

January 15, 2015

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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, 2015.

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

Thanking you,

Yours faithfully,
For **BAJAJ CORP LIMITED**



Sujoy Sircar
Company Secretary



“Bajaj Corp Limited Q3 FY-15 Earnings Conference Call”

January 12, 2015



MANAGEMENT: **MR. SUMIT MALHOTRA – MANAGING DIRECTOR - BAJAJ
CORP LIMITED**
**MR. NARAYAN RAMAN – PRESIDENT, CORPORATE &
INVESTOR RELATIONS - BAJAJ CORP LIMITED**
**MR. V. C. NAGORI – CHIEF FINANCIAL OFFICER - BAJAJ
CORP LIMITED**
**MR. DILIP MALOO – VICE PRESIDENT, FINANCE - BAJAJ
CORP LIMITED**

MODERATOR: **MR. ANAND SHAH – ANALYST, INSTITUTIONAL EQUITIES -
KOTAK SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bajaj Corp Limited 3Q FY-'15 Earning 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 would now like to hand the conference over to Mr. Anand Shah from Kotak Securities. Thank you. And over to you sir.

Anand Shah: Hi, everyone. I welcome you all on behalf of Kotak Institutional Equities for joining in the 3Q FY-'15 Bajaj Corp Earnings Conference Call. We have with us the top management of Bajaj Corp., represented by Mr. Sumit Malhotra – Managing Director; Mr. Narayan Raman – President, Corporate and Investor Relations; Mr. V. C. Nagori – Chief Financial Officer and Mr. Dilip Maloo – Vice President, Finance. I would now like to hand over the call to Mr. Sumit Malhotra for the opening remarks. Thanks, and over to you sir.

Sumit Malhotra: Good Afternoon to all and Welcome to the Conference Call for the Declaration of the 3rd Quarter Results for the Financial Year 2014-'15. With me are Mr. Narayan Raman – President, Corporate and Investor Relations for the Bajaj Group; Mr. Nagori – the CFO and President, Finance and Mr. D. K. Maloo – Vice President, Finance.

First for numbers: The Company closed the 3rd quarter with a turnover of Rs.205.4 crores which translates into a growth of 30% on a year-to-year basis. This is the highest turnover recorded by the company in any given quarter in its history. The corresponding growth in volume comes to 21.1%. The EBITDA for the quarter is Rs.60.05 crores, which amounts to 29.24% of sales, the growth in EBITDA is 33.27%. The profit before tax is Rs.52.97 crores, whereas the PAT after adjusting the exceptional items is Rs.41.84 crores.

As you will recall, this exceptional item is the result of the write-off of the purchase cost of Nomarks, which amounts to Rs.11.74 crores during the quarter. The volume growth have shown a marked improvement this quarter and the company is back to the levels it was in terms of volume growth in the first two quarters of last financial year. Vis-à-vis the volume growth of 3.5% in the first quarter of this financial year and 8.8% in the second quarter this quarter the volume growth at 21%. Since we had launched Nomarks in the 3rd quarter of last financial year, the incremental growth contributed by the acquired brand of Nomarks is 1.3% and therefore the existing brands have shown a growth of 19.7% – I think this is truly remarkable.

Though we do not have the industry figures for December, since Nielsen comes out only in the second or 3rd week of the month, we believe that the Light Hair Oil growth is back. The scenario on the cost front is benign. With a continued fall in the prices of crude, the cost of Light Liquid Paraffin is also showing a marked softening though the complete impact of the softening of crude is not yet visible on LLP prices, the purchase cost of LLP has dropped from Rs.84.27/Kg in the second quarter of this year to Rs.75.01/Kg in this quarter. The 4th quarter could see a further drop in the purchase price of LLP. On the other hand, the price of Vegetable Oil remains firm. Since the largest cost is of LLP, which has declined by 12% this quarter, the gross margins have gone up by 205 basis points on a year-to-year basis. This improvement in gross margins has resulted in EBITDA showing 220 basis points result improvement. As against this, ASP has also gone up and we are at all-time high of 19.59% ASP to sales. And as I have been talking to you all about this, once the margins increase, we would keep on investing more in A&P rather than take it to the bottom line.

Performance of Nomarks has remained steady with the introduction of advertising on Nomarks the offtake has improved. As per Nielsen that is November figures, Nomarks Cream has become the largest selling Anti-Blemish Cream in the country once again after more than 2-years. On the other hand Nomarks Facewash is now the 3rd largest Anti-Blemish Facewash in the country. The sale of the brand is once again approximately Rs.14 crores in this quarter; however the gross margins have gone up once again. Gross margins on the Nomarks franchise is now at 66% as against 64% in the 2nd quarter and 62% in the 1st quarter of this financial year. The reach of the brand and chemists have improved considerably in this quarter as has the total distribution.

The Nielsen figures for December are awaited so that we can get fix on what is happening on the offtakes but the figures till November show that the rural growth are still very robust, it is the urban growth that are a cause of concern. The Nielsen figures show that LHO is growing in the rural areas whereas the urban markets continue to decline. The national business continues to grow and now is more than 3% of our total turnover. We have now represented in over 26 countries all over the globe. Nomarks is being registered in many more countries month-by-month and this will really boost the company as well as the brand sale. The brand Nomarks has shown a good traction in UAE which was registered around 3-months ago, on the other hand the sales of Hair Oil has also been picking up across the geographies that we have entered.

To sum up, growth on Hair Oil are back combined with the benign material prices, the company is back to the levels of growth and profitability it was in early last year.

The newly acquired brand Nomarks continues to show promise and has an excellent improvement in gross margins. I think all in all we are heading towards a great 4th quarter. Finally, it has been decided at the board level that we would like to declare the quarter results in the 1st 10 days of each following month. Exact date will be conveyed to you, but the results will be declared in the first half of the day followed by a con-call post noon.

With this, let me thank you once again for joining us at the con-call, and we are now open for questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on Nomarks. Last three quarters, the sales have been fairly in a very tight band around Rs.13-14 crores each quarter and you said in opening remarks that this is the largest selling Anti-Bleach Cream and the third largest Anti-Blemish Facewash. So, in that context, why we are not seeing improvement in sales, and is there seasonality being a Skin Cream, is there some seasonality in Nomarks?

Sumit Malhotra: Yes, there is a seasonality in Nomarks Cream as is with all skin creams and winter is the time when it picks up, but apart from that Nielsen is also showing that the creams are stagnating, in fact, declining currently, the reversal in terms of cream outgrowth, growth have not yet come back, whereas Facewash continues to grow.

Abneesh Roy: I see a fair bit of ads on Nomarks of Rs.13-14 crores. Run rate has to pick up in the coming quarters?

Sumit Malhotra: Yes, it should pick up in January itself because now the winter is really being felt in the North, and we have got over the minor problems in terms of production that we had.

Abneesh Roy: Coming to your main product, Almond, here if you see, we have seen a very good improvement last three quarters against (-1%) in Q4 and then around 4% in Q2 and 19% in this quarter. Taking this into consideration, you have shared on the Nielsen numbers for the entire sector, but for your own rural to urban, how it has done and how do you see going ahead with rural salary growth coming off and with MSP and all this NREGA issue, where do you see rural growth if you could share your own insights rather than the Nielsen only?

Sumit Malhotra: In terms of our numbers, it is very-very difficult to segregate rural versus urban, and the reason is there are a lot of semi-urban wholesalers that actually supply to the rural areas if you base it on the primary sales numbers. I always quote Nielsen for the rural and urban divide because that is a sampling thing that they do rather than breaking up the universe of primary sales. Having said that I think there is no way but for the rural areas to keep growing and the reason is that if you look at the total Hair Oil segment more than 60% of the sales of Hair Oil is in the rural areas whereas for us it is between 38% to 40% whichever quarter you take. So if you are still at a 50% or 33% discount to the total Hair Oil and Light Hair Oil is continuing to grow, it is but obvious that rural will grow faster than the urban areas. I think the concern at this moment is not the pace of rural growth and I think that will continue for the next many more quarters. The concern is for the urban areas to start growing back again, and when that happens, then we can truly say that Light Hair Oil and Hair Oil growths are back again.

Abneesh Roy: My next question is on the A&P. If you could tell us for Nomarks, how much is being allocated and outside the Nomarks, what is the breakup between A&P and will promotion now become much more aggressive with the gross margin expansion that can support the volume growth also?

Sumit Malhotra: In terms of difference between advertising and sales promotion, if you have noticed over the last 4-5 quarters, promotions have always been more than the advertising, and the reason is what I have been telling you that in times when volume growths are benign, it is much more prudent to spend behind sales promotions, which is a short term measure for perking up growth, because advertising is a long-term option. Sales promotion and advertising, advertising is slightly more than sales promotion at this point of time. If you look at LR, you will see that around Rs.14.5 crores was spent on advertising whereas the remaining was being spent on sales promotion, out of which a large part also went into things like consumer promotions then. In Nomarks, the advertising and sales promotion to sales spend is approximately 35%, which means that out of Rs.14 crores that we sold, around 35% of this went into advertising and sales promotions.

Abneesh Roy: This 19% volume growth seen in Almond, is there any one-off and how much is the van operation strategy contributing, has the full impact of that already flowed through, and any color if you can share on the Super Premium Hair Oil launch done by the MNCs?

- Sumit Malhotra:** I will not share anything on my competition and I think for that you will have to see what's happening in the market and once Nielsen figures are available to you all you can have a look at that. But apart from that talking about my brands which I am responsible about I think there is no one-off, I think what you are seeing now is basically like I have been telling you when the market slows down, there comes a point in which the trade and the infrastructure starts de-stocking. When the market picks up, the infrastructure or the trade starts re-stocking. What you have seen in this quarter is a proportion of re-stocking that has happened as a result of the growth coming back and that is why though I have not seen the December figures, but I am sure December figures of offtake as shown by Nielsen will be quite promising. Van operations is an exercise that will yield results a little later. You see the throughput per day on a brand is less than Rs.10,000, and therefore if you take 101 vans into number of days it runs into 10,000, it is still a very small part of our total turnover, but this is essential because what we are doing is we are improving the franchise of Bajaj Almond Drops in the rural areas, and like I told you in your last question 60% of all Hair Oils sold in India are sold in the rural areas.
- Abneesh Roy:** One follow-up on your answer, what was the primary and secondary volume growth this quarter?
- Sumit Malhotra:** Primary for Almond Drops is around 19%-odd, secondary is around 14%.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** As you said the pipeline has been restocked, so just wanted to understand after this restocking, are the inventory days in the pipeline now in line with the long-term trend or is it above or below? The reason why I ask this is, is that there has been some preponement of sales into this quarter and therefore the Jan-to-March quarter will have a timing difference and the Jan-to-March quarter will be lower by that extent?
- Sumit Malhotra:** If you remember in Bajaj Corp we sell on cash. So whenever stocking or de-stocking happens, it happens very-very fast in our case, you will not see that in 6-months or 3-months. I do not think that this is up-stocking. The distributors and the retailers look at number of days of stock he has because this is all paid up stock. If you see the secondary rising which normally does rise in the quarter – January, February, March – he will stock, and the number of days for the future secondary remains at low level, we are currently at 33-34 days stock at our distributor level which is very-very good which is what we targeted at.

- Percy Panthaki:** So it is just a preponement, Q4 should also be strong?
- Sumit Malhotra:** It should be strong in growth terms also because of the base effect there, if you look at Q4 of last year itself was bad there, so you should see very strong growth numbers in Q4.
- Percy Panthaki:** On A&P, I understand that there is input cost benefit and therefore the A&P will go up. But just do not understand this equation in terms of you saying that almost the entire benefit will be pass-through, because there is a point over which increasing the A&P does not necessarily yield better results, so there is an optimum A&P level over which spending will anyway not result in additional volumes. So just wanted to know your thoughts in terms of whether some amount of input cost will actually flow through to EBITDA or not?
- Sumit Malhotra:** Has it not? You look at EBITDA itself that has gone up by around 2 percentage points to 200 basis points. But actually your observation on beyond a point A&P not giving results is wrong. It is beyond a point 'A' does not give additional results, 'SP' is something like if I give more to the consumer he will obviously pick up. If something like instead of reducing the price of your product, you are giving something extra to the consumer or you are giving an extra discount to the trade, all that is a variable and that really does not have a big log diminishing returns.
- Percy Panthaki:** What you are referring to is let us say a 10% volume extra or something in a pack, so that generally is dictated by competitive activity, if everyone is giving that 10%, you also give that and vice versa. So therefore, if no one is doing this kind of a promotion and you also do not do it, what is it that you suffer from, that is what I just wanted to understand?
- Sumit Malhotra:** In this case fortunately or unfortunately we are 60-61% of the market, so in Light Hair Oils we do not follow the trend, we set the trend, right. Now if the gross margins are going up, rather than taking a price cut which will destroy the brand in it, because you cannot have a premium product taking a price cut, you pass it back to the consumer in these ways. So in our case sales promotion is not governed by competition, it is governed by what we would like to do with that extra margin or what we would like to do to improve our volume growth.
- Percy Panthaki:** So in terms of accounting, when you give this kind of sales promotion of extra volume, it will reflect in your volume growth at that point of time, right?
- Sumit Malhotra:** We do not give volume extra.

- Percy Panthaki:** So then what is the type of promotion that you would look at?
- Sumit Malhotra:** For example, currently we are giving a Toothpaste free with 500 ml, all sorts, it is not volume extra, because again in premium products it is not volume that you can give extra, you have to give a substantial sort of gift or promote to the consumer so that he sees a high-priced product and he sees a good consumer offer with it.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** Sir, just wanted to understand on this urban demand which I guess you mentioned it is not yet picked up. So price differential which has come off between Coco and Almond Oil, it has any positive sentimental impact on consumers?
- Sumit Malhotra:** What I have always believed is that price is really not a determinant of shift, because per day or per month price differential is very-very low if you move from the lowest price to the highest price. I think the difference is sentiment; the sentiment is governed by inflation, #1, #2 is wage hike and the #3 is the overall cost scenarios in FMCG or Personal Care products. All of these have been improving and that is why I am quite confident that urban growth will also come back in the next 2 or 3 quarters.
- Nitin Gosar:** On exit basis, we have reported that LLP in your books was at around 75.01. As of today, would you be having any number what is the trading?
- Sumit Malhotra:** This is not exit basis, 74 was average for the last quarter, exit at this point of time is something between Rs.66-odd per Kg.
- Nitin Gosar:** On Nomarks franchise, where the gross margin has been continuously expanding. Do we see any further potential left in this gross margin expansion?
- Sumit Malhotra:** Yes, there is, it will happen because of better buying, because we are selling much more than the previous owner sold, and second is also the mix, you realize that it has 5 different categories in Nomarks, the more you sell on higher gross margin item, the more will be your overall gross margins on the brand there.
- Nitin Gosar:** Would you be in a position to give the range between which this gross margin do have between different set of products?
- Sumit Malhotra:** The lowest is obviously soap and the highest is Cream.
- Nitin Gosar:** I was checking on the numbers, if you...?

Sumit Malhotra: I would not like to share that.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Bueno Vista Fund Management. Please go ahead.

Karthik Chellappa: My first question is on the medium term growth expectation for Almond. Anecdotally, Hair Oil category has seen some price correction. So although we are positioned on the premium side, the amount of premium maybe widening. Is that something that you would consider when you look at promotions or price actions or do you think that is not a deterrent to the volume growth for Bajaj Almond?

Sumit Malhotra: Karthik, I do not know where you have got this figure of the price being decreased for other value-added hair oils. The only brand that has ever decreased the price is Parachute which is not a value added, this is a pure coconut, right. The differential between other brands and Bajaj Almond Drops can only increase if they take a smaller hike and we take a larger hike. Under the current scenario, we may not need to take a very large hike, we take a price hike every April. The second thing is broadening up this essential anecdotally has never reduced the volume growth that we have. Surprisingly the time when it was the maximum and we measure the price of Bajaj Almond Drops vis-à-vis Coconut Oil and if Coconut was at one point Rs.21/100 ml and we were at Rs.42 that was the year when we had the highest volume growth. So it really does not work that way because the put down price for the expense on Hair Oil during the month is very-very low, for example, today 100 ml of Bajaj Almond Drops is Rs.58, it lasts for 1.5 month, so you are obviously talking of around Rs.40-odd a month, and even for a B, C class customer Rs.40 a month is not big, and therefore it is not the put down prices, the perception that you create, and the perception that we have been trying to create very-very carefully over the last 7-8-years is that this is a Premium Hair Oil, not meant to be applied in 10 ml, 20 ml sizes, you have to apply much less and therefore you will get the same kind of a benefit of other hair oils with much lesser application.

Karthik Chellappa: We have gone a little bit slow on our Cooling Oil because that has not seen growth for the last 2 years, whereas this particular quarter, I think our Amla has grown pretty handsomely. So, from a medium term perspective, have we more or less decided where our incremental investment is going to be outside of Almond and Nomarks?

Sumit Malhotra: As of now we are not investing anywhere outside Almond and Nomarks. What you see in Amla in terms of growth is basically because our low cost Amla which is called Amla Shikakai has grown very-very well. Secondly on the Cooling Oil, the last two quarters were really not cooling oil sales quarters, because that was basically heading

towards winter. In this quarter also you will only see sales of Cooling Oil in March. Let me repeat we have not given up on the brand, the only thing is that we will be much more cautious in terms of investing behind the Cooling Oil brand there.

Karthik Chellappa: On Nomarks turnover, in the first quarter, we did about Rs.14.1 crores that came down to about Rs.13.9 crores in the second quarter and now to Rs.13.57 crores. Is this softening driven purely by the Creams category, because that is a bit seasonal or is there anything else in terms of SKU rationalization removing certain products which we think do not have long-term potential, etc.,

Sumit Malhotra: No, basically because the first quarter of this year we were stocking our distributors and retailers, the second quarter, secondary and primary sales were the same, third quarter we ran into a problem in the last 10-days of December in terms of supplying to the market, otherwise we would have done around Rs.14.2 or Rs.14.3 crores in the 3rd quarter. So this is only an aberration because of ability to supply the needs in the market.

Moderator: Thank you. The next question is from the line of Sheetal Bhatt from Catamaran. Please go ahead.

Sheetal Bhatt: My question is on the Nomarks category. Could you let us know how many retail points do we reach with the Nomarks product right now? How does this number compared to the previous quarter and the comparable quarter of the previous year? And what is the potential number of outlets that we could supply Nomarks to?

Sumit Malhotra: Let me start with potential, there are 8.4 million retail outlets in India that carry FMCG products, out of which Anti-Marks, Anti-Blemish the highest distributed product which is a Facewash for Himalaya, is available in approximately 0.84 million retail outlets, we are currently available in around 4.2 lakh or 0.42 million retail outlets.

Sheetal Bhatt: What was the number of outlets we reached in the previous quarter last...?

Sumit Malhotra: Previous quarter we were at around 3 lakh outlets or 0.3 million outlets that has gone up, and the previous year, before we took it over, it was approximately 1.57 lakh outlets.

Sheetal Bhatt: We basically reached compared to the previous quarter substantially, however, the offtake despite being strong seasonal quarter, that is the third winter quarter, our offtakes have not improved in Nomarks really, one reason is you said that because of

the production issue that we faced in December. Do we see this growth picking up in the coming few quarters?

Sumit Malhotra: I think you are all over the place, production does not affect offtake right, you are right in saying

Sheetal Bhatt: You said it was supply issue, right?

Sumit Malhotra: Supply does not affect offtakes, because we have such a pipeline full of stocks, that offtake really do not get affected, and distribution is a step function, I am sorry for the rest of the people I will have to down my marketing hat and tell you that distribution and offtakes do not go hand-in-hand whereas distribution is a step function, offtakes is a more and more steady curve, offtake depends primarily on the communication and the number of consumers that see communication and also distribution. So, for example, if you move from 3 lakh outlets to 4.5 lakh outlets your offtake does not go up by 50%, your offtake goes up when the consumers try your product and like your product, and fortunately or unfortunately for the consumer to like your products and try your products this communication takes a long time, it is not some that you advertise today and tomorrow, there is a line of consumers willing to buy your product. So I think it is a slow and steady game. We are not concerned about that, because if you compare to Rs.26 crores that the previous owner sold in the whole year, this year we have already gone past around Rs.42-43 crores there.

Sheetal Bhatt: Now that we have improved our distribution point and with increased advertisement, should we expect to see better offtake in Nomarks in the coming quarters?

Sumit Malhotra: Yes, obviously, but that 'better' is a very qualitative word, if you want to quantify it and say 'better' means a 50% improvement, I do not think that is anybody can predict that.

Sheetal Bhatt: But would it be in line with the Personal Care product category?

Sumit Malhotra: Personal Care is actually declining this quarter, you have the figures with you, fortunately, we are the first, but most of the categories including things like Toothpaste, may be not Skin Cream, they are all declining here. I would not like to decline next quarter, but you should see. This is a very-very small player, it is something like 14-15% of the Anti-Blemish category itself which is very-very small part of the total Personal Care. So I do not think we'll follow the Personal Care trend, I think we have to first fight with ourselves and get it into larger number of stores and get our advertising to start working much-much better.

- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Two-three things; one, coming back on Nomarks. So the numbers that are reported for the quarter are partly mixture of the replenishment of the existing distribution network as well as the expansion that we had in the quarter, is that understanding correct?
- Sumit Malhotra:** Yes, but the proportion of expansion sort of leading to these numbers is much-much less now as against let us say the second quarter or the first quarter.
- Sachin Kasera:** Will you be able to give some color on that sir?
- Sumit Malhotra:** It is very difficult to give you that kind of color because we do not measure retailer wise sales at 4 lakh outlet level.
- Sachin Kasera:** What is the sense you are getting on the retail outlet, repeat purchase you are saying and of the three-four categories that you mentioned, which are the ones you are seeing a better traction as per the data that you have received as of now?
- Sumit Malhotra:** Best traction is actually the Facewash which is also shown by Nielsen because Facewash is a category that is growing at 27% by value, followed by Cream because cream is the most salient delivery form in Nomarks, it is a much more visible delivery form, unfortunately, the category of Cream is not growing, that is declining at around 5%. So once let us say growth in urban areas with Personal Care products come back, you should see the biggest jump in Cream offtake.
- Sachin Kasera:** Two follow up on this; one is you mentioned that is mainly because of the slowdown in urban consumption, that is the primary reason?
- Sumit Malhotra:** Yes.
- Sachin Kasera:** Secondly, now that you mentioned that Facewash is seeing traction. Can you give us a sense what percentage of revenues is now coming from Facewash for the Nomarks?
- Sumit Malhotra:** 31% sort of.
- Sachin Kasera:** On the correction in the raw material prices, the presentation mentions the numbers of LLP. So those are the market prices or that is the price that we have realized for the quarter?

- Sumit Malhotra:** It is the price that we realized for the quarter, have been used for conversion into finished products.
- Sachin Kasera:** What is normal inventory that we follow, sir, in the sense...?
- Sumit Malhotra:** It depends, last year, we were stocking even 6-months, now we are buying spot, so you will have less than a month of stocks.
- Sachin Kasera:** So in that case you will start to see the benefit of the low raw material on a much faster cycle compared to the previous years?
- Sumit Malhotra:** Yes, it would be much more visible on a quarter-by-quarter basis.
- Sachin Kasera:** You mentioned the growth on the Almond Drop and the outlook remaining good. Do you believe some sort of recovery on the urban side or it is assumed that the current trend continues?
- Sumit Malhotra:** I believe urban will also show some recovery, it might not get into the positive domain, but you will see some kind of recovery in urban also.
- Sachin Kasera:** Any specifics or some key data points that makes you believe that this recovery should happen or it is more of a sense that you get from the market?
- Sumit Malhotra:** Not the sense, it is the sales we are getting from the market like I said primary has grown by around 19%, secondary has grown by 13-14%, whereas the retailers are willing to stock, obviously, some delay, some positive traction is being shown.
- Sachin Kasera:** On this dividend payment, last quarter we announced almost 100% payout. Is there now some guidelines from the board in terms of how you are going to look at the next 1 or 2 years or it is going to be a year-by-year approach that we are going to depending on the fund requirements?
- Sumit Malhotra:** I think we have stated our dividend policy upfront saying that a minimum of 1/3rd of our PAT will be distributed as dividend. If we do not use the cash generated during the year we will increase this payout to a level of whatever the board decides. What you see in terms of Rs.11.50 is partially this year's dividend and partially dividend for whatever reason did not give last year. So it is not this year PAT that you are going to compare it to, you will have to see it over a longer period, because that came out of the surpluses that we had there.
- Sachin Kasera:** What is the tax rate that we can look for FY16 and '17?

- Sumit Malhotra:** If you look at taxes now it is 21%, we believe that at least for the next 1-year it will remain at that and possibly even the next year, though we will get out of the MAT tax regime, but we can offset whatever tax we had paid over the last 5-years vis-à-vis the tax that we will be paying, I do not have the exact figure because I do not have the sales in
- Sachin Kasera:** But even in FY17, the tax rate will not increase substantially?
- Sumit Malhotra:** It depends on the sales we do, I hope we sell so much that we can absorb all the MAT credit, but that would mean more than a 100% increase in sales.
- Sachin Kasera:** Now that Nomarks is starting to stabilize, at some point of time, we will again start to look at acquisitions or we would like to see some more pick up and some more focus on Nomarks before we start looking at acquisitions?
- Sumit Malhotra:** I stated upfront that it will take around 12 to 18-months more for an acquisition to happen. That does not state that we are not looking out. We are still looking out, but we are in no hurry because we know that this brand has a lot of potential and requires a lot of focus. Like we have focused on Bajaj Almond drops and made it a brand to be reckoned with we would like to use the same focus on this brand and make it as big as possible. I am not saying that until it becomes huge I will not take an acquisition, but I think it is a combination of when we feel that we are well on the path of making it a big brand and also a good acquisition is available there.
- Sachin Kasera:** On Nomarks I think currently the ASP is around (+30%)?
- Sumit Malhotra:** Yes.
- Sachin Kasera:** Even with the ramp up that we see because of the higher distribution and the increased offtake as we move forward it will remain same or do you think as the sales increase as a percent of sales this should come down for Nomarks?
- Sumit Malhotra:** Obviously, if you take a horizon of next 3 to 5-years, it will come down.
- Sachin Kasera:** Next 12 to 18 months if we have to look at then?
- Sumit Malhotra:** The next 2 or 3 quarters I think we will continue pushing this much because we have enough margins to play around with then.

- Sachin Kasera:** On the distribution, you mentioned that you are at 0.42 million as of now. Any sense you can give us in the next 12 months, where do you see the distribution network improvement for Nomarks?
- Sumit Malhotra:** Like I said in that question and if you were on the call at that point of time, distribution is a step function and offtake is a linear function. So distribution also depends on the kind of offtakes you are getting. If the offtake increase substantially distribution automatically will go up. Though we have internal targets I do not think it is the right forum to share internal targets because there are a lot of other calculations with it.
- Moderator:** Thank you. The next question is from the line of Ganesh Radhakrishnan from Pristine Portfolio. Please go ahead.
- Ganesh Radhakrishnan:** Just wanted one clarification, which I do not think I have understood correctly when you were explaining it earlier. The drop in LLP prices I guess that you are going to take advantage of it in this quarter and maybe in the future quarters, so how are you going to utilize the benefit – is it you are going to pump in more into the A&P expenses and it is not going to flow down into the net profit, that is going to be your strategy?
- Sumit Malhotra:** I do not think it is either, or. What I said and what I will repeat that if the margins expand we first like to invest behind the brand. The reason is we believe that the EBITDA levels itself are so healthy that we do not need immediately to bump that up. So if I can use that constructively by investing behind the A&P I would do that first. Beyond the point investing behind 'A' which is advertising is a case of diminishing returns, and therefore it will go into the bottom line like it has done this quarter.
- Ganesh Radhakrishnan:** As you said earlier, you have got about one month of inventory and future purchases is going to be at the current price, you always get into long-term contracts for four or five months, am I right?
- Sumit Malhotra:** Not now, now nobody is giving you 4 or 5-months of contract because the crude rate is so volatile that the supplier is not stocking for 4 or 5-months so that he can guarantee me the same rate at 4 or 5-months time. You realize that I am not buying it from a refinery, I am buying it from a guy who is converting the crude into LLP at a much smaller level. So I do not think he would be stocking for 4-5-months to be able to guarantee us a particular price for the next 4-5-months. We are obviously going to buy more and may be improve our stock position but we have not yet entered into any

long-term contracts because there are no suppliers willing to give us long-term contracts.

Ganesh Radhakrishnan: So that means going forward, price of LLP that you are going to pay is more or less the current prices?

Sumit Malhotra: Not necessarily because the crude is falling, this could fall even further.

Ganesh Radhakrishnan: The interim dividend has not been given, I assume it is going to be in the final dividend. Did you say that it is going to be one-third and maybe higher, that is going to be the policy?

Sumit Malhotra: I do not think you have been following this, we gave a dividend last quarter which was Rs.11.50 per share and that is the interim dividend that we gave. The question was as I understood it what is the dividend that you can expect next year or the following year and for which I stated the company's policy, that we will give a minimum of one-third of PAT, if you look at the PAT for the first half of this year, we have actually given 100% of that as an interim dividend already.

Ganesh Radhakrishnan: Coming back to the other expenses, is it going to be trending down?

Sumit Malhotra: As a percentage, it will trend down, because once your growth comes, your other expenses do not increase at the same ratio, for example, if your turnover went up by 30%, your other expenses are not variable in all true sense and therefore they are complex expenses, that will not go up by 30%. So obviously, as a percentage, this could drop. As an absolute, it will grow up, but it will go up but normally growth as we have seen over the last few years is not more than 10-11%.

Ganesh Radhakrishnan: Which is the kind of peak quarter for you in terms of revenue?

Sumit Malhotra: Historically, the last quarter is always the highest, till last year we used to get as much as 30% of our sales in the last quarter.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: In terms of Glass Bottles, given that energy prices seem to be benign, are we seeing any reduction in cost there?

Sumit Malhotra: I do not know where you got this energy cost being benign. The largest cost in Glass production is the gas and actually GAIL has increased the price of gas just in

November-December. So I do not think any reduction in Glass Bottle prices. As per the increase that is normally negotiated in February-March of every year, so let us see what kind of negotiations happen this year.

Arjun Khanna: Low unit price points, if you could give us a sense how that is growing between the two – the low unit versus the higher ml units in oils?

Sumit Malhotra: Our Sachets are currently growing at around 20% odd which is more or less the growth of the brand. So the disproportionate increase in the lower unit pack has sort of slowed down in the last two quarters.

Arjun Khanna: In terms of the distribution of Himalaya, you mentioned roughly twice our distribution for Nomarks, is the key difference the chemist channel or is it the normal retail distribution?

Sumit Malhotra: The key difference is the offtake.

Arjun Khanna: So as this increases, you would have...?

Sumit Malhotra: Yes.

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

Tejas Shah: For last four quarters, we have seen that even though there was a steep price hike in MRPs of Coconut Hair Oil, then also that conventional benefit was not coming to us and it was going to low price brands like Amla Hair Oil. Is current quarter's number any signal that premiumization has again kicked off or as a trend you can read it for at least next two-three-four quarters?

Sumit Malhotra: As of now, like I said, I do not have December figures, so I cannot give you on the quarter, but if you look at month wise, you will see that in October, the Light Hair Oil started growing once again, November was a very bad quarter for Light Hair Oil, I do not know what December would be, but if our numbers are any indication, the growth is back. There are people do not switch on and off brands over a quarter, I think it is more the analysts and the investors who look at figures on a quarterly basis, consumer never looks at his brands on a quarterly basis, obviously, there is a trigger, that trigger normally is sentiment, which could be because of wage hike, it could be because of falling inflation, it could be because of increase in communication or whatever. I do not think it is right at this point, I think it is too early to start commenting on whether

premiumization is back or the decline in coconut will come directly to us or to Amla. It does not happen in FMCG on a quarter-to-quarter basis.

- Tejas Shah:** You said that incremental benefit from benign LLP prices you would like to spend more on promotional spend and you also mentioned that when you increase promotional activity it drives volume. But when you pull back promotional activity, does it affect volume growth in adverse manner, because...?
- Sumit Malhotra:** Yes, it does. That is why promotions is always a short-term, advertising is long-term. If you push the advertising to a higher level and continue at that level you will get more continued volume growth. In sales promotion, you will get a faster return on investment, but a more transient return on investment.
- Tejas Shah:** But we have to take current LLP prices trend to be temporary one. Then do you believe that pampering trade too much with promotional activities can also hit us for whatever reason LLP price again starts trending upward?
- Sumit Malhotra:** That is judgmental, you are assuming that I am pampering the trade and the trade is buying, the trade can only buy if the consumer is wanted to buy, right. If I pamper trade, he can only stop maybe a month or two more. Until there is offtake, he will not buy at cash, did he? There are too many assumptions in that question of yours.
- Tejas Shah:** What is the current direct reach and indirect reach number?
- Sumit Malhotra:** For Almond Drops, we are currently reaching around 6 point odd lakh outlets directly and the remaining would be through the wholesale or indirect route.
- Moderator:** Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Lakshmi Narayanan:** I have three questions; one is on the promoter bringing down the stake from 75% to 66% odd. So what is the rationale in that or are we finding more stake reduction? On the movement of our corporate office somewhere in mid-2015 to consolidate into a place which we had already purchased earlier, now what kind of benefits you actually see when you have this corporate office and what kind of square feet you like to occupy? Related to Glass Bottles, if I see that as a percentage of your cost, it is quite high, it is number two after LLP. I maybe wrong, please correct me here, when I visited some of the outlets I saw some of the packets are non-bottles, they are actually already on a PET bottle or something like that. So is that something which we are consciously driving to move from Glass to PET and what is the breakup?

Sumit Malhotra:

In terms of the first question, I think you are asking the question to the wrong person, you are asking the question to professional managers of the company, whereas the promoter like you is a stakeholder. So I think the best person to answer whether why the stake sale happened or whether some more stake sale will happen is (Mr. Sagar Bajaj) (53:54) and his family and not me, because it is not the company selling, it is the promoter selling and the promoter like you is a stakeholder. Regarding your second question in terms of office, I have stated this many times and maybe you have not heard it from me, the office space was to sort of consolidate all our departments into one place. This was necessary because as we know, if you want to meet Mr. Nagori who is the CFO, you will have to go to Udaipur, if you want to meet our HR department, you will have to go to Noida, if you want to meet our operations head, you will have to go to Paonta Sahib, being a small organization you can continue in this kind of a thing for better kind of responsiveness to the business priorities, it is always better to have at least the senior guys sitting in together in one place, because you waste a lot of time, energy and cost by corresponding all over the country. So I think the biggest benefit will be consolidation of the main think tank of our organization in one central location. The reason why it has got delayed and why it will not happen in mid-2015 is that the environment in Mumbai was that permissions was really not coming from the municipal authorities and the government and we still have not got permissions to build the new office and therefore in terms of how much space can we build and how much we will be occupying I think I will leave it to a little later, maybe in another three months from now we will have a better idea. Last about Glass versus PET, we actually started off in PET by launching sachets more than 14-15 years ago. That really took off and now is a significant part of our total thing. The second size that we launched in PET was the 500 ml. And the reason was not to reduce breakages or to get a better margin, the reason was basically that if I have taken 500 ml into glass, it would have weighed around 1.5 kilos, that is half a kilo of oil and a kilo of the bottle plus cap and all that, which was too bulky. So we said that it would be better to take it into PET and we launched it in PET. Today, if you combine all the things like sachets and 500 ml together we would be around 30-32% of our sales come from PET and the remaining 68% come from Glass.

Lakshmi Narayanan:

Definitely from a bulkiness point of view, also from a cost point of view, right, is that something which you are thinking of or you are okay with the current set up that below 500 ml will be glass that is what the consumer wants?

Sumit Malhotra:

We are not converting as of now.

- Moderator:** Thank you. The next question is from the line of Anirudha Joshi from Hornbill Capital Advisors. Please go ahead.
- Anirudha Joshi:** Can you please indicate your primary and secondary sales growth numbers as per rural and urban?
- Sumit Malhotra:** I think you joined in late, I said that you cannot look at primary and secondary sales numbers in rural and urban, because there are a lot of semi-urban wholesalers that sell in the rural areas, and they are from rural place who come and sell in the urban areas. That is why for rural and urban divide we always stay neutral and not primary and secondary sales numbers.
- Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.
- Hiren Dasani:** You said your secondary volume growth is 14% for the quarter, right?
- Sumit Malhotra:** Yes.
- Hiren Dasani:** If I look at the Nielsen data which is obviously for the eight months, it is (-3.4%) for Light Hair Oil category and it was (-4%) for the six months as per your earlier presentation, the whole category does not seem to have seen a decent growth. So major market share gain for you, is that the right conclusion?
- Sumit Malhotra:** It is the right conclusion along with what I said in the beginning is that once the offtakes are beginning to appear to improve, stocking also happens. So we are also seeing slightly improvement in stocking at the retail level.
- Hiren Dasani:** When you say 14% secondary, that is the retail growth which you are talking about?
- Sumit Malhotra:** No, secondary is retail purchase, primary is distributor purchase or dealer purchase or stockist purchase.
- Hiren Dasani:** What Nielsen says is actually consumption of...?
- Sumit Malhotra:** Not consumption that is consumer purchase, consumption comes through another set of numbers provided by an organization called IMRB.
- Hiren Dasani:** You also made a remark that October was okay, November was quite bad and then December is better. Any reason why this wild swing between let us say October and November and then back to better numbers?

- Sumit Malhotra:** I really do not know why it swings like this.
- Hiren Dasani:** On the margin side, historically, when let us say crude was at similar prices, we did go all the way to 33% kind of an EBITDA margin. I hear your comments that beyond a point the A&P is counterproductive and then it kind of flows to the bottom line. Do you see that we can go back to those levels if let us say crude stays around this level?
- Sumit Malhotra:** I can only say, 'I hope so.'
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** It is a question basically on Amla Shikakai. I know it is a very small contributor, but just some numbers that we see, the volume growth over the last four quarters have been very strong and I was just comparing our presentation over the last year same quarter. The prices of Amla Shikakai have stayed at Rs.23 while most of the others have increased the prices. Just connecting one more thing, like, in our previous discussions, we have always said that because the price differential was increasing, people were moving towards lower priced oil as such. Is towards lower priced oil is still continuing for Amla Shikakai? Secondly, what are the regions where you are actually seeing higher offtake for Amla Shikakai?
- Sumit Malhotra:** Like you said in the beginning of your question, I think this is too insignificant a brand to really start hypothesizing consumer behavior on that, because Amla Shikakai we sell in only 3 or 4 states in India, it is not even region. And on that basis, looking at shift from high price to low price, is not the right thing. If at all, you would like to do this kind of an analysis, you should see the largest low cost Amla brand which is Marico Shanti Badam and see what is happening to Shanti Badam and not Amla Shikakai. I think it is meaningless to discuss such a small brand and look at consumer trend. It would just be happening because one locality suddenly started buying it, it is that smaller brand there.
- Moderator:** Thank you. The next question is from the line of Pattabi Raman from Metro Investments. Please go ahead.
- Pattabi Raman:** I have a few questions; one is that crude price has come down by nearly 50%. Can you please tell me how much LLP prices come down as on date?

- Sumit Malhotra:** If you look at the presentation, it is down 12% in just one quarter that is between the second and third quarter. If you take and assume that the fourth quarter will be at the current price you are talking of another 10% down again.
- Pattabi Raman:** The reduction in price is not proportional to the reduction in price of crude?
- Sumit Malhotra:** No, there is a lag between reduction in crude price and the effect on LLP, this lag over the last 17-18 years that we have seen is around 3-months.
- Pattabi Raman:** And secondly, there is a minor cost to you, the crude price coming down, now the transportation cost also come down. Are you seeing low overall operational expenses?
- Sumit Malhotra:** As of now it has not really started dropping, the drop is very-very marginal.
- Moderator:** Thank you. The next question is from the line of Jinal Sheth from Multi-Act Equity. Please go ahead.
- Jinal Sheth:** Somewhere in your comment you mentioned that as a promotional activity you are giving away toothpaste. Just wanted a bit of clarify on that what toothpaste are we giving away?
- Sumit Malhotra:** If you look at the ad, you will see that with 500 ml we are giving a Colgate Active.
- Moderator:** Thank you. That was the last question from the participants. So if you would like to add your closing remarks before we conclude?
- Sumit Malhotra:** Thanks a lot for joining in and I am really very grateful to each one of you that you take your time off and listen to the concalls and ask very pertinent questions, and I hope you will continue to support our organization in the same manner in the coming quarters. Good Bye.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.