bajaj corp limited

October 16, 2017

DCS-CRD BSE Limited First Floor, New Trade Wing Rotunda Building, Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400 023 Fax No.2272 3121/2037/2039 **Stock Code: 533229**	National Stock Exchange of India Ltd. Exchange Plaza, 5th Floor Plot No.C/1, 'G' Block Bandra- Kurla Complex Bandra East Mumbai 400 051 Fax No.2659 8237/8238 **Stock Code: BAJAJCORP**

Dear Sir/Madam,

Sub: Conference Call transcripts

Please find attached a copy of the Conference Call transcripts in respect of Bajaj Corp Limited dated October 13, 2017.

The same may please be taken on record and disseminated to all.

Thanking you,

Yours faithfully,
For **BAJAJ CORP LIMITED**

Hitesh Kanani
General Manager - Company Secretary
Membership No. FCS 6188

Encl: as above

“Bajaj Corp Q2 FY2018 Earnings Conference Call”

October 13, 2017

ANALYST: **MR. ANAND SHAH – KOTAK INSTITUTIONAL EQUITIES**

MANAGEMENT: **MR. SUMIT MALHOTRA – MANAGING DIRECTOR – BAJAJ CORP LIMITED**
MR. DILIP MALU – CHIEF FINANCIAL OFFICER - FINANCE- BAJAJ CORP LIMITED
MR. KUSHAL MAHESHWARI - HEAD TREASURY - FINANCE- BAJAJ CORP LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Corp Q2 FY2018 earnings conference call hosted by Kotak Securities Limited. 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 telephone. 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: Thanks Karuna. Good morning everyone and on behalf of Kotak Institutional Equities, I welcome you all to the 2Q FY2018 Bajaj Corp Earnings Call. We have with us the senior management of company represented by Mr. Sumit Malhotra, Managing Director, Mr. Dilip Malu, Chief Financial Officer, and Mr. Kushal Maheshwari, Head Treasury. I would now like to hand over the call to Sumit for opening remarks. Thanks and over to you Sir!

Sumit Malhotra: Thank you Anand. Good morning to all and welcome to the conference call for declaration of the second quarter results for the Financial Year 2017-2018 of Bajaj Corp. With me is D.K. Malu the CFO and Vice President, Finance and Kushal Maheshwari, Head Treasury and the Head Investor's Relation.

The Company has closed the quarter with a turnover of Rs.204 Crores. The growth in turnover vis-à-vis the second quarter of last financial year is 3.84%. The volume growth is 5.1% whereas in the domestic space the growth of our main brand Bajaj Almond Drops is 8%.

The EBITDA for the quarter is Rs.59.6 Crores, which is a decline of 12.74% over EBITDA of Q2 of last financial year. By calculating the refund announced by the Government of India for units under the excise free zones in Uttarakhand, Himachal, and Assam have not been accounted for.

As the percentage of sales, the EBITDA without the refund being calculated is a very healthy 29.3%, but would have been over 32% if the refund has been accounted for. The profit before tax and profit after tax are Rs.64.5 Crores and Rs.50.7 Crores respectively.

The growth in the hair oil industry continues to be positive. The volumes in the hair oil industry have grown by 6.7% as against 50.6% during the last quarter. The volumes of the light hair oil industry have slowed down a little and slowed down to 2.6% whereas our lead brand Bajaj Almond Drops continues to outpace the light hair oil industry with an offtake growth of 4.8%.

While the restocking at the distributor level, which occurred during the month of June has been restocked. The whole wholesalers continue to be watchful and have not reacted positively post the implementation of GST.

In terms of numbers, we have 22317 wholesalers listed in our ERP system out of which 8801 have not yet started buying from our distributors after the implementation of GST. While the

growths in the hair oil industry is still healthy, the pace has slowed down during the second quarter despite hopes of revival in consumption in the rural area, which has not happened.

The rural volume growths of the total hair oil had dropped from 12% in the first quarter to 4.8% in the second quarter of this financial year. During this quarter two sales verticals namely canteen stores department and international business have shown a negative trend. As a result of the action taken by the CSD, the orders for the second quarter have been slashed drastically despite quite a few canteens going out of stock the central ordering authority have slashed orders and as a result our sales to CSD have declined by 21% in the second quarter.

Remember this is on the back of a 46% decline in the first quarter. The outlook for CSD, which is now under 5% of our total business, does not look very promising for the remaining part of this financial year. On the other hand, international business, which has been a growth driver for our company, had also declined during the second quarter by 15.4%. The regions of MENA have shown the highest decline of 35% led by loss of sales in UAE and KSA.

While we can do about the economics scenario there we are working on restructuring our operations in MENA to get back onto the growth path. With the strain on wholesale channel we had realized the importance of direct distribution would be very high.

We are therefore focused on increasing the number of distributors as well as outlook covers by our field force, which you call direct distribution. As of September the total number of distributors has gone up from 9695 as against 7707 as on March 17, 2017.

This along with the increase in the number of salesmen has resulted in a marked improvement in direct cover by our team force. In terms of cost of raw materials and packaging materials, the strain continues. There is a slight reduction in the prices of LLP as well as refined mustard oil during the quarter as against the price of Rs.58.28 per kg in the first quarter the average purchase price in the second quarter is down to Rs.51.80. This is much higher than the Rs.44.55 per kg that was the purchase price in the second quarter of last financial year.

There is as marginal change in the RMO prices during the quarter. We believe that the crude oil prices will not fall in the foreseeable future and we have started at the present market prices. Currently, our LLP stock will last us till the end of December 17, 2017.

In Nomarks we had a poor July 2017 destocking and therefore restocking was not significant for this brand. However August and September have seen a marked improvement.

As a result of this the second quarter of this financial has shown a much better trajectory than the previous quarters. The sale of Nomarks cream, which is being actively promoted, has grown by 48% in this quarter. The main growth coming from the Hindi-speaking belt where advertising is being focused, but we are more or less at the end of the opening address.

The only two points that I wanted add to the opening address was one is the confusion behind the implementation of GST even though the Government of India have extended the dates for filing GST returns for July and August most of the distributors are finding it very difficult to file the GST return.

On the other hand, even though most of the wholesalers are registered under GST there still have not yet filed returns. We are hopeful that towards the end of the next quarter we will see more of our channel partners settling down in terms of GST filing and we getting a little more gravity on how to work under the new GST regime. Finally, the Innovations Center we started in April by housing the R&D Center in Mumbai has started working. We have already launched the Brahmi Amla Ayurvedic Hair Oils. In addition to this, we plan to launch at least differentiated and well-researched product every quarter from here on. The next product should be launched in November or December of this year. We are now open for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: This is Percy here. Sir my first question is assuming, I think you have not taken any price changes over the last 12 months, so in that scenario why is it that this quarter your YOY volume growth is higher than your YOY sales growth?

Sumit Malhotra: There are two things that you need to consider. We have taken a MRP drop in our larger sizes that is Rs.300 Crores and Rs.500 Crores implementation of GST basically to get back what we gained in terms of the changes in taxation. The second thing you need to realize Percy is that last year when you looked at the net sales value, which is the turnover it had a component of 14% VAT and that figure is net of tax. This year 14% has become 18% in terms of tax. So you have a negative of 4% in the way you calculate the net sales value as such. So you have actually had a 4% negative because of that and 0.8% to 0.9% negative because of the top end MRP of Rs.300 Crores and Rs.500 Crores.

Percy Panthaki: Sir I understood the drop in MRP part, but the 14% versus 18% I am not able to understand because I am looking at sales net of all types of taxes in the base quarter as well as this quarter?

Sumit Malhotra: But there the taxes were 14%, which has gone up to 18%. Last year it was VAT and VAT on our product is 14% odd and now it has become 18% because the refund of the credit that you take does not go into turnover, it goes into consumption, so we are not talking about net taxes. We are talking of deduction of GST versus deduction of VAT from your turnover.

Percy Panthaki: In that case Sir I am assuming that the price cut was equal to the GST benefit and overall these two are completely offsetting each other and your LLP cost has also gone up on a YOY basis, so in this scenario there is a slight gross margin expansion, which I am not able to reconcile why it is an expansion in that case?

Sumit Malhotra: Percy if you listen to me a little more carefully I said that the input tax credit is removed from the consumption, so even though the LLP prices has gone up, but the input tax deduction has caused our gross margins to expand, so this quarter for all companies are going to be a little difficult in terms of understanding the PNL because a lot of things have moved from our June quarter.

Percy Panthaki: Second question Sir is on the overhead, so your salary cost has increased 32% YOY and your other expenses have increased 21% YOY, these are fairly high numbers, so could you explain what is the reason behind these increases?

Sumit Malhotra: I have already said in my last quarter results that salaries have gone up because we are building up our managerial strength. What started as succession planning has now gone into building bench strength may be in all departments and that is the main reason for the salary and wages increase that is shown there. In terms of other expenses, you have things like legal and professional expenses you have things like the extra scales that we have given to our distributors or rents that we are paying all of that has accounted for the increase in the other expense.

Percy Panthaki: Should we take these kinds of increases for the next two to three quarter also in terms of percentages?

Sumit Malhotra: That will be in the long-term thing. In terms of other expenses, we will look at containing plan, but it will not drop very, very significantly.

Percy Panthaki: That is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. Sir just wanted to know if you could share your readings on how distribution is adopting to the changes on account of GST and how far are we from the like-to-like quarter at least on this front?

Sumit Malhotra: Like I said after demonetisation, there will a change in how we distribute. The first change that we have already seen is the shift of the balance from our wholesale to a retail dependency. For example, our case our wholesale was more than 50% of our total turnover, it has dropped to below 40% already. I assume that it is going to drop even further. The second thing that you are going to see more distributors because the only way you can increase direct distribution is by adding people and also by adding distributors closer to the market. Instead of dependency on wholesale, it will be dependency on direct distributors and direct distribution through your own distributors. So like as I said my opening address from around 7700 we have already reached approximately 10000 distributors all over the country.

Tejas Shah: So Sir with this change impact margins in terms of cost of distribution going up?

Sumit Malhotra: Not really because the extra discount you are giving in the wholesale will now be moved into adding manpower, so till the growth come back maybe you will have a marginal impact on margins around 0.75% to 1.25%, otherwise it will go back to normal.

Tejas Shah: Sir any update on tax refund, how do you account for it going forward because I think this was just first quarter, so we took conservative stands on margins?

Sumit Malhotra: Tejas, the three types of tax returns, one is one-off and the other is continuing. The one-off one is what you called transition credit right. Now transition credit is the difference tax that you are paying versus you had already paid for the opening stock on July 1. Now this stock was at the depot and at the factory that we have already accounted for. The second is the input tax credit, which is the direct law from whatever you purchase the tax that you have paid on your purchases you can deduct from your total tax that you pay. The third which is the big one for us is the CGST tax refund that was announced for all units that were operating in Jammu Kashmir, Himachal, Uttarakhand and so on that has yet not come in, even though the government again and again says that you will be getting it the real gazette or the note had not been given even if you look at DIPP website it says that it is moving to be given from the procedure is not yet gratified. Once that comes in, that will start coming into us P&L. We put a conservative stands in not taking that as when approved expenses. So when it comes up hopefully in the second quarter you will get that credit in our P&L account, which will go directly from the consumption. You will not have the separate line item; you will take it through other operating income.

Tejas Shah: Sir lastly if I read through your commentary, two of the channels were severely impacted in this quarter. One was CSD and one international business, in spite of that if I do the math, let us say 25% degrowth in 4% channel and IB also there was also severe degrowth so it leads to conclusion that general trade and domestic business in general was not as bad as the overall number appears to be or recovery was much more sharper than what it suggested, is that a fair assumption?

Sumit Malhotra: You are right. If you realise that in the earlier presentation we had not put it. So if you see the sales website we have added the version 1 and we have added the channel wise growth so you will get a much better idea to help you out and this is for everyone last quarter the domestic business declined by 5.1% and this quarter it is growing by around 7.4%. The string is 12.5%, which is fairly high.

Tejas Shah: Is the sustainable Sir according to your read?

Sumit Malhotra: I think it is because this has come on the back urban growth and not really rural recovery and I am hopeful that there will be rural recovery either in the next quarter of the quarter after that, so that is also happens along with the urban growth that you are presently seen, you will see a much better swing here.

Tejas Shah: Thanks a lot and I will come back with few more questions Sir.

Moderator: Thank you. Next question is from the line of Amit Kumar from Investor Capital. Please go ahead.

Amit Kumar: Thanks. My question has already been answered. Thank you so much.

Moderator: Thank you. Next question is from the line of Ajay Thakur from Alder Capital. Please go ahead Ajay Thakur from Alder Capital.

Ajay Thakur: Thanks for taking my question. I had the question on the rural market. If I remember correctly Sir you mentioned that the rural markets have been weaker, so what would be our urban and rural growth for the quarter and how has it been for the industry also. We are seeing that industry also a similar kind of a rural market has been softer for them as well, so if can give some details on.

Sumit Malhotra: How do define the industry?

Ajay Thakur: It can be either for FMCG market as a whole or you can just take for the hair oil market?

Sumit Malhotra: The hair oil market because I do not have know whether the FMCG industry, that does not give that data and these are offtake data that I am talking off and not sales data, right. So if you look at the total hair oil industry, the growth was 6.7% as I said in my opening address right, rural actually grew well in the total hair oil, which is 9.4%, whereas in our case, rural grew by only 2.9%, so the growth in the light hair oil is actually slower than the growth in the total hair oil in the rural areas.

Ajay Thakur: Okay and is it because of one particular reason, is it because of these actually in some of the other issues, just trying to understand better?

Sumit Malhotra: See this will not only because of supply chain because supply chain would affect all the brands, and not our brand alone, more to do with economic scenario which basically people are still looking at the lower cost products than the rural.

Ajay Thakur: Sir if I would just look at the outlook you have already mentioned that good monsoons possibly you could have the sales pickup in Q3 or Q4, but if I want to understand this if the rural market is to bounced back and what kind of pipeline we have in these markets if you can throw some light on that front because we understand that you also actually come off by the way, you mentioned it is already 40% now but because of the good monsoon if you have the rural momentum coming back and we expect the momentum to shift very sharply?

Sumit Malhotra: Basically, there are two parts, one is obviously wholesale, but like as I said in my earlier commentary the direct distribution will become a more important part and if the rural areas if you do not have the wholesale, you will have to have the much more distributors in the rural areas. The large increase in the distributors that you see in the last three year six months is because that we are pushing in more direct distributors in the rural area. I think that needs to continue to be able to take the benefit of the rural growth that would come in close to the harvesting period.

Ajay Thakur: Thanks Sir.

Moderator: Thank you. Next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Thanks for the opportunity. Congrats on a decent volume growth number. Typically FMCG seems hockey stick kind of recovery, what would variable you think are critical to this over the next few quarters, which will get us there?

Sumit Malhotra: I think the hockey stick happens to look FMCG is all about consumers, right and hockey stick will only happen if the consumers come back to the bullish of the purchased behavior that was there prior 2012. In that sense like inflation, economy recovery, rural recovery all of these are various factors that cause the hockey stick because I strongly believe that consumer wants to buy he/she is delaying maybe purchase or switch in a brand basically because of the uncertainty, so if there is a most certain environment that is he/she is sure what growths are going to come in terms of his/her salary or his/her earning capability, growths will come back.

Prakash Kapadia: Typically Sir to counter that some of the other categories footwear apparels are seeing decent traction on the rural side, obviously this is not being seen on the hair oil category despite smaller SKUs being the larger contributor there, so what are we missing Sir in that context?

Sumit Malhotra: I do not think the missing because it is not that there are other competitors that are doing exceedingly well, I think what is happening...

Prakash Kapadia: I meant is from the hair oil category, not necessarily for us Sir.

Sumit Malhotra: See the difference is the penetration, if you have a category, which is 92%, penetrated; it is not about new consumers. It is about existing consumers buying more or moving between brands whereas in things like footwear or apparels, it is about new customers, so if I have a shirt he/she buys one more shirt, even mobile phones so that matter I replaced my mobile phone and therefore a new purchase takes place. In this case it is about regular consumption. I think you are comparing two different categories for example yesterday we are comparing cars and scooters versus hair oil, you cannot compare the consumer purchase behavior of these two categories.

Prakash Kapadia: I understood and Sir with our increase focus on direct distribution going forward the endeavour is to ensure more sustainable growth and reduce volatility in sales. Is that the key objective by investing financing our brands?

Sumit Malhotra: That is the secondary objective, but the primary objective is to be able to reach as many people as possible because you should remember that there are two things that drive FMCG growth, one is communication, the second is distribution and therefore distribution or reach and therefore increasing the reach of our direct distribution is very important because otherwise you would loose a bit of what you are communicating because you cannot control the reach of the advertisement. So this was for the product and find the product because of the proper

distribution, you will be loose that much, so I think it is more to do with loosing or containing the losses of the reaching people that are not covered by distribution which is the more important point.

Prakash Kapadia: I understood Sir. Thank you. All the best.

Moderator: Thank you. Next question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.

Alok Shah: Thanks for the opportunity. Sir I just want to check where we are taking about our volume growth, so for H1 our volumes have largely declined by about 1.5% and the decline has also be in our Almond Hair Oil category. Now if I look at the market share, your market share is slightly improved, so how we are reckoning that means the LHO category has degrown because I remember you are saying at this start that overall hair oil is grown by about 6.7% and whereas LHO was grown by about 2.3%, so how does it you can say sort of?

Sumit Malhotra: Again we are comparing two very different things, you are trying to compare offtakes with our sale figures, now if you are doing that during the period of GST or demonetization, there is no way you can reconcile that kind of a thing because you remember that something called destocking in between, and therefore the difference between what I sell, which is the minus 1.5% and what the consumer buys, which is the 4.8% growth, it is actually amount of the destocking that has happened in return or like-to-like if you look it there is a growth which is for light hair oil is 2.6%, for our brand in terms of offtake is 4.8%.

Alok Shah: Thank you.

Moderator: Thank you. Next question is from line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Good afternoon. Thanks for giving the opportunity. Sir my question is on Nomarks. We have seen that trend in sales is improving and in Q2, the sales volume though they have declined, the decline is much lesser than what it was in Q1, so considering this trend should we expect Q3, Q4 to be much better considering the low base of H2 FY2017?

Sumit Malhotra: I can say yes, not because the only because of the low base, but because we are now moving into more settees with the concentrated chemist plant that we had, and therefore because the base will become bigger, advertising will also go up, so rather than the base I am depending on moving into other states and metro cities as well as increased expense on advertising.

Kaustubh Pawaskar: Sir, can you just let us know where are the Nomarks presents in terms of states and cities, how much you are covering?

Sumit Malhotra: At this moment, we are covering everywhere in India. I am not talking about coverage, I am talking about our focused distribution plant that if you remember I have started in two states

right, now I am moving into larger number of states and obviously for competitive reasons I cannot tell you which states I am in.

Kaustubh Pawaskar: Sir we have seen significant decline in Amla Hair Oil sales volume but your Brahmi Amla volume, the growth is much better, so there is a shift, which is happening, from Amla to Brahmi Amla or it has to do with the category?

Sumit Malhotra: No, it has got to do with our focus, so like as if you go back a few quarters, I was saying that Amla we are trying to grow by pushing the low cost variant, which is more of a strategic decision, it is not a long term bet, because remember Amla is the low cost AHO that you see in that and it is low cost variant of Amla Hair Oil, which is not a long-term proposition whereas Brahmi Alma is the long-term proposition. It is oldest brand then we would like to sustain that over a longer period with a much better market share. So we are not trying to look at very high market share with Amla, but now with Brahmi Amla, Ayurvedic Hair Oil, we are trying to focus on getting back bigger market shares.

Kaustubh Pawaskar: Sir just want to understand the CSD part as you explain that it will take time for CSD to come back in sales, but if looking at the revised presentation what you have uploaded now the decline in sales was 46% in Q1, it was 21% in Q2, so there is an improvement, but you do not expect that to recover quickly in the coming quarters, just want to understand that part?

Sumit Malhotra: I did not say that it will take a long-term and saying in the next two quarters, I do not look at recovery in CSD and the reason is not because of offtakes, it is because of the policies the Ministry of Defense and Canteen Store Department is following. They want to reduce the kind of outflow, the kind of money that is being spent on CSD, first they are trying to reduce the stock, which was what happened in the Q1. In Q2, they are trying to reduce the number of outlets itself, so what they are basically saying is that the canteens that are below a certain threshold will be closed down. The statements that are coming out of Ministry of Defense appears to state that they are not very interested in running the CSD for a very long period and therefore that this is the intension that you will not see growth coming in the next two quarters.

Kaustubh Pawaskar: Thank you.

Moderator: Thank you. Next question is from the line of Ritu Chaudhary from Trust Capital. Please go ahead.

Ritu Chaudhary: Sir I have questions regarding that hair oil market. Sir I have tabulated some numbers, so I will go line by line, so in H1 FY2017 the hair value growth was 12.7%, am I reading right?

Sumit Malhotra: Yes. You are reading from the presentation.

Ritu Chaudhary: Yes and the volume growth was 11.8%. Similarly, LHO market value growth was 7.1% while volume growth was 6.8% in H1 FY2018, then ADHO market it has grown by 9.2% in value terms and volume terms it has grown by 8.6%?

Sumit Malhotra: What is the point you are marking can you come to the point?

Ritu Chaudhary: Okay in Bajaj Corp, Bajaj Corp value growth was 0.7% in H1 FY2018 and volume growth had declined by 0.2%, so I just wanted to say that market is growing, ADHO market has grown from 9% while Bajaj Corp ADHO has shown only 0.7% growth, so do you think it is the market has grown because of other peers because they are aggressively adding value to it?

Sumit Malhotra: If that were the case our market share would have fallen.

Ritu Chaudhary: So in that case also if I see 77% Bajaj Corp earlier in H1 FY2017, it has dropped to 71% in total ADHO market?

Sumit Malhotra: Where did you see 77%?

Ritu Chaudhary: 77% in ADHO, ADHO market value in FY2017 was Rs.480 Crores.

Sumit Malhotra: Where did you see 77% market share of ADHO?

Ritu Chaudhary: Sir, if I calculate H1 FY2017 value of ADHO?

Sumit Malhotra: We have given you the volume and value market.

Ritu Chaudhary: Sir that is not, I am not talking LHO, I am talking ADHO market?

Sumit Malhotra: ADHO is a brand, how do you have a market share of our brand in a brand. ADHO is not a category. ADHO is Bajaj Almond Hair Oil.

Ritu Chaudhary: Sir I understood that. I am talking about Almond Drop market, in presentation your have given?

Sumit Malhotra: Yes.

Ritu Chaudhary: Almond Drop Hair Oil market value terms Rs.480 Crores in H1 FY2017

Sumit Malhotra: Now I understand.

Ritu Chaudhary: Now you are given Rs.524 Crores.

Sumit Malhotra: Ritu, if you had looked at four questions ago, I was always telling you, you are comparing two different things you compare, my growth vis-à-vis offtake growth. My growth includes IB, CSD, Modern Trade and Domestic Business and that is my turnover and what you are looking at you are looking offtake of domestic consumer business. If you compare these two, they will never reconcile. Like I have always been telling you analysts, is look at trends, do not look at absolute numbers, because tomorrow you will come back and say that 570-odd kilo liters have been sold where is the sale in terms of your sales to your distributors, it will never match.

Ritu Chaudhary: Sir, there is one difference because even Almond Drop Hair Oil market has grown by 10%, we have grown by 0.7%, how should I read it what should I understand from these numbers?

Sumit Malhotra: You cannot look at both. You should either look at only general trade turnover over a long period. For example, demonetisation the offtakes continued and our sales were any brand sales dropped because there was destocking. Again in June, July we had the same thing all over. If you are try and reconcile these figures, you will not be able to do it and that is why lot of people are telling me do not give these numbers, because you cannot understand these numbers.

Ritu Chaudhary: So then there is no correlation between the two?

Sumit Malhotra: There is no correlation if you start analyzing it quarter or half yearly. If you analyze it over a longer period, there is correlation, because unless there is some product in the market, the consumer cannot buy, but if you start analyzing every quarter you will not get any correlation.

Ritu Chaudhary: Okay, fine. Sir my second question pertains to employee cost. So we have seen a runrate of 20% to 25% growth every quarter. So how do we look forward in the coming quarters, do we expect it to lower down?

Sumit Malhotra: Since when have you seen this 25% every quarter? How many quarters back have you gone?

Ritu Chaudhary: Five quarters at least.

Sumit Malhotra: It was not 25% growth five quarters ago. It was started last year and therefore four quarters that you have looked you will see and the answer is very simply that at this moment we are trying to build our bench strength. We are trying to get more capable people and more people in our whole structures, because this was largely a sales and marketing organization now we are trying to build our back end also which means getting more qualified persons.

Ritu Chaudhary: We are still at the building stage and we expect this runrate to continue in the coming quarters?

Sumit Malhotra: Yes.

Ritu Chaudhary: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Couple of questions. This GST refund under refund for the tax exempt locations, so this Rs.6.4 Crores, which you have mentioned, so this is something which have not booked in this quarter, but would have got booked had the refund happened?

Sumit Malhotra: Yes and the reason we have not booked us, one is the official gazette or notification has not happened. Second like everything that Government of India does they changes the way they want

to calculate because they said that we would get 58% of Central CGST value, now they think that when we have 58% of CGST minus the refund that we have already claimed through input credit everything. So we have not sure what will happen, as of now it is 6.4%.

Arnab Mitra: And this 6.4% would assume the original 58% of CGST is coming or x of refunds?

Sumit Malhotra: X of refunds. We are in our company look at it very conservatively, but we have taken CGST minus input credit as such, if I take CGST alone it would close to 8.5 Crores.

Arnab Mitra: If this refund was to come this gets booked you are saying in the raw material cost or in some other line item?

Sumit Malhotra: No, other operating process.

Arnab Mitra: Second question, I know, you may not exactly have data on this, but across your entire distribution chain distributor, wholesaler, retailer, do you have sense whether June 30, 2017 to September 30, 2017, has there been increase in the stock levels and is that part of the 7.4% GT growth that you have reported or do you think that there will not be much of restocking anywhere in the channels?

Sumit Malhotra: No, we had exact figure, because please remember one major difference and another addition to cost is automation, so now I have stock in my depot, I have clear visibility as well as stock at my distributor level. So restocking has happened, and the distance between 7.4% domestic growth and offtake growth of 4.8%, this is the Almond Drops growth this quarter is a part due to the restocking. So it is not that restocking has not happened between June 30, 2017 and September 30, 2017, actually it happened largely in July itself and that was what was very surprising that restocking happened whatever was to happen actually happened in July. What has not come back is basically the wholesale stocking because like I said at the beginning we had around 22000 wholesalers who used to buy and sell our stock out of this 8800, I have not yet bought post GST implementations.

Arnab Mitra: Thanks Sumit. That is it from my side.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Just a couple of questions. If I look at which are the way the rainfall has shaped up, so overall it may be a deficit of 6% or so, but if I look at the food growing states, there the deficit is like upwards of 20% in several of the food growing states, at the same time you are saying that you are very hopeful that rural growth will come back. So I mean if you could just talk about this because I mean it seems that because the food growing areas have not received enough rainfall, they may be an impact on rural recovery so to speak?

Sumit Malhotra: These are both assumption that you make versus I make, but if you go to the field and if you have worked the rural markets you look at sentiment, which is better than the sentiment types of there in the same period last year like October, November the sentiment was not as good as the sentiment that is there now which means that there is something happening in the rural area whether it be despite mediocre range in some areas food grain is good also if you read the statement by the government, they are looking at better harvesting or better production this year right so I am basing my recovery hypothesis on these kind of softer elements rather than exact numbers because that is only get post the harvest and actual production.

Shalini Gupta: Sir we have seen an increase in ad expenses quite a substantial increase in ad expenses and you will said that you will be introducing a new product every quarter from here on so apart from the expenses because of the new products, do you see change in demand for yourself I mean demand trajectory I should say?

Sumit Malhotra: See these new brands Shalini are basically something that you see today so the results will be two or three years from now and a company our size a new launch cannot change the way our turnover breakup happens so demand if I launch let us say Brahmi, I do not see change in demand in Almond Drops, so Almond will remain the core of our company, but to sort of reduce the dependence on Almond these differentiated products will help us.

Shalini Gupta: Basically if I were to just extrapolate what you have said ad expenses are going to continue to remain high through the year?

Sumit Malhotra: Not as close in second quarter, but in our case we have always had very high ASP expenses so far.

Shalini Gupta: Sir one or two other questions in the beginning of your presentation, you had said that had you got that GST refund in this quarter also then your margins would have been higher to around 31%-32%, could you give the exact figure please?

Sumit Malhotra: I do not know how to calculate the exact figure until the government tells me exactly how to calculate.

Shalini Gupta: But you had given figure Sir?

Sumit Malhotra: No I said Rs.6.4 is added and it is not margin, it is EBITDA, it does not go into consumption and therefore margin it is other operating income so it actually has in EBITDA so today let us say 59-odd Crores is EBITDA add 6.4 and then calculate will be around 32%.

Shalini Gupta: Sir you had also given a reason why the gross margins have gone up during the quarter if you could please just talk about it a bit?

Sumit Malhotra: I said that there are two parts of gross margin, one because of the raw material prices increasing. There is negative impact but that was negated and more than compensated but the input tax credit

at least have now started receiving. If you remember we were in excise free zone and in the excise free zone you do not have any, you are not allowed any transaction, which means that any excise that you pay on tax processing material is not allow to be deducted from your net payout, but now because you are paying GST all the input GST that you have paid, all the GST on input raw impact within the material, you can offset so that has more than offsetted by increased in my likely prices.

Shalini Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir just a couple of followup, you mentioned something about new product development pipeline, I missed that commentary?

Sumit Malhotra: I am saying that if you remember I talked about establishing our R&D centers in Mumbai, we are calling it the innovation centre because we believe that may be this is one part of the growth story that you were not focusing on so to focus on innovation we have started R&D centre, the first differentiated product that came out was the ayurvedic Brahmi, which is take off on what product we had for the last eight to nine years, which is we used to call Brahmi Amla we have now upgraded it, made it better and we have improved with the Ayurvedic concepts and improvement. There will be other such differentiated products, but what we are conscious about that it will not be a better product, but will be better researched and marketed also that is basic difference that we now looking at and with the help of innovation centre, I am sure that we can get this research and product development through much faster.

Tejas Shah: Sir you mentioned some frequency of new launches?

Sumit Malhotra: That we are targeting hit one new launch every quarter.

Tejas Shah: Okay that very ambitious Sir considering that seven years of listed history we had to short diversifying the revenue base, which was one organic and two extension perhaps then.

Sumit Malhotra: Amla Shikakai was an extension, which may be forget about that. It was not in focus at all. The reason was we are much smaller and we did not have the bandwidth or managing the brands, bench strength to be able to do such innovations, now we do have it and therefore I am sure that we might not be able to meet this deadline immediately, but it is something that we will focus on getting out every quarter.

Tejas Shah: Sure, Sir just lightly when extension on this we have seen that strike rate and we have always maintained that in FMCG strike rate of new product launches, it is not very high, so would you continue a commitment to this strategy in case if let us say some of your initial launches do not meet your expectations still you will continue this commitment to this new?

Sumit Malhotra: That is how every FMCG does it, so do we.

Tejas Shah: Sure that is very good to know Sir. Thanks a lot and all the best.

Moderator: Thank you. Next question is from the line of Ravi Srivastava from Bay Capital. Please go ahead.

Ravi Srivastava: Sumit just one book keeping question, the number that you mentioned on the number of distributors that the company serve and the number of wholesalers that we have does not seem to match the presentation numbers, so on presentation we have 7915 distributors and 11500 wholesalers is there something which is missing?

Sumit Malhotra: Let me see the chart.

Ravi Srivastava: It is on slide 16. On the left hand side we mentioned the number of distributors and wholesalers.

Sumit Malhotra: Yes so if you see that it says 9695 distributors and 22317 wholesalers.

Ravi Srivastava: On the slide that I have got it is 7950, this is the October 2017 revised number.

Sumit Malhotra: Maybe the early one added we did not change it, sorry I will change it and correct it, if you see the other the first presentation it would have been there, but the correct figure is 9695 distributors and 22317 wholesalers.

Ravi Srivastava: The other question I had was on the ad spend side, so we increased our ad spend this quarter, are we doing lot more on apart from ADHO and other brands as well?

Sumit Malhotra: Significantly more, in terms of if you compare Q1 to Q2 it is significantly more on Nomarks, not Brahmi as yet, but Brahmi ad will start in a few weeks time, but Nomarks we spent significantly more on the second quarter and exponentially more in Almond Drops.

Ravi Srivastava: Can you give us a split in terms of if possible as to how much?

Sumit Malhotra: If you can send me e-mail, I will send it to you.

Ravi Srivastava: Thanks.

Moderator: Thank you. Next question is from the line of Rajiv Anand from Narnolia Securities. Please go ahead.

Rajiv Anand: Thanks for the opportunity. We **(audio break) 54.26** improve our market sales to 65% from 61% presently, so my question is that what are the steps we are taking to achieve that?

Sumit Malhotra: This is normally the steps anybody else takes, which is basically increasing your distribution and increasing the communication because if you remember market share depends on the number of consumers buying your products and you can only increase the number of consumers buying your product by first telling them that the product is available and then making it available, so

very simply put its basically investment behind advertising, which is communication and reach which is distribution.

Rajiv Anand: My second question is do we envisage any acquisition going ahead in FY2019?

Sumit Malhotra: I did not hear your question please.

Rajiv Anand: Do we envisage any acquisition going ahead in FY2019?

Sumit Malhotra: Sorry I cannot talk about it because even if there was I had a NDA with these people, so I cannot comment on this.

Rajiv Anand: Just give us some colour on export growth?

Sumit Malhotra: Which is what I said in the beginning that exports was basically the driving authority, driving channel for us. It is now actually this quarter because of what happened in the MENA, Middle East, North Africa we have declined the export, hopefully the coming quarter or may be the quarter after that we will get back growth in exports.

Rajiv Anand: Thank you.

Moderator: Thank you. Next question is from the line of Dhiral Shah from Asit C. Mehta. Please go ahead.

Dhiral Shah: Good afternoon Sir and thank you for the opportunity. Sir now with the LLP price almost reaching Rs.55, so just wanted to know Sir what is the current status on inventory, do you have any insights?

Sumit Malhotra: I said that in my opening address, I am covered till December of this year.

Dhiral Shah: Thank you Sir. That is it from my side.

Moderator: Thank you. As there are no further questions from the participants, I now hand over the floor to the management for their closing comments, over to you Sir.

Sumit Malhotra: Thanks to all for logging in. I think we are in the middle of the very exciting situations because of GST and because of the demand pickup as and when it is going to happen and I am sure that as we go along there will be many more things to talk about. I hope to have you back on the concall in future. Thanks a lot.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Kotak Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.