bajaj corp limited

January 15, 2018

DCS-CRD **BSE Limited** **First Floor, New Trade Wing** **Rotunda Building,** **Phiroze Jeejeebhoy Towers** **Dalal Street, Fort** **Mumbai 400 023** Fax No. 2272 3719/2039 **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 January 12, 2018.

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

Thanking you,

Yours faithfully,
For **BAJAJ CORP LIMITED**

Manak

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

Encl: as above

bajaj corp limited

"Bajaj Corp Q3 FY2018 Earnings Conference Call"

January 12, 2018

bajaj corp limited kotak Securities CHORUSCALL

ANALYST: **MR. ANAND SHAH – KOTAK SECURITIES LIMITED**

MANAGEMENT: **MR. SUMIT MALHOTRA – MANAGING DIRECTOR – BAJAJ CORP LIMITED**
MR. SANDEEP VERMA - PRESIDENT (SALES & MARKETING) - BAJAJ CORP LIMITED
MR. DILIP MALOO – CHIEF FINANCIAL OFFICER - BAJAJ CORP LIMITED
MR. KUSHAL MAHESHWARI - HEAD TREASURY - BAJAJ CORP LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Corp Q3 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Kotak Securities Limited. Thank you and over to you Sir!

Anand Shah: Thanks. Good afternoon everyone. On behalf of Kotak Institutional Equities, I welcome you all to the Bajaj Corp Q3 FY2018 Earnings Conference Call. We have with us the senior management of the company represented by Mr. Sumit Malhotra, Managing Director, Mr. Sandeep Verma, President (Sales and Marketing), Mr. Dilip Maloo, 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 afternoon and welcome to the conference call for declaration of the third quarter results for the Financial Year 2018. With me are Mr. Dilip Maloo, who is the CFO and Vice President Finance and Kushal Maheshwari, Head Treasury. I would like to take this opportunity to introduce Mr. Sandeep Verma who is the President (Sales & Marketing) to you all. Sandeep heads the marketing, handles all the sales vertical of this company as well as all the innovation initiatives being undertaken by the company.

The company has closed the quarter with a turnover of Rs.197 Crores. The growth in turnover vis-à-vis the third quarter of last financial year is 5.86%. The volume growth is 5.17% for the company. The volume of our hair oil brand has grown at 8.3% in this quarter in the domestic market. The EBITDA is at all time high of 35% and is at 69.1 Crores, which is a growth of 10.87% over EBITDA of Q3 of financial year 2017. Please note that while calculating the EBITDA, the budgetary support announced by the Government of India for units under the excise free zones in Uttarakhand, Himachal, and Assam has been accounted for.

The PAT and PBT for the quarter is 55.17 Crores and 70.15 Crores respectively. Keeping the increase in operating profit in mind, the company has announced an all time high interim dividend of Rs.12 per share. Though business is settling down post the implementation of GST there are still some issues relating to claiming of refunds, filing returns and also GST forms related to TRAN-2.

In addition to this the growth figure on a Q over Q or a YoY basis are misleading. To put into perspective even though the growth in the turnover is 5.86%, this is not the like-to-like comparison. The primary reason for this is that the sales value last year has been netted after a 14% VAT impact; however, this year the tax impact if GST misses largely 18% for our company. If the turnover is compared on a like-to-like basis the growth for the company in this quarter is 10.08%.

This is led by a growth in domestic business of 13.38%. The growth in total hair oil has slowed down in the third quarter as against the volume growth of 6.7% in the second quarter. The offtake growths are dropped to 3.6% in this quarter.

For the light hair oil segment the growths in offtake volume for this quarter is just 2.3%. As against these segmental growth Bajaj Almond Drops has grown as 3.7% by volume. As a result of this the market share of Almond Drops and light hair oil as well as total branded hair oils has gone up during this quarter. The growth in the rural areas has remained weak. In the LSO segment, the rural volume growths have dropped to just 0.5% as against expectations after the good monsoon, the revival of rural offtake are still not been witnessed in the hair oil segment. While domestic sales are showing definite signs of it recovery, the business outside India is still a cause of concern. Domestic, general trade business is showing a 12.3% growth in business after GST a neutral scenario.

Modern trade has shown a very good Q3 FY2018 growth, which is 14.25%. During this quarter the CSD business has shown a marginal decline of 2.7%, which is a significant improvement over the large trend witnessed in the second quarter. Though the trend in CSD sales is positive, we cannot yet be sure whether there is a complete recovery on this front. The sales in the IT sector are a major cause of concern. There are strains in offtake in MENA as well as in Nepal, which are our largest markets outside India.

Part of this decline can also be attributed to infrastructure issues related to manpower and distribution setup in these two areas. Our initiatives in improving our reach as well as efficiency in sales systems are continuing to yield benefits. Our direct distribution has gone up with an induction of 300 sales representatives. The success of our project Saathi has prompted us to implement the same in our rural task force as well as the modern trade merchandising team.

In both these areas we are sure to see efficiency improving post the stabilization of automation initiative. The innovation centre is now working full stream and the innovation pipeline is becoming impressive day-by-day. The next project launch should happen in January 2018 post which we aim to launch a product every quarter in an effort to increase the efficiency of other support functions, we have undertaken departmental orders for QC production, IPNHR for the same we have employed the services of well known consultants such as E&Y, PwC, etc., behind this exercises to help identify areas that need to be improved on.

Once the recommendations are fully in place we should see visible signs of efficiency in these departments also. The increasing price of crude has cost us a strain in the cost of our raw and packaging material. The largest increase in cost is for LLP as against a price of Rs.46.37 per kg the price in this quarter is Rs.61.22. Even after considering the input tax credit the equated price is still 52.81% per kg for LLP, which is an increase of 14%. The current price has further increased to 72% now.

There is however a marginal reduction in the price of refined mustard oil this quarter against a price of 83.97 per kg last year our RMO, refined mustard oil is down to 80.52 per kg post input

tax credit the landed rate is 76.69 which is a 8.6% reduction. We believe that the crude oil prices will not fall in the foreseeable future hence we have got heavily during the last quarter, currently our LLP stocks will cover the March 2018.

Nomarks is finally showing visible results in the pilot project we started in UP. During the third quarter, Nomarks has shown a 122% growth in turnover in UP, this has happened because of the investment in distribution as well as adverting. As a result of this the brand has grown by 101% in the domestic market; however, the decline in the international business has dampened the growth in turnover for the company to just about 30% odd; however, these results are actually enthused us and we plan to speed up the extension of the pilot project to other states in the coming quarter. We are now open for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies gentlemen we will wait for a moment while the question queue assembles. We have the first question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Team, very good morning and first of all a very Happy New Year to all of you. Three baskets of questions actually here; first of all actually I want to welcome Sandeep to the call. I presume this is the first call, which Sandeep is attending. The first question is we saw this Vision 2020 the question here is 2020 is pretty much here actually just about 18 months from today, so why not 2025 is there any specific thought process or would you be able to quantify some of the targets we will have for 2020?

Sumit Malhotra: Manoj, good question. I think you know that we have been under the process of change for the last two years and the reason why we have put 2020 as the first milestone is that we believe that the first visible change in the way this organization's works and structure will be visible by 2020 because like I have been pointing out in my concall we have been restructuring, getting good people, capable people around departmental heads and bringing systems within this organization, so the first visible change we have targeted and that is why Vision-Mission 2020 and not 2025 or 2030 is that we will be able to go for the next level of change post the stabilization in 2020.

Manoj Menon: Understood, so you may or may not want to talk about in the call, but would you able to quantify some of the targets for 2020, anything that you have in mind even if it's directional?

Sumit Malhotra: I think directionally we would look at a much more diversified, in fact in the vision itself and the mission itself we have targeted and said that we want to become a complete FMCG company, you might ask are you not a complete FMCG company? The thing is from a largely hair oil company we would like to move into a diversified FMCG company and the first step should be visible by 2020 that is the whole thought behind the vision and mission that has been formulated. We have now started pushing and sort of populating this to the rest of the company and through townhall and vision, mission workshops we are starting to get the whole team thinking the same way.

Manoj Menon: Understood, just two questions and I will come back in the queue. One your commentary about industry growth does appear to be slightly different from what we have heard from the other companies, which operate in the hair oil space over the last two, three months, so my sense actually was that segments like coconut oil and even Amla from an offtake point of view and I am not referring to the Nielsen numbers, at least what these companies are experiencing, but kind of accelerated whereas your commentary appears to be saying that over to DHO as well as your segment has decelerated. So how do I think about what is happening to the industry that is point number one? Point number two, what specifics to the light hair oil business also in the context of sources of growth and how that has changed the short term and the medium term on both?

Sumit Malhotra: Manoj I think we are both talking about different sets of figures because obviously since we have the first declare the results we do not have the turnover or growths or declines of various other companies. The figures that we are speaking from is the Nielsen offtake figures and like I have been trying to sensitize that they can always be a difference between Nielsen and sales figures because one is offtake, the other is primary sales. Having said that yes Amla is perhaps continuing to grow faster than the rest of the category. In terms of coconut, I think value growths are good, volume growth are tapering down but the overall statement that I made in my call was that the rural market for all of these are actually slowing down and what we have done is we have in the latest presentation that you see we have always shown you, our market share is going up sequentially. So if we are gaining market share it gives you an idea of what is happening to the other sectors in the hair oil space.

Manoj Menon: Understood and just lastly on the core business itself, which is the Almond Drops Hair Oil, how do I think about the changes to the sources of growth over the last three, four years etc., so how do you see this? I mean so let me frame a little differently also so is it that we need a big macro improvement push needed for Almond Drops to now get back to let us say double digit volumes where we are today or do you believe that the internal disruptions if I have to use the word in the last couple of years whether it is people or processes itself has contributed to the slowdown and now that both that have stabilized you will be able to drive growth significantly without freely waiting for a macro push into let us say double-digit territory over the next 10 to 24 months?

Sumit Malhotra: I would like to attribute the slowness to the sales process that we are implementing. Yes sales do become disruptive factor for a small period, but I do not think it would be right for me to sort of pass all the negativity or the slowdown to internal. It is largely to do with the macro. There are three or four things you need to know. One is that what was movement from pure coconut or the unbranded hair oil to value added has actually speeded up over the last few years, but rather than the premiumization, which is where are strategy was for Almond Drops, a lot of this conversion is actually going to the low cost Amla space and quarter-after-quarter you had noticed the commentary is the fastest growing segment is now Amla and not no longer light hair oil, which shows that it is basically the movement was low cost is now faster than it ever was before. I think the large part of this is because of the slowdown in the rural areas and therefore my commentary was that we are all waiting for rural to start coming back to speed because if that comes I think

all the conversions from unbranded which is largely rural to value added will speed up even further.

Manoj Menon: Understood, so would it be correct to perform an hypothesis that if the low cost Amla let us start reaching a profitability a little more would that be a lesser headwind for you?

Sumit Malhotra: Again this is outside my control, but the fact is since crude prices and LSP are going up so steeply. The margins for everyone would be a problem and specifically so for the low cost Amla, so how they manages is something, which we will know in the coming month but yes that will be a strain on the low cost Amla, but I think more than profitability it is the volume growth that need to come back because like I said that if you notice the difference between the volume and value have shifted more than we expected this quarter and that is because the sachets have not grown whereas the bottles which are largely urban and much better profitability for us have grown much faster. This will shift once the rural area start growing again.

Manoj Menon: Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My question is on the margins front crude related inputs are going up, you have plans for much higher pace of innovation, so how do you see your advertising spends and your EBITDA margins, you have managed that quite well even in this quarter, but are you willing to sacrifice the margins to get more volume growth and new product success?

Sumit Malhotra: I think I have said that over and over again. I believe EBITDA margin of 30% to 35% is very high and I do not think we will be able to maintain that in the long-term. We will not maintain it because the advertising spends may need to go up, but if it comes to advertising versus EBITDA I think I would move towards the advertising rather than maintaining a 30% or 35% EBITDA.

Abneesh Roy: You have spelled it out earlier, but my question is there specific number because if you have one innovation every quarter, how much of spend, lot of companies give that number and they will apportion a 10% of the profit and the innovation?

Sumit Malhotra: Over the last years, I have always been telling you that I do not give guidance, so I would not give you guidance in terms of numbers but logically if new launches happen spells on A&P will go up and if you cannot manage cost savings in the middle EBITDA would go down. Having said that we are looking at product launches which are fairly high gross margins. So a lot of the launches will be able to sustain themselves through the internally generated funds with a little bit help from Almond Drop sale.

Abneesh Roy: Second question is on the UP, this test pilot seems to have been successful, so what is the plan now on role out to other states and this very high growth if you could talk about dealer level activity either say in terms of commissions or incentive, is there something extra in terms of that

dealer commission or incentive which is driving this or is it largely the selling part and the product differentiation part, what is helping this growth if you could take us through that?

Sumit Malhotra: Abneesh, obviously it is not single focus that is only advertising or only distribution. Like I said that the UP experiment is about taking Nomarks cream into chemist outlets. Now like you would know and all of you cover consumer and pharma also, the discount of the margins for chemist or chemist driven distribution systems are different. For example, in our case we have 5.5% margin for our distributors, the pharma guy has 10%, we have 10% margin for retailers, they have 20% so that change has also been implemented. The Nomarks sale into chemist is at a different margin structure. The only thing we have changed in the credit. We still do not give the credit for pharma and distribution system in UP. Apart from that in terms of the sales force it is totally different, the managers are different, advertising you have seen is largely focused onto UP and SSM belt.

Abneesh Roy: Next question and last one on modern trade, your growth was 20% last quarter, this quarter it is 14%, so how do you see growth here and second you said on CSD the growth is improving gradually, so is it now back on track, most of the issues have resolved and so growth would come back next year do you see that?

Sumit Malhotra: For CSD like I said in my opening address, I am not too sure because the changes are still happening in CSD in terms of the stocking pattern in terms of closing smaller URCs in terms of accumulating in reducing the number of depots and all that. So even though the growth is nearly flat now I am not 100% sure that the growth will come back next quarter. In terms of modern trade, the growth you said it was 20% and now down to 14% but I think you should look at the base effect also because last year in the year of demonetisation Q3 the two areas that grew were modern trade and international business, so on a higher base we have still grown at 14% which is the fastest among all sales verticals in this company.

Abneesh Roy: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: This is Percy here. I wanted to start with housekeeping question. This 107 million of operating income that you have booked that is tax refund. If I were to understand correctly that is just accrual right you have not received anything from the government?

Sumit Malhotra: No you are right.

Percy Panthaki: And secondly in the first quarter you mentioned 64 million and now it is cumulative 107, so this quarter it is only 43 million is that correct?

Sumit Malhotra: No that is not correct. The reason why I had mentioned that not taken into account was that the ways of the refund or budgetary support was supposed to come to us was undergoing changes like I told you last time initially they have said that we would get back 58% of CGST. Now what

has happened is we will get 58% of CGST minus input tax credit that you have taken. So 6.4 has actually dropped to 5.2% and 5.2% is for the second quarter and the remaining is for third quarter.

Percy Panthaki: Going forward henceforth we should take somewhere in the region of about 45 to 50 million a quarter approximately?

Sumit Malhotra: It depends of the turnover.

Percy Panthaki: At the current turnover it should be about 45 to 50 million?

Sumit Malhotra: It should be more than 50 million because the fourth quarter is always the largest quarter for us.

Percy Panthaki: Fair enough. Sir secondly just wanted to probe a little deeper on this rural slowdown that you have been talking about. So is it a broad based issue in terms of demand across FMCG categories in rural or is it more sort of accentuated in the categories that you would be in?

Sumit Malhotra: I would say that it is across category in FMCG. Non-FMCG categories are showing different kind of results like you can turnaround and say what is happening on scooters and cars.

Percy Panthaki: Yes that I understand I was talking mainly about broad based when I was talking I meant FMCG only.

Sumit Malhotra: In FMCG yes I think it is across.

Percy Panthaki: So what do you think is needed for this rural demand to pickup?

Sumit Malhotra: Of course another good monsoon is definitely needed. I think subsidy to work from the government to rural growth is required but I personally believe that the larger growth will come once infrastructure projects pickup because there are a lot of the rural workers actually survive on salaries or employments on these infrastructure projects once that picks up I think the overall economies will pickup faster.

Percy Panthaki: Okay and also wanted to touch upon your gross margins, they have expanded despite you passing on the GST benefits and despite inflation in the input cost. I know that refined oil is down, but the quantum of LLP inflation is more than the quantum of benefit on refined also so your overall clog basket has moved up. Your GST benefits have passed through there is no additional price increased you have taken so how is the gross margin actually expanding?

Sumit Malhotra: I think it is a matter of mix also because again like I said that the SKUs that are not really growing is sachet and in the whole scheme of things that is second lowest gross margin there. If the growth is coming out of the larger SKUs like 300, 500, your margins are bound to expand.

Percy Panthaki: Okay and one short question more if I can squeeze in the new launches that you will do in future of course you do not give guidance but would you be able to sort off tell me whether they are in the hair care space or there are I mean in other categories as well?

Sumit Malhotra: It will be in all categories the nearer launches of the launches that come up now start from here then go into hair then go into skin and then into other categories.

Percy Panthaki: Okay that is all from me. Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Manoj Gupta from Perfect Research. Please go ahead.

Manoj Gupta: Questions are answered. Thank you.

Moderator: Sure thank you. We will move to the next question. The next question is from the line of Jinal Seth from Multi-Act.

Jinal Seth: Good afternoon Mr. Malhotra. Happy New Year to you and your team. Just wanted to pickup on your comments of the trend in consumption so just stepping back a bit where earlier there was obviously trend in Ayurveda is picking up and then you just mentioned obviously that has kind of slowed down a bit, so now it is Amla then taking that point a bit further where Amla obviously is doing well. Obviously since its cheaper and delivers the similar benefit and what I did see in our presentation is that in the total hair oil category we have seen a slight blip in market share so what I am driving at is that if it is that I mean how confident are you where obviously with the pickup in the rural, we will see a pickup in because I mean what stops me from consuming Amla where it is deriving the same benefit cheaper any thought from the same?

Sumit Malhotra: See if you go back may be three or four years ago you will realize that the trend was premiumization and that is why the higher priced products like Bajaj Ayurvedic drops and even the Ayurvedic brands, which are much higher price book but much faster than the lower priced product, like coconut and Amla. Given the natural economy over the last three years that has changed; however, I am sure that like other categories in the FMCG segment premiumization will come back to India and that is why I have been harping on growth coming back and therefore premiumization coming back into Indian FMCG scenario.

Jinal Seth: Considering the export has seen the massive decline what has been the issue of there?

Sumit Malhotra: Issue is the first, there was a slow down in offtake in MENA and Nepal regions, which are the two largest regions for that and because of that there was breakdown in the infrastructure, which means the people and distributions set up there, which now has to be corrected.

Jinal Seth: Okay when do we expect then?

Sumit Malhotra: The process is on and I think this quarter will be the last quarter you will see these kinds of disruptions.

Jinal Seth: Okay and lastly when we have not taken any price hikes until now right?

Sumit Malhotra: No.

Jinal Seth: When would that happen?

Sumit Malhotra: Typically if the price of crude and therefore LLP keep rising the way it is, we will be forced to think about it something in March because typically we take a price hike in April.

Jinal Seth: Thanks a lot Mr. Malhotra.

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

Tejas Shah: Sir thanks for the opportunity and Happy New Year to you and your team. First of all as in the first question first participant has raised is that in era where everybody is putting Vision for 2040 and 2050, you chose 2020, which is a very steep report for yourself you have chosen. Sir is it fair understanding after going through PPT that the most objective KPI of your Naya Bajaj strategy will be the team's ability to launch products in the stipulated timeframe is that right understanding?

Sumit Malhotra: Yes that is the right understanding but a partial understanding. I think what it clearly states that is that improving efficiency of across the company and I have also pointed out in my opening address that Naya Bajaj actually means the most systematic and more efficient way of doing what we are doing in at this point of time. There was a period in the opening address where I tried to sensitize you all that we are taking orders and trying to see how we can improve efficiency. I think that is the critical thing because once you have bring in the efficiencies you are much more confident in launching new products because it is not just above the making a product. It is also about the research behind it, the thought behind it, the work in communication, the work in distribution and it is just now making product and putting it. So yes that is a partially correct belief but I think Naya Bajaj is all about improving efficiency rather than only launching new brands.

Tejas Shah: Sir broadly what we are saying is that today as the system exits both in terms of manpower and distribution, and infra. We are ready to take much more risk in terms of whole products for your kind of run rate so it is right understanding that you pre-invested in last two years to create that is kind of funnel and now when the launches happen even though gross margins under pressure the operating leveraging part of those investment will come into play and margin contraction may not be as higher as you are guiding as of now at least in near future?

Sumit Malhotra: I think you have put this perfectly. I cannot add anything to make it even more simple. This is exactly what we are talking.

Tejas Shah: Sir last two quarters in particular we are seeing this trend that moderate trade is beating general trade in your revenue pie now is it that we can understand this is partly because in rural center GT is not doing well, but is it that in urban centers it is more of cannibalization, which is happening in favor of moderate trades and hence the GT is losing share?

Sumit Malhotra: Tejas you are off gear. Modern trade is very small part of sudden business in the total company, modern trade will be between 6% and 7% so it is not cannibalization I think there are three things that you need to look one is like you rightly said modern trade is urban and urban is doing better than the rural. Second is modern trade is also premium. People go there not for seeking value only but we put better products and therefore moderate trade is better for us. The third thing is you should also realize is the growth that came earlier from general trade has been taken over by modern trade especially for the larger sales. Right and these are SKUs that are really growing at this point of time. We also have a lower market share than the modern trade then and then trade so you are doing a little bit of catch up, but I think it is more to do with the urban versus rural growth that you are talking of.

Tejas Shah: Sure and Sir couple of bookkeeping questions depreciation rate for sequentially high any update on that?

Sumit Malhotra: I think it is basically because of Guwahati factory coming in and depreciation there pricing apart from that we have not added any assets and therefore depreciation cannot go up.

Tejas Shah: Okay and Sir tax rate for next two years?

Sumit Malhotra: At the current rate I think definitely next full year will remain as MAT but post that I think partially 2019-2020 would be a mix of MAT and full tax.

Tejas Shah: So in 2019 will remain MAT fully?

Sumit Malhotra: Yes next full year would be MAT.

Tejas Shah: Okay and then 2020 you will move slight?

Sumit Malhotra: Yes depending on the growths in 2018-2019.

Tejas Shah: Perfect. Thanks and all the best Sir.

Moderator: Thank you. We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Sir my question is on your efforts on expanding direct distribution, you have already stepped on expanding direct distribution especially on the rural side so how was the journey in the last quarter and what are you targeting in the next two to three years?

Sumit Malhotra: Again, two to three years in today scenario is our long thing. Like I sad in my opening on this we have added 300 more people in this year and typically one salesman covers around 450 odd outlets so currently this 1300 people would be in the Rs.5.5 lakhs outlets directly. The next stage obviously will be gaining efficiency, getting these people into mode of selling more in the same number of outlets and then only future expansion will happen, but having said that I think whether you like it or not you will have to increase direct distribution and if this strain on the wholesale continues, the wholesale sequentially is much better this quarter than it was last quarter. You would need to depend on your distribution taskforce rather than going on the wholesale. Also keeping in mind the number of new launches we are looking at it the new launch will definitely not go through a wholesale. So the stronger the direct distribution you have the better the chance of success of new launches. So keeping all of that in mind direct distribution will have to keep going up quarter-by-quarter.

Amit Sinha: And also you had mentioned earlier that you are targeting close to Rs.8 lakh direct distribution in the medium term?

Sumit Malhotra: We have said 20% of our total thing, which is 7.2% at that point of time.

Amit Sinha: Okay Sir. My second question is on your Brahmi Amla Brand. Now this quarter you have mentioned that you have restaged the product so this was mainly new packaging and getting a new brand ambassador right I mean because the product was there in the market?

Sumit Malhotra: That is not all. It is also sort of reformulating the whole thing into an ayurvedic formulation and therefore it is not Brahmi Amla in the new package. It is Ayurvedic Brahmi Amla to cater to the needs of the people who are really looking at Ayurveda as the thing, also if you look at the investor presentation we are making strong statement that *"Baalon ka girna kare kam" "it reduces the hair loss"*, which means that we are now giving a specific claim that can be substantiated while use of this product.

Amit Sinha: My question was basically Ayurveda product you had this in the last quarter also if I remember correctly?

Sumit Malhotra: Last quarter was mainly in the modern trade, without this we went into the general trade, which is much larger part of our business.

Amit Sinha: Sir that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Joshi from Anand Rathi Securities. Please go ahead.

Aditya Joshi: Thanks a lot Sir for the opportunity Sir. Sir my question is related to international business. Sir what are the growth rate there in international business and MENA region?

Sumit Malhotra: I think it is there it is -44% in this quarter.

Aditya Joshi: Thanks a lot and Sir second question was related to the depot optimization program that we have initiated, Sir any cost saving we see there and how many number of depot will be having say one year down the line?

Sumit Malhotra: That we had 25-26 depots. It is already down. We have stopped around four of them already and this optimization we are looking at bringing it down to 19. Now the biggest saving here is actually be the fixed cost of operating these depots because each depots you have you will not only need space, but you will need computer operator, the staff to load and unload, all these things, this is the biggest saving that you will have if you bring it down. With GST coming in, it makes it much more easier to bill from anywhere in India to anywhere else in India. So smaller depots we have already closed down, we will be looking at optimizing depots in our largest area, which is in the Hindi-speaking belt in the coming quarters.

Aditya Joshi: That is it from my side. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Lala Ram Singh from Vibrant Securities. Please go ahead.

Lala Ram Singh: My question is on the new product launches, which we are planning, so in FMCG we know that we have to invest significant amount in marketing and all right, so any idea on what kind of money we would spend on that?

Sumit Malhotra: I would love to answer that question, but you should realize that it also depends on the category you are launching a product. So let us say if you are launching a product in skincare versus may be in any other personal care products, you will need very different amount of money behind advertising, so there is no ballpark, you are saying that I will need 40% of sales as advertising, this is something, this is very conditional to the industry that we are launching it in as also the kind of competitive scenario within that industry.

Lala Ram Singh: Okay. So can you give some commentary on whether that quantum which we might spend wills that affect the dividend payout, which we have been following?

Sumit Malhotra: I doubt that.

Lala Ram Singh: Thank you.

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

Tejas Shah: Couple of followups on the presentation. Sir in one slide you have used these words that our first priority is to our consumers and then to our customers. Is this signal to much stronger focus on direct reach or am I reading more?

Sumit Malhotra: No, it is just customers and consumers. Consumer is the end user of our product and customer is the intermediate, so if it were ever a call between our distributors and consumers, we would be more focused on our consumers and not the pipeline that takes it to the concern.

Tejas Shah: Sure. Sir second you just made an interesting point on Brahmi Amla, how we are stressing on product efficacy and if we see the launches, which has happened across FMCG in last two years especially after Patanjali came in, there is a lot of stress on product efficacy part, so just to understand the new product development pipeline that you have built, is it around this value proposition or will be somewhere fighting on price, somewhere on distribution, somewhere on branding, I know it is a complete package, but where will we put our maximum weight behind in terms of launches?

Sumit Malhotra: If you remember the concall that we had last time, I said we are looking a differentiated product with strong verifiable claim, so we are not looking at Me-2 product, Bajaj Almond Drops is doing well, so make duplicate of Bajaj Almond Drops at a lower price and launch it that is not we are trying to get into. We are trying to look at a product that is different in the consumer's mind, and the big change that you will possibly see in the coming quarters is this focus; once claims that can be substantiated, second differentiation and not in another Me-2 that will be launched in to the market.

Tejas Shah: Great Sir and Sir lastly sorry to stress this and at the risk of repeating myself, but in a hypothetical scenario that your first three launches or first four launches does not meet as your expectation, what is the team's result to go to the fifth or sixth product in that scenario?

Sumit Malhotra: Very hypothetical. When it happens, we will have to see it, but that is about managing, that is about the leadership despite failure which you can keep your chin-up that differentiates you from a good company to an ordinary company.

Tejas Shah: Sure and Sir lastly you have used one word in your presentation that you want also instill this entrepreneurship in your team and leadership, as we know there is no ESOP plans for the top management or otherwise so any thought on that part?

Sumit Malhotra: I think we are looking at this, but when it happens, I am not too sure, but we have been looking at it and if all goes well, it should happen.

Tejas Shah: Great Sir. Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Avinash Wadhwa from M3 Investments. Please go ahead.

Avinash Wadhwa: Thank you for the opportunity. I understand that the saliency of the southern markets to the light hair oil product is much lesser than the rest of the country. Now as you look to launch new products either in the hair care space or the skin care space as you said, would you need to take

steps to sure up your distribution initial structure in the south or what steps would you need to take if at all?

Sumit Malhotra: I think rather than distribution, we need to have a product for the south and where the innovation center will have to work very hard to bring a product for the south because like it is often said India is not country. It is a continent, and what person in Punjab may want and a person in Tamil Nadu may need are totally different and the name of the game is not distribution, distribution is obviously required but I think first the product and we are focusing on bringing a product for the south.

Avinash Wadhwa: Now you also spoke about minimal cross subsidization from your flagship product by saying that the new products that you launch you think would be a high gross margin product and they would be able to support their own advertisement. Why is that incorrect thing or why would it be, if you were going to think a little differently and say I want to accelerate product success and therefore I am willing to cross-subsidize even more?

Sumit Malhotra: The answer is simple. One, cross subsidization actually needs reducing spends on your mother brand and if you start reducing spend on your mother brand; the mother brand itself could be under strain. Second thing is you do not actually need to do it. You have EBITDA, which is very healthy. So you can actually reduce the EBITDA and build up new products. The third thing you should know is that we said that we will try and use the margins generated in the new launch over a long period, so you might have caught up where you cross subsidize, but not for a very long period.

Avinash Wadhwa: All right. I understand. Thank you so much.

Moderator: Thank you. Well as there are no further questions, I would like to hand the conference back to the management of Bajaj Corp for any closing comments.

Sumit Malhotra: Thanks a lot for dialing in and listening to the discussions we had on the company's performance. I think we are entering into a better period in the next two quarters especially with the kind of suppose the government is going to improvise to lift rural as well as the overall Indian economy, so like I said last time very interesting times to come and looking forward to speaking to you again. Thank you.

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