



## “Bajaj Corp Limited Q2 FY 2016 Earnings Conference Call”

October 08, 2015



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**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Corp Limited Q2 FY 2016 earnings conference call, hosted by Kotak Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. Now I hand the conference over to Mr. Anand Shah from Kotak Institutional Equities. Thank you and over to you Mr. Shah!

**Anand Shah:** Thank you, Margaret. Hi everyone and I welcome you all to the 2Q FY 2016 Earnings Conference Call of Bajaj Corp. I have with us the senior management of Bajaj Corp, represented by Mr. Sumit Malhotra, Managing Director, Mr. Narayan Raman, President, Corporate and Investor Relations, Mr. VC Nagori, Chief Financial Officer and Mr. Dilip Maloo, VP, Finance. I would like to hand over the call to Mr. Sumit Malhotra for openings remarks. Thank you and over to you Sir!

**Sumit Malhotra:** Good afternoon to all and welcome to the conference call for the declaration of the second quarter results of the Financial Year 2015-2016. With me are Mr. Narayan Raman, the President Corporate and Investor Relations for the Bajaj Group, Mr. VC Nagori, who is the CFO of Bajaj Corp and Mr. D. K. Maloo, who is the Vice President Finance.

The Company closed the second quarter of financial year 2016 with a turnover of 207.64 Crores. This translates into a growth of 10.7% over the second quarter of the last financial year. The EBITDA for the quarter is 65.75 Crores, which is a growth of 24% over the same quarter last year. As a percentage of sales because improved to 31.7%. The PBT and PAT remains healthy at 59.547 Crores and 56.01 Crores after adjusting for exceptional items of 11.74 Crores. The results of the first half of this year are that we have done the turnover of 426 Crores, which is a growth of 12.5%, EBITDA stands at 133 Crores which is a growth of 23.7% and PAT stands at 94.29 Crores, which is a growth of 23%.

The environment in the hair oil industry remains subdued with the overall hair oil market growing at just 0.5% in volume terms. Within the hair oil industry the volume growth of the light hair oil was slightly better at 6.6%. This is a fastest growing segment within the hair oil industry at the moment. The off takes of our lead brands without Bajaj Almond Drops was better than that of the industry and stood at 7.8%. Within the hair oil industry, the growth recorded by light hair oils and specifically without Bajaj Almond Drops is the highest in the period of April to August of 2015.

Segments such as coconut, cooling and even ayurvedic hair oils all have shown a decline in offtake volume in the similar period. Our lead brands Bajaj Almond Drops continues to gain market share led by high decibel level of ASP spends and improvement in distribution. The market share now stands at 61% by value and the brand is now available in 2.91 million retail outlets across India. To continue gaining market share we remain one of the highest spenders on ASP within the hair oil industry. During in the quarter the company spent 17% of its sales

revenue on ASP. On the cost front this quarter stood out again because of further fall in LLP prices.

As against an average rate of 59.51 per kg in the first quarter of this financial year, the prices of light liquid paraffin to the 58.82 per kg in this quarter. The full impact of the drop in light liquid paraffin prices has yet not been seen in the P&L due to the stock we have built up during the first quarter, but consumed in the second quarter. The complete impact should be seen during in the first quarter as we continue to buy stock at the current low rates of LLP.

As against this price of vegetable oil has risen from Rs.73.15 per kg to Rs.82.02 per kg this quarter. The acquired a brand Nomarks has closed the quarter with turnover of 10.3 Crores. This is a 26% drop in turnover during over the same quarter last year. As explained in the last quarter's conference call we have entered second phase of the process of integration of the brand into Bajaj Corp portfolio.

We are attempting to convert this brand from problem solution brand to mass distributed cosmetic brand. As a result there is a drop in sales due to rationalization of the rate, that means reduction in the number SKUs being sold and also reduction in stock at the distributor levels. As per Neilson the offtake of this category, which is anti-blemish category as well as the brand is very encouraging. The anti-blemish cream category has grown by 23% in the period April to August of 2015. Within this category Nomarks continues to be the No.1 brand and has shown growth of 45% in off takes during in the same period.

The market sale of Nomarks cream within the anti-blemish cream category stands at 16.6%. In the face wash category the growth within the anti-blemish subcategory is 34%. The growth of Nomarks Face Wash is even better and it has doubled its offtake over the last one year. The market obviously is very fragmented and except the leader all the brands has a market sale of less than 6%. In other area of focus is our international business. During in the quarter we have added six new countries to our international footprint, registration of Nomarks brand across countries is on and we will now be taking this brand into the African continent as well as CIS countries. Our brands are now available in 34 countries all over the world.

Though in a nascent stage most countries are showing encouraging sales especially for the Nomarks brand. The cause for concern is basically Nepal. This again after a period of one year the political turmoil has hit us in August and September of this year. The environment continues to be tough and volume growth are hard to come back with our lead brand we continue to focus on building the brand through a combination of advertising and distribution. On the other hand, the learning from the assimilation of Nomarks into main streams distribution system continues.

In comparison to the growth for last year, this year is a small plus, but positive improvement. In April, August this year the overall hair oil growth stood at 0.5% as against the decline of 5.5% during in the same period last year; however, if you compare the quarter's growth against the growth in the first quarter of this year there are no signs of improvement. Growth basically comes from urban sector, which has picked up, but the rural sector growth is still a

disappointment. The different between urban and the rural growth which used to be greater than 10% is now just 4%. This is because though urban growths have been taking up, the growths in the rural areas have been slowing down significantly.

Under the current circumstances, I do not see much scope of improvement in volume in the next quarter. We are now open for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** Congrats on a good set of numbers. Sir, my first question is can you give us the secondary volume growth for this quarter please?

**Sumit Malhotra:** This quarter are secondary volume and grown at 9-odd%.

**Percy Panthaki:** So very similar to what we saw for the primary?

**Sumit Malhotra:** Yes. Just to put this into perspective. We sell on cash. The difference between primary and secondary can happen in one quarter but normally you will not see a major difference between primary and secondary.

**Percy Panthaki:** Right Sir. Secondly, just wanted to understand the base effects in ADHO. So in the first half of last year your volume growth was about 3% and on that base first half of this year you have grown by about 8% and 8.5%. In the second half that base-jumps up from 3% which we saw 21% approximately. So growth of about 17% points in the base. So in that scenario do you see some effect on the Y-o-Y growth that you can post in the second half of this year?

**Sumit Malhotra:** It all depends on what you are looking at. You look at the base effect in the first half of this year versus first half of last year. If you looked at first half the second half of last year versus the second half of the previous year you will realize that actually in the year 2014 there was a decline. So base effect and therefore growths are really not too much of thing to read in and especially when you talk about primary and secondary. Growth you should concentrate on offtake basically because that is something that will tell you the future of a brand. If you look at that kind of a thing second half of last year's offtake growth were not very, very encouraging. It has improved but not very much the growth was something like 3% to 3.5% in light hair oil. It is already 6.5% to 6.7% in this half. So I expect that to be something like between 8% and 9% in the second half this year.

**Percy Panthaki:** Right Sir, but in terms of your reported numbers, I just wanted some clarity. So for the purpose of sort of estimating my numbers and my model for this full year basically you are saying that in the primary sales even though the base effect is there it should not matter because that base effect again is caused by the FY 2014 and therefore in FY 2016 everything should be normalized and whatever growth you have been able to post in first half should continue for the second half. Is that understanding correct?

- Sumit Malhotra:** We do not give guidance and the reason why we give such an elaborate investor presentation is that we leave that estimation to you but having said that what you are saying is more or less what will happen?
- Percy Panthaki:** Lastly on Nomarks, I understand the logic and the philosophy behind the move and what is actually happening but could you give us some idea as to how long this near term pain can continue for how many more months or quarters?
- Sumit Malhotra:** I had said in the last quarter that it would take another two or three quarters. I stand by it. I think it will take another one or two quarters more. So hopefully the end of third quarter early fourth quarter you will see some kind of improvement.
- Percy Panthaki:** That is all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Thank you very much for the opportunity. Sir two questions from my side. My first question is on our ANP expenses and I would like to get your thought process on the same. If I look at our absolute advertisement expenses this quarter it is probably in absolute term one of the lowest in the last six quarters and if I recollect right you have indicated on the last conference call that our new ads for the Nomarks personal face wash will start airing sometime in July. So if I strip that out it essentially means that the core category advertising in absolute terms is probably one of the lowest and if I also look at our promotion expenses in a weak quarter this quarter in absolute terms it is marginally down from the run rate of the last two quarters. So I would just like to get your thought process on the moderation of this A&P expenses essentially in a slow volume quarter?
- Sumit Malhotra:** Karthik, I think you have brilliantly split the A&P. You have split into advertising on Almond, advertising on Nomarks and sales promotion. I will speak individually on three of these. On Almond we have seen that over the last six quarters we have been pumping in extra money behind advertising. If you recall my saying I had said that advertising is long-term and therefore despite volume not being bullish we still would be putting behind advertising. This quarter the call we took that we were changing the brand ambassador in Almond Drops and also we knew that the volume would not be very, very good and therefore we said that we would save money now to spend it later with the new brand ambassador. Our current brand ambassador was Kangana Ranaut who is no longer our brand ambassador. The new brand ambassador would come from sometime in the third quarter. So basically we have conserved advertising money and put it behind the new ads that would come in the third quarter. In terms of Nomarks the advertising is actually doubled over vis-à-vis the first and second quarter but since it is a much smaller brand and the amount we spend on Nomarks is much less than the amount we traditionally spend on Almond we really have not seen any growth in advertising. The third is the sales promotion. Sales promotion is actually directly linked to the kind of buoyancy you are getting in the market because sales promotion is a short-term exercise. Traditionally the second

quarter has been a very poor quarter for Bajaj Corp and if you look at numbers year-after-year the weakest quarter has been in the second quarter. Basically because of rains and the disruption in offtake because of the new school period and the sowing in the rural area. So we pulled back a little. We did not pull back too much. We pulled back a little on our sales promotion in this quarter.

**Karthik Chellappa:** My second question is if I just look at our volume composition over a period of time I notice that in this particular quarter we have seen some weakness in regions like say Punjab, Haryana or Rajasthan, which is basically like the northern belt is that directly a result of say poor monsoons in some of these regions affecting offtake because the north is still our biggest market?

**Sumit Malhotra:** Yes but not 100% true. There are also some other issues related to basically you will notice that these are the traditionally big market for lifesaver and in traditionally big markets the dependency on wholesale that is indirect distribution is very high in these markets. What has happened in this quarter and I have said it in the previous concall also one of the big difference between whenever we used to get a slowdown and now is actually the money supply in wholesale. The money supply in the wholesale has been constrained because they have not been getting money from the retailers and therefore whichever states depend more on indirect distribution has got hit worse than states like let us say West Bengal or Bihar, which is more retail oriented and direct distribution oriented market.

**Karthik Chellappa:** Thank you very much Sir and just housekeeping question. Can I have the gross margin for Nomarks for the quarter?

**Sumit Malhotra:** 64.5%.

**Karthik Chellappa:** Thank you Sir and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Jay Modi from Emkay Investment Managers. Please go ahead.

**Jay Modi:** Good afternoon Sir. Thank you for the opportunity. I just had two questions. One is that if we see historically second half over first half has recorded growth of 17% to 20% in sales. Do we expect the same to continue for this year as well?

**Sumit Malhotra:** All things being equaled, yes. This data is there for the last 14 years that I have data on and I do not think this year is very different from that until there is a massive drought or something in the area, which I do not think, that should be there.

**Jay Modi:** Second question being has price difference between light hair oil and non-light hair oil been decreasing?

**Sumit Malhotra:** Light hair oil and coconut has been decreasing.

- Jay Modi:** So the difference between them has been decreasing right?
- Sumit Malhotra:** Yes and coconut not Amla or cooling or ayurvedic oil.
- Jay Modi:** Thank you. That would be great.
- Moderator:** Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.
- Manoj Menon:** Just one question. Recently we saw Dabur actually launching a shampoo named as Dabur Almond while I am not expecting comment from you on the competition per se. The context to the question is that from the consumer mind shape point of view you actually own the Almond proposition. So how do you look at this launch let us say from the point of you that is getting more fragmented you get some positive sort of it, just some comments on the proposition, which you own?
- Sumit Malhotra:** Manoj, we have always been using Almonds in shampoo. I am not talking of Dabur. I am talking of other players also. This has been done to depth in my opinion over the period. The issue is the Almond provides nutrition and the key proposition of Almond is nutrition and the linkage between a shampoo and nutrition is much weaker than shampoo and cleaning and therefore if you ask me Almond shampoo would be a less of pull than Almond Hair Oil.
- Manoj Menon:** Understood. Quite clear. Sir secondly on the light hair oil segment per se Almond probably has got a very high proposition within that light hair oil segment and when I look at it directionally the purposes of some of the other hair oil companies is to largely create more ingredient based differentiation because you already own the Almond I mean or rather from their point of view a competitor owns the Almond proposition. If you could just talk about the difficulties or let us say the easiness in which how easy or difficult let us say for competitor to create new or even for you actually to create new ingredient based differentiation in the market today in light hair oil?
- Sumit Malhotra:** I will answer this in two parts Manoj. One is why do you need differentiation and second how difficult is it to create differentiation. First if you look at the hair oil industry you will see that each segment is dominated by one player and the reason why this happens is because until you have a differentiation, you cannot create a market leader or a big brand and therefore the moment a guy creates a differentiation, he actually ends up creating a brand. So if you need to make another hair oil brand big in India, you have to have a differentiator brand and the most recent example is the ayurvedic hair oil category where the differentiation is ayurvedic and therefore that creates that category is now around 2% or 3% of the total branded hair oil category. So that is what I have to say about the need. How difficult I think to explain that I could take the case study of our own brand Kailash Parbat. We tried creating a differentiation ingredient based by putting sandalwood, which we thought was a very easy proposition for people to understand because sandalwood meant cooling and across India sandalwood is known. You do not have to explain what sandalwood is but the problem occurs when you do not get trials because until a guy trials it and please remember even after trying only around 10% to 15% people reuse the

brand. So if I get 100 trials we actually only get some 10% conversion in the sense of long-term. So to create that you need to communicate much more and when you have a big player like in light hair oil Bajaj Almond Drops to get a noticeable communication you have to spend many times the amount spend by the market leader with the small brand which has just been launched there are a very, very few people if at all, very, very few companies if at all in India who do that and unless you do that you do not create a differentiated product and if you do not create a differentiated product you cannot create a big brand in the hair oil industry.

**Manoj Menon:** Fair enough. Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

**Ashish Kacholia:** Good afternoon Sir, I have two questions. My first question is if you can give us a subjective assessment of the Nomarks brand and how do you see the shaping up over the next few years?

**Sumit Malhotra:** Ashish, Nomarks we got because it was in a category that was very nascent. It was a small category but growing very fast and we thought that if we can convert this from a chemist or a problem solution driven brand to a mask brand where we have distinct advantage in terms of distribution it would help us grow the brand much faster. In the first stage that is the market growth like I said in my concall both cream and face wash markets in the anti-blemish category are growing very fast and therefore our calculations have been vindicated. The second is the conversion from a problem solution that is the chemist driven brand to a general brand is what is taking place at this point of time. We are very, very hopeful behind this brand and like I said that when we took over the brand the biggest strength of this brand is the brand name and is very easy for a person to explain what Nomarks is. I think what we need to do is continue sustained communication and move this brand into grocers or general merchants across India.

**Ashish Kacholia:** Thank you very much and my second question Sir is basically how are you addressing the organized retail market particularly for Nomarks. I mean Almond Drops is also well established but are you being able to leverage our presence with Almond Drops to kind of get a better positioning and better what you say visibility at the point of purchase in the organized retail for Nomarks?

**Sumit Malhotra:** Yes and no. Yes we are fact that Almond Drops is the big brand in most of the grocers and general merchants if that much more easier to place Nomarks but you should realize that the numbers are yet not the scaling up yet not as per our satisfaction. We cover around 6.5 lakh retail outlets directly and in Nomarks we are close to only 4 lakhs. So we have not been able to place in all direct outlets as yet so that is actually related to how fast the category will grow because the retailer will not stock a product that does not sale and if the category is not big enough it is a clear indications that the number of consumers buying this category is not that big but between the cream and face wash, face wash is much more vibrant and therefore is growing at around 35% odd and therefore you should see bigger traction in face wash.

- Ashish Kacholia:** How satisfied are you with the progress of Nomarks face wash and are you happy with the level of investment that we are doing. Is there a chance that we have under investing in the Nomarks franchise as of today?
- Sumit Malhotra:** I do not think we are under investing. Our ASP to sales is close to 40% to 45% already. So under investment is not what we are looking at, but building consumer franchise is always a very pain-taking thing. Getting the right communication, passing on the right message and getting enough people to see it. All three are fairly complicated targets.
- Ashish Kacholia:** One last question Sir on the organized retail bit. Do we a position in our organization, which is kind of looking at assuming that the organized retail is the future for many consumer brands or is it only likely to increase as a percentage of overall sales? Do we have vertical or some dedicated person who is looking at the channel for us?
- Sumit Malhotra:** Ashish, we started this three years ago when organized retail for my company was just 1%. Currently, we have a head for organized retail. He is from Reliance Retail. He has been with us for over two years below which we have managers, which we have eight of them, below which we have sales officers where we have 36 and below which we have promoters, which are currently at 140. So if you add that all up you are talking of an organization purely dedicated to organized retail, which is around 200 odd people.
- Ashish Kacholia:** Is that enough?
- Sumit Malhotra:** There is always return on investments that I keep looking at Ashish. For the current returns that we are getting, I think this is more than enough but as we go along we are increasing this in terms of the larger investment is happening in promoters and as we go along in the open form and outlets we have seen more promoters selling Bajaj, Nomarks and Hair Oil there.
- Ashish Kacholia:** I think that is going to be really important. All the best Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.
- Ritesh Vaidya:** Sir, I have just two questions. The first one being wanted to know for the anti-blemish category for the face washes and cream such for the category as a whole how much of the sales happened through the chemist channel and how much through general trade?
- Sumit Malhotra:** It depends cream as much as 60% sale happens to the chemists channel and the reason is that in the time that Nomarks was not really pushing stock the new brands were basically chemist driven brands like Mela or Mederma or Noscar all these were basically promoted through chemist. So 60% of that happens in chemist. In terms of face wash the number would be close to 10% to 12%.
- Ritesh Vaidya:** So creams are more of it is doctor allocated way of using?

- Sumit Malhotra:** No, it is word of mouth.
- Ritesh Vaidya:** Only word of mouth and as you is focusing more on face washes so you are trying to shift the focus from chemists to general trade. That is what you are trying to do?
- Sumit Malhotra:** Face wash even for cream.
- Ritesh Vaidya:** Even for creams and how easy that is going to be because as you said right 50% is happening through chemist?
- Sumit Malhotra:** Companies have actually been built on this success itself. There are very many. For example there have been many chance that have actually made it big by the shifting distribution. So it is a critical thing but it is a very difficult long drawn out thing and that is why if you keep asking every quarter what is happening I really would not have much to say because I am not only got to shift distribution and shifting distribution actually means pulling in more consumers to buy it from grocers and pulling in consumers means more and more communication and more and more communication means much higher ASP to sales spend all of which is very, very time consuming.
- Ritesh Vaidya:** The second question would be is there a particular number that you look at when as you said that the price of coconut oil is increasing so is there a particular ratio at which of Almond Drops Hair Oil versus coconut oil?
- Sumit Malhotra:** No we do not segregate the coconut oil.
- Ritesh Vaidya:** No, I am saying where coconut oil consumer find it more reasonable to make the shift or to premiumize to Almond Drop I mean this is very numeric thing but is there?
- Sumit Malhotra:** Consumers do not behave numerically. They do not say that okay it has gone up from 35 to 36, I will shift, yes it does increase but how much, at what thing is the matter of many, many pieces that are at our business school for marketing.
- Ritesh Vaidya:** Thank you.
- Moderator:** Thank you. The next question is from the line of N Prakash from B&K Securities. Please go ahead.
- N Prakash:** When can we expect the IT Infrastructure at the distributor point and for the field force?
- Sumit Malhotra:** We already got around 360 distributors live on our thing. This is out of around 1900 direct distributors that we have. So we will obviously not be connecting all of that because by the Pareto law 80% of your sale comes from 20% and we are very close to that 20% and in terms of field force the pilot project has already been started in Bombay. It will take easily a year for it to go national.

**N Prakash:** I knew Sir it would be unviable for your entire gamut of the distributor place but at least the urban place where we can get the complete visibility?

**Sumit Malhotra:** I am only talking about the urban because what we have done is the rural goes through a model, which is called super-stockiest. You have super-stockiest who are mini-CNS who supply to the rural. All of the super-stockiest in India are already linked real time to our IT infrastructure. So 360 that I was talking of are basically the urban distributors and we have started from metros downwards and beyond a point again it becomes very difficult for you to invest that much for a very small area. For example in Maharashtra, Satara is the direct distributor but it might not make sense because his total sale would be less than lakh a month. So that is why the Pareto law works when I am talking of and I am talking of only that the direct urban distributor. The rural guys have already been on stream through the super-stockiest model for more than an eight and a half now.

**N Prakash:** What is the billing software now using for the distributor Sir?

**Sumit Malhotra:** It is an in-house thing. It is based on the Citrix platform developed by a company called Brain Power. He has been running our ERP for the last more than 20 years.

**N Prakash:** What is the IT platform for the primary billing Sir that is Bajaj to distributors?

**Sumit Malhotra:** This is the same.

**N Prakash:** It is the same thing okay we are not into SAP thing?

**Sumit Malhotra:** No not yet but we are planning.

**N Prakash:** Thank you.

**Moderator:** Thank you. The next question is from the line of Mansi Verma from Avvanti Advisors. Please go ahead.

**Mansi Verma:** Thank you for taking my question. Sir I was wondering which regards to your previous comment regarding creating a strong positioning and you mentioned ayurveda has being one of them. So my question pertains to this fast emerging FMCG Company Patanjali Ayurved and how you would view this as a meaningful competitor in your core Almond Drop Hair Oil and also your other categories. Are you seeing any significant competition in terms of pricing, volumes being pushed because you are also available in organized retail now?

**Sumit Malhotra:** Mansi, I would not like to comment on competition on the investor conference call primarily because I do not think this call is to analyze competition. It is to analyze our earning. In terms of the impact on Bajaj Almond Drop at this point of time it is not yet seen because this is viewed as more ayurvedic, more a medicinal kind of a hair oil that was being launched by Patanjali and if you notice the model that they have is basically they are coming into every category. So they are

not actually not concentrating on one category and making it big. It is directly opposite to what we are doing. We concentrate on hair oil and now skin cream and they have been launching starting from Maggie to cow ghee to hair oil to shampoos everything. So their model is different. So yes they will obviously become big because they are launching everything everywhere but impact on Almond Drops I have not seen it as of now.

**Mansi Verma:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Dinesh Mehta who is an individual investor. Please go ahead.

**Dinesh Mehta:** Good afternoon Sir and thank you for this opportunity. Sir my question was with regards to if you could elaborate on your purchase strategy with regards to LLP. You had mentioned in the first quarter call that given prices had come off there are no long-term contracts that are being done and you were kind of pre-buying into Q1 is that in similar strategy that you are adopting given prices have come off further. Are you kind of increasing that aggression or you just looking to do it one quarter forward?

**Sumit Malhotra:** You can only do more than one quarter forward if you entered into a forward contract because please remember you have to have a huge storage capacity if I want to buy for a year. On an average we buy around 1100 tonnes of LLP every month. So if I were to create a capacity for a year, I would have to have storage capacity of 15000 tonnes and that kind of a capacity except may be petroleum companies nobody builds. So we have currently we have around 3500 to 4000 tonne storage capacity, which we keep on buying and keeping stocked and in my concall I said that we are actually covered for the third quarter that is what the storage is and since the rates are down and coming down even further whatever capacity or whatever storage we get we keep on filling it up again and again but to give you an indicator nobody as of now is doing a forward contract on LLP.

**Dinesh Mehta:** What would be the current pricing trend as of now?

**Sumit Malhotra:** If you notice second quarter was Rs.58 approximately Rs.58.8 a kg. We are currently buying between Rs.52 and Rs.54 a kg landed.

**Dinesh Mehta:** Thank you very much Sir and all the best.

**Moderator:** Thank you. The next question is from the line of Krunal Shah from Amideep Investments. Please go ahead.

**Krunal Shah:** Sir, one question what would be our tax rate guidance going forward?

**Sumit Malhotra:** I think it would remain the same as between 20% plus and plus, plus because at this moment we are still in the MAT range and next year we would get out of the MAT but we would start setting of whatever the tax we have paid in the first five years.

- Krunal Shah:** Would it be safe to assume next three, four years around MAT rate?
- Sumit Malhotra:** Not three, four depends on the growth see because if I grow faster than what I am my tax credit would disappear faster. So I think it will be safe to assume two years, 2.5 years past three years.
- Krunal Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ankit Merchant from Khambatta Securities. Please go ahead.
- Ankit Merchant:** I have just one question. Basically, I wanted to understand the oral care segment from you because you have one product in it and would you be looking out for any inorganic growth in this segment?
- Sumit Malhotra:** We have a black tooth powder, which basically sells in a particular community in Rajasthan and therefore my understanding of oral care in Bajaj is not there. Of course I have handled oral care in other companies but I really do not have any update on that. Regarding acquisition in oral care, yes why not because that goes into the same kind of outlook that we are strong in and then there would be a particular synergy. The only hassle is toothpastes are not really growing very, very well. Second, there is a fair amount of competition between multinational and therefore the amount of money that you would need would be significantly higher and therefore if we do acquire a toothpaste brand it would only be a brand which has a very good brand image than latent pull that we can turnaround at a more economical A&P cost.
- Ankit Merchant:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Alok Agarwal from Striver Capital. Please go ahead.
- Alok Agarwal:** I have got couple of questions. First is on the acquisition part itself. I remember when we last met, you have indicated like the big acquisition of Nomarks should happen sometime this year or possibly next year. My question is since you are still grappling with the turnaround of Nomarks and making it some brand of some product of and brand of repute is it delayed for you the acquisition? That is the first. Second one Sir the Nomarks I mean I have seen some soaps also in some of the stores that does not look like to be a focus if I take face wash and the Nomarks cream as the category for you can it be 200 to 300 Crores product for you or brand for you in next two to four years?
- Sumit Malhotra:** Four years yes I would hope because remember both of these categories that is cream and face wash will remain very fragmented and the reason why it is fragmented is because the category itself is fairly nascent, new and therefore if you as a customer do not know about a category you would not have loyalty. You would keep trying out new brands and therefore the whole category becomes fragmented and therefore the amount of investments that you put behind the category will yield category growth first, not necessarily growth in your market share. It could be the

category growth somebody takes the market share and the reason is because the category is not developed as yet. So if you look at the figures I shared with you cream is growing at around 26% and be around 17% of that market, in face wash we around 6% market share and the category is growing at 35%. So if this does continue you will hit the numbers that you are talking of in three to four years.

**Alok Agarwal:**

Thank you. That is it from my side.

**Moderator:**

Thank you. The next question is the follow up from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

**Karthik Chellappa:**

Thank you very much Sir. Just one follow up on Nomarks. I just want to know at a store level although our repositioning initiative is for the long haul given the sheer breath of SKUs in face wash that is someone like Himalaya has and given that all multinationals have some kind of face wash SKU one way or the other from a self space capturing point of view is it reasonable for us to assume that initially we have to spend a lot more on the trade commissions and channels at least to get our product on the shelf?

**Sumit Malhotra:**

This kind of a market the more important thing is getting consumer trial and like I just said in the previous question there will be a time in your communication could help someone else grow market share. In terms of discounts and all that this is already a very, very cutthroat category. In fact there are many products that again in one plus one three in face wash. We are not getting into that kind of thing. We are not getting into pricing war, we are trying to get into distribution and therefore limited kind of a visibility because like you rightly said there are so many brands that no brands, even brands of deos gets the kind of shelf space they would like to, so we are not fighting that game, we are trying to fight the game of communication and getting the product in the mind of the consumer.

**Karthik Chellappa:**

Sir is it reasonable for us to assume for differentiation point of view, we probably have very little to say compared to the market leader?

**Sumit Malhotra:**

No, I think the big difference is the brand name itself because you do not need to tell someone that Nomarks cleans your skin and removes the brand whereas Ponds or Himalaya does not mean anything, and therefore the category is that they are creating below the mother brand of Himalaya or Ponds or Everyuth. Everyuth is another good brand name, which really has not done too well, but it reduces the amount of money you need to spend on telling the consumer what the brand will do. You cannot have a Nomarks brand, which will give you perfume, it does not make sense. Nomarks means it will remove the marks through cleaning your face from all the dirt and the oils and everything that are there on your face.

**Unknown Speaker:**

Perfect. Thank you Sir. Thank you very much for this colour.

**Moderator:**

Thank you. The next question is follow up from the line of N Prakash from B&K Securities. Please go ahead.

**N Prakash:** Sir you continue to neglect the south region because the contribution again stands at 4% even though I remember last concall you had told that because of the category pull is not there we do not want to concentrate, the same status quo remains because that region is very high potential region?

**Sumit Malhotra:** That is a very loaded question and obviously as the head of an organization, I cannot afford to ignore or neglect anything, the only thing is that if I work on return on investment model since the return is low in the south the investment is equally low, but if you see the ASP to sales spend in the rest of the country, which is around 15% to 17%, in south it is close to 100%. Investment is there, but since returns are low so absolutes are much lower than what you as a consumer or as an independent observer would look at, so I would best to disagree that we are neglecting, we are not neglecting but obviously the optimal spend is not there because returns are yet not as per our expectations and we have other bigger battles to fight.

**N Prakash:** Why I want to raise is that because Dabur was battling seven, eight years back the same situation, south was at the fag end of their growth path, but they did their investments few years back and now south and east is the fast growing territory for them. Is that any cue we can take it from that or because I am not the guy to tell that but just I am looking at the 4% contribution such a company is very low for south that is what I wanted to raise this?

**Sumit Malhotra:** If you have the time and if you have an opportunity you should ask Dabur, what a royal proportion of sales comes from south. You are seeing Dabur as a whole company. It has got many categories some of which are very good in south. Food, south is very big, even your juices, very good market for that there, so there returns are much higher than the returns you would get from hair oil. It is unfair that you are comparing hair oil to Dabur, because in Dabur the part of sales comes through hair oil and as per my numbers it is not very big in the south they had made south as a profit center and done that more than 13 years ago when the current M.D. of Jyothi was the head for south. They have been investing for the last 13, 14 years very heavily in the south.

**N Prakash:** Fine Sir.

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

**Sumit Malhotra:** Thanks once again for logging on to our conference call. I think we have beaten ourselves in terms of closing accounts and having a result declared on the 7th of the month. A lot of credit goes to the accounts team especially Mr. Maloo and Mr. Nagori and all of you would realize what kind of work they have been doing over the last six seven days. The reason that we push this is that we would like to finish all accounts and all the statutory compliances at the earliest and not waste the large part of the coming quarter on the previous quarter's results and kudos to both of them and their department that we have been able to meet it. Yes these are difficult times still. I hope "*Ache Din Jaldi Aayen*," I hope good times come sooner, but we still do not see the



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*October 08, 2015*

"Ache Din," good days as yet. So hope to meet up with you all in a much better situation in early January. Thank you.

**Moderator:** Thank you. On behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines.