look at the Amla hair oil segment has been growing at a pretty fast pace for last two to three years, again even a launch over here has actually done but a very small part as far as the overall operation is concerned. But incrementally do we see this Amla being a bigger threat to the entire light oil space in terms of outpacing the growth given the fact that your income levels are under stress and probably it is the case of down trading and anything of that sort, that's what is happening?
- Sumit Malhotra:** I do not think so, because let me again talk in figures. For the period April to November of this year the amla market has grown by 1.8% by volume, and like I said light hair oil has grown by 6.5%. So despite the low cost amla doing well the overall market is still not growing as fast as light hair oil. Again, the reason to buy is something that is fairly old communicated product which is basically "Kale Lambe Ghane Bal", so that is not seeing that kind of a traction with the youngsters. What is happening temporarily is because of the inflation and people down trading, the low cost amla is doing well and therefore the market leader is getting hurt fairly badly.
- Prashant:** Right, because you are actually seeing the other players picking up pretty fast and growing in almost double-digit numbers, which is why I just thought maybe is there anything to it.
- Sumit Malhotra:** The other players in amla?
- Prashant:** In amla, yes.
- Sumit Malhotra:** That is at the low cost?

Prashant: Yes, that is right.

Sumit Malhotra: So are we, we are growing and tripled it.

Prashant: Exactly, as I said as it is just a very small part of the proportion but I was just wondering whether if this thing continues is there a threat.

Sumit Malhotra: There are various hypothesis that will happen, one hypothesis that could happen is that amla could become a typical pyramid structure where the lowest cost brand becoming the second, the most significant market share brand in the segment. Because when you understand it, in light hair oil you do not have that kind of a structure, the biggest market share is with the most costliest brand which is an inverse pyramid, what could happen that the pyramid could be formed in amla.

Moderator: Thank you. As there are no further questions I would now like to hand the flow over to the management for closing comments.

Sumit Malhotra: Thanks to all of you and there are a lot of people who have been constantly following our company for the last five years that we have been on the listed space and all of you especially the people who have been following this company. All I can say is that the FMCG hair oil industry and us are struggling through a phase and just volume growths are yet not coming and as a result of which you are seeing this kind of swings in growth quarter-by-quarter. I strongly believe that any company should be evaluated not quarter-by-quarter but over the significantly long period. And if we do that you will realize that Bajaj Corp is and remains a very attractive proposition to most of the consumers in the industry wherein a lot of people are still coming into the Bajaj Almond Drops thing. We are reevaluating all of this but what we are trying to do now more is building a very strong organization with people and which I said in my statement is people coming in and one of you also observe that the employee cost is going up, even at 4.5% of sales was our employee cost which is very-very low, that will go up and that will keep going up in the future. If we do this right you will see a much stronger, much bigger and much more profitable organization in the future. Thanks a lot and have a good day ahead.

Moderator: Ladies and Gentlemen, on behalf of Kotak Securities that concludes this conference. Thank you for joining us and you may now disconnect your line.