

bajaj corp limited

April 13, 2015

DCS-CRD BSE Limited First Floor, New Trade Wing Rotunda Building, Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400 023 Fax No.2272 3121/2037/2039 Stock Code: 533229	National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor Plot No.C/1, 'G'Block Bandra- Kurla Complex Bandra East Mumbai 400 051 Fax No.2659 8237/8238 Stock Code: BAJAJCORP
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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 April 10, 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

April 13, 2015

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Sujoy Sircar
Company Secretary



“Bajaj Corp Limited 4Q FY-2015 Earnings Conference
Call”

April 10, 2015



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

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Conference Call with Bajaj Corp Management to Discuss 4Q FY-2015 Earnings hosted by Kotak Securities Limited.

As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes, should you need assistance during this 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. Thank you. And over to you Mr. Shah.

Anand Shah: Thanks, Malika. On behalf of Kotak Institutional Equities, I welcome all of you to the Bajaj Corp 4Q FY-'15 and the Year-ended March 31st, 2015 Call. We have with us the senior management of Bajaj Corp represented by Mr. Sumit Malhotra – Managing Director; Mr. Narayan Raman – President, Corporate and Investor Relations; Mr. VC Nagori – CFO and Mr. Dilip Maloo – Vice President, Finance.

I will now hand over the call to Mr. Sumit Malhotra to discuss the recently announced earnings. Thanks. And over to you sir.

Sumit Malhotra: Thank you, Anand. Good Afternoon to all and Welcome to the Conference Call for the Declaration of the 4th Quarter and Annual Results for the financial year 2014-'15. With me are Mr. Narayan Raman – President, Corporate and Investor Relations; Mr. Nagori – CFO and President, Finance and Mr. Maloo – Vice President, Finance. The company has closed the financial year '15 with a turnover of Rs.820 crores which translates into a growth of 22.3% over the preceding financial year. The EBITDA for the year is Rs.242.75 crores, which is more or less 30% of sales. The PBT and PAT are respectively Rs.219 crores and Rs.173 crores, you will realize that this is after adjusting exceptional items for around Rs.47 crores, this is as a result of the write-off of the purchase cost of the brand acquired in 2013 and that is Nomarks. For the company, the 4th quarter has been very encouraging with sales of Rs.235.42 crores and EBITDA margin of Rs.75 crores. With this the volume growth, value growth and profitability, all are back with the bang. The turnover translates into y-on-y growth of 27.8% and volume growth of 23% on a y-on-y basis. The EBITDA is actually expanded and is currently at 31.88% of sales. After a tough financial year '14 and the equally tough first half of this financial year, the growth in turnover and volumes are back with the last two quarters we have clocked more than 20% growth in turnover and volumes. I believe this is a good sign of volume coming back into the Hair Oil industry. Though we do not have the March '15 Nielsen figures, the figures for April '15 in terms of offtake are not that encouraging. All segments within the Hair Oil industry are showing declines or low single-digit volume growths. As against last year, the overall branded Hair Oil industry has declined by 6.1% in terms of volume. Thanks to the increase in price of Coconut. The value growths are around 6% but volume has shown a decline of 6%. The Light Hair Oil industry has shown a decline of 2.1%

in the period April to Feb. This decline in Light Hair Oil is led by a significant slowdown in the urban demand. The difference between urban and rural growth for Light Hair Oil in the period April to Feb is 9.6% with the urban demand dropping by as much as 5.7% in volume terms.

On the market share front, the market share of Bajaj Almond Drops continues to go up and has reached all-time high of 60.5% in the Light Hair Oil category and 10.2% in the total Hair Oil industry. The brand continues to be the second largest brand in value terms in the branded Hair Oil segment.

While the offtake growth as per Nielsen have been under strain, COGS remain well in control. The fourth quarter saw the COGS at 37.91% as against 41.75% in the same quarter last year. This is primarily led by the prices of Light Liquid Paraffin. The current price of Light Liquid Paraffin stands at around Rs.61 per kg landed. As a result of this, the equated cost of LLP in 4th quarter is Rs.62.38 per kg as against 78.81 per kg in the 4th quarter of last financial year. This is a 21% drop in the price of LLP. The cost of most of the raw materials and packaging materials remain steady. This increase in gross margin during the quarter has helped the company invest in ASP; the ASP during the quarter was 17.4% of sales as against 15.5% ASP to sales ratio that existed in the 4th quarter of last financial year. At this stage, the price of LLP as per our opinion has hit the bottom and we have started building up stock to cover up our requirements for the 1st quarter of the current financial year. The EBITDA levels are now near all-time high of 31.88% as against 28.65% of Q4 of last financial year. This 323 basis points improvement has resulted in a much better performance this year. On an annualized basis, EBITDA stands at 29.6% which is 179 basis points higher than the levels recorded in the financial year '14. During the 4th quarter the increase in margins of 384 basis points has translated into 189 basis points increase in ASP and the 323 basis points increase in EBITDA.

The newly acquired brand Nomarks has closed the year with a turnover of Rs.58.21 crores. With the continued increase in distribution and the advertising campaign for Creams, Nomarks Cream has once again become the #1 Antimarks Cream in the country with a mark share of 17% and an offtake growth of 27%. Similarly, in the Antimarks Face Wash category, Nomarks Face Wash is a clear #2 brand and has grown at 58% during the period April to Feb of this financial year.

Despite the slowdown, we continue to focus on distribution of our brands; our brand Bajaj Almond Drops is now available in 2.78 million retail outlets through close to 7,300 distributors. During the last year alone, the brand has entered into 106,000 additional retail outlets across India. In comparison to the last 3-years growth in the number of outlets stocking Bajaj Almond Drops, this year has been much slower, but considering the difficult economic times that exist, even this growth is noteworthy.

Our focus on growing international business continues this year and the international business contributes close to 3% of total turnover for the company. This business has grown 55% on a

year-to-year basis though the job is yet not done and we will be seeing further investments in the international business and growths in the coming year.

After the end of last quarter we had announced that the company would aim to declare its results in the first 10-days of the month following the close of the quarter. I would like to complement the team for achieving this goal. The entire team has worked very hard to achieve finalization of accounts by the 5th of April so that we can have the audited results out on the 9th. My congratulations to the team.

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 Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir, my first question is on price hikes. Around time of April we normally take a price hike. What is the thought process this year – have we done something or is something planned in the pipeline on that front?

Sumit Malhotra: We have already done it. What we normally do is we start reducing the new price stocks in the last week of March so that the new price gets into the market early April. The price hike in Bajaj Almond Drops is 5% and in Nomarks is around 6.8%.

Percy Panthaki: Secondly, just wanted to understand this quarter, the spending increase has been more I think on the promotional front rather than the ad front. So any thoughts on that as to why this has happened?

Sumit Malhotra: Firstly, if you remember we had this discussion on the con-call last quarter also and there was a question on diminishing return on investment on advertising which meant that how long can you go on increasing advertising. I said that in ASP, advertising there is an optimal level and we had reached the optimal level last quarter itself, and therefore if you see the percentage of ASP spent on advertising it is more or less stable. The extra rupees spent on during this quarter has actually all gone into sales promotion. We actually still pushing volume growth because even though the parent growth is very high which is more than 20 or 22%, but offtakes yet not has caught up with these kind of growth rate as of now. So we will continue to push more on ASP because we believe advertising is at the most optimal level under the current circumstances.

Percy Panthaki: Sir, can you give us an idea about the secondary sales growth this quarter?

Sumit Malhotra: This quarter is around 13%.

Percy Panthaki: Again on the A&P you gave us a figure of 17.4 for ad and promo put together for this quarter. If you can also give the same figure for the full year sir?

- Sumit Malhotra:** ASP for the full year is 17.71.
- Percy Panthaki:** On the international business, can you sort of elaborate what the strategy is going to be, which geographies we will target first?
- Sumit Malhotra:** Initially, we would be appointing sole selling agents in a particular geography, get into that geography, then establish distribution, and then participate in kind of promoting the product above the line and below the line. We have currently got into the gulf, we have got into South East Asia, and we are looking at getting into other continents of primarily Africa because we believe Africa has a huge potential if not for Hair Oil but definitely for Nomarks.
- Percy Panthaki:** My last question sir is on the product mix. If I look at the Q3 numbers on a y-o-y basis and you have given the value and volume, if I just subtract the two and derive what the sort of pricing is for ADHO in Q3 on a y-o-y basis, the pricing was somewhere around 6% and in Q4 on a y-o-y basis it has come to around 4%. So is there some change in the product mix in terms of the SKUs which is actually causing this difference in the implied price growth?
- Sumit Malhotra:** Yeah, if you look at our product mix, you realize that the more we sell of the 1 Re. sachet, the smaller is the difference between volume and value, because there has been no change in that 1 Re. sachet for the last 10-years, right. What this means basically is that the 4th quarter the proportion of sachet sales to total Bajaj Almond Drops sales has increased; to give you a figure in the 4th quarter, 20% of our sales in out of 1 Re. sachet.
- Percy Panthaki:** And that is because rural is doing better than urban?
- Sumit Malhotra:** That is also because of the inflation effect on the economy that people are not willing to put down price point of 58 Rs. for a 100 ml, they would rather take 5 Sachets and use it, and when they have the money they will go back into bottles.
- Moderator:** Thank you. The next question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellapa:** Two questions from my side: Firstly, on the nature of our A&P spends, if we recollect I think previously you had talked about offering a free Toothpaste or maybe a Bajaj Neem Soap along with the Almond, has the nature of that promotion changed in the 4th quarter and how do you see it going forward? And secondly, how do you see the volume growth of the Almond category in FY-'15? And my third question is, we have recently launched a low price Amla Oil and this I understand that competes directly with Marico who has actually been quite aggressive in this space. So although it is very small at this point of time can you just share with us your thought process on launching this product, what the proposition is, what your expectation from the product is?

Sumit Malhotra: Karthik, first question on sales promotion, yes, we try and use more of our products during sales promotion but that is not always advisable or achievable. So in the 4th quarter we had actually a mix between our product and a bought out product. We had three promotions – one on Bajaj Almond Drops 100, one on 300 and one on Brahmi Alma – which was a mix of products produced in-house and bought out. The second question was on your Bajaj Amla. It is actually not a launch, it is a re-launch because if you look at our range before we had a product called Bajaj Amla Shikakai, and if you look at the end of 3rd quarter, you will see that that product was actually growing at more than 100%. So we said that if the product is showing promise without investment it would make sense on re-launching that and getting some excitement back into the category. So that is why we actually re-engineered that product so that our margins would go up and we could sort of invest more behind the product and we are going in for a regional launch over the last 2-months.

Karthik Chellapa: Sir just on related to that, do we right now have two Amla products side by side?

Sumit Malhotra: We always had two Amla – one was Brahmi Amla, the second was Amla Shikakai, now its Brahmi Amla and Bajaj Amla there are two; one is the high cost Amla, the other is low cost Amla.

Karthik Chellapa: Given our EBITDA margin right now is close to say historical highs and in the past we have always talked about re-investing some of our margin gains in promotion to drive volume growth, what kind of an EBITDA margin band are you looking at in the medium term?

Sumit Malhotra: Karthik, I think I said that many times we do not give guidance. So I am not going to give you guidance on EBITDA or growth of Bajaj Almond Drops. But I have stated that we have covered ourselves for the 1st quarter of this financial year and I think it would be easy for you to do a modeling on the EBITDA margins yourself.

Moderator: Thank you. Next question is from the line of Ajay Nandanwar from Hornbill Capital Advisors. Please go ahead.

Ajay Nandanwar: I had a quick question on your secondary sales in Q4 and Q3 also if you could mention that?

Sumit Malhotra: That was there in the previous con-call; both coincidentally are around 13%.

Ajay Nandanwar: That's in value terms, right?

Sumit Malhotra: No, we measure everything in volume, not value.

Ajay Nandanwar: And how would that be rural versus urban what would be that mix is?

Sumit Malhotra: Again, I mentioned the difference as per offtake because secondary you cannot track urban and rural, because a lot of the products being sold in the urban actually go into the rural area. So

the most authentic figures remains Nielsen's and the difference between urban and rural offtake for a period April to February is 9.6% with urban being (-5.7%) volume growth.

Moderator: Thank you. The next question is from the line of Apoorva Kumar from Jefferies. Please go ahead.

Apoorva Kumar: I understand you mentioned that there is some slowdown in urban markets. Of late we have been seeing rural slow down but that does not seem to have impacted the performance for Light Hair Oil industry. So just wanted to understand your thoughts on this and whatever outlook you may have on it?

Sumit Malhotra: If you have been following this company and the con-calls that we have been, urban has been slowing down over the last six quarters. So it is not something that has happened now. It has been negative for the last six quarters in a row, right. It is only the rural off take that has been actually driving this category in the last six quarters, right. In terms of rural growth in Light Hair Oil, I think that is basically because there is such a lot of opportunities still available for conversion. You know approximately 70% of India stays in the rural area and we get only 40% of our sales from the rural area. So that difference is there to be tapped through increase in distribution and appropriate advertising which is what we have been doing and that is how we have been gaining market share and gaining conversion from the other Hair Oils in the industry.

Apoorva Kumar: The government is planning to bring about GST sometime next year and there is this talk that a lot of organized players especially in the consumer sector might see some benefit. Just wanted to know if you have any thoughts on this as well?

Sumit Malhotra: I think most of this is conjecture because as far as I know the rate of GST has yet not been announced, and if that is somewhere between 21 to 25 and if it is 25, I do not think any of the existing large FMCG players will reap benefit because all of them are currently in tax-free zones of Northwest and Northeast, but if it is closer to 21-22, yes, you will see benefits reaping into basically the GM **(Inaudible) 22:45** but I think it is still very-very wishy-washy and you really do not know how to do the math if you do not know the final rate. If you do the rate in 23.5% of GST tax, we stand to lose marginally.

Moderator: Thank you. The next question is from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.

Suvarna Joshi: I just wanted to understand, taking forward this question on rural and urban, will there be continued offtake in the rural areas because you just mentioned that six quarters the urban has been slowing down, so with the MSPs and other things slowing down in the rural area, will there be pressure on rural front as well?

- Sumit Malhotra:** Not on this low put down price items. Yes, you will see pressure on the larger durables or vehicles and things like that, not on these small. Please remember, 100 ml Bajaj Almond Drops lasts for 1.5 months. Actually if you are talking about Rs.1.5 a day is the cost of using the most expensive hair oil that is why I state that things like MSP and the subsidies that are being offered would not affect us that early, it will affect us, it does continue, but the bigger ticket items will get it much faster.
- Suvarna Joshi:** Second question, as you just mentioned, that the coconut prices seem to be on the higher side. So has that really helped in gaining some kind of market share in the southern Indian region for us?
- Sumit Malhotra:** No.
- Moderator:** Thank you. Next question is from the line of Ajit Motwani from Bharti AXA Life. Please go ahead.
- Ajit Motwani:** Sir just wanted to understand this LLP price you gave for the quarter is 62.38 and I guess last quarter it was around 74. So roughly about a 15-odd-percent decline sequentially. So I think on the gross margins it should have impacted by about 180-200-odd bps but that does not seem to be pushing. Has the other prices gone up for veg oils and glasses?
- Sumit Malhotra:** The proportion has changed. So what you see last quarter, we had a higher proportion of sale of Nomarks and Almond bottles, this quarter like I stated upfront more of Sachets and less of Nomarks has been sold. So the change in mix has also caused the change in gross margins. To give you a realization, the gross margin on Sachets is slightly lower than the gross margins on bottles and Nomarks gross margin is much higher than the gross margin of Bajaj Almond Drops.
- Ajit Motwani:** In terms of the outlook on the volume growth, obviously, the quarter's volume growth are 23% on a lower base, if you were to look at a normalized growth ahead couple of years, so what sort of growth you are looking at for next year?
- Sumit Malhotra:** I just answered to another question that we do not give guidance right and the reason we do not give guidance is that we give every possible data in 'Investor Presentation' for you to be able to look at the modeling on your own and therefore I would avoid answering this question, I would basically say I do not give guidance on this.
- Ajit Motwani:** The 5% price hike is on all the ADHO?
- Sumit Malhotra:** Equated, it cannot be on Sachets and the smaller SKU because that is a problem on the coinage. So whenever I say 5% I say weighted average price increase on Almond Drops.
- Ajit Motwani:** You said you have locked in LLP for 3-months, right?

Sumit Malhotra: One quarter.

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

Tejas Shah: Sir, my question was pertaining to one recent media note which came 15 days back that National Green Tribunal is seriously considering banning Sachets packaging in India. So just wanted your comment at industry level is there any thoughts on the same?

Sumit Malhotra: Yeah, I think you remember the article, but I do not think you remember the article fully. The article was they are planning to ban Sachets on food products, and the reason is they believe that because of the PH the leaching of certain articles from the laminate could cause contamination into the food that you eat. Now Hair Oil is a topical substance. So any kind of leaching does not get into your body, right. So, yes, this has been flouted around for the last 10-years or more because people started launching things like pickle in a sachet and pickle because of the acidic PH does cause leaching of certain polymers from the sachet. In Hair Oil this is a neutral PH product, there is no leaching here. So I do not think it would affect Hair Oil as it is. Yes, if it were to be implemented, it would affect a lot of the food products they have.

Tejas Shah: Because the same article mentioned that Shampoo as a category will be impacted.

Sumit Malhotra: Shampoo is again alkaline, you know PH either is alkaline or acidic, both can cause leaching of certain heavy metals and polymers from the sachet or the polymer that is used for the sachet.

Tejas Shah: And sir second question is pertaining to Bangladesh subsidiary. How is the operation shaping up there?

Sumit Malhotra: It is slow and steady, it has become much better over the last 3-months, but we are still nowhere in terms of Bangladesh affecting our total sales which will be like I have always been saying anything in FMCG takes 3 to 5-years to really show significant effects, I think Bangladesh is another 3-years away from being actually reflected in the overall P&L or balance sheet of our company.

Moderator: Thank you. Next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Just one follow-up question. In the past you expressed sort of willingness to look at inorganic growth as well. So I just wanted to understand your thought process and I understand you are open both on India as well as International, but you would prefer India, correct me if I am wrong. But given where things are right now, do you think the likelihood of this happening is more on the international front or more in India?

Sumit Malhotra: I think first yes, we said that we are looking at inorganic growth opportunities. I have also said that the next inorganic growth opportunity event is at least 12-18 months away. So it is nothing that is going to happen tomorrow or day after. Regarding India versus outside India, we would

prefer India, but unfortunately, valuations are going very-very high and therefore, if we do not find something suitable in India, we may not take an international thing, but yes, you are right, we would much greatly prefer Indian acquisition being the next acquisition. The reason why we are going slow on this is that we believe that there is still lot of work to be done in Nomarks and looking at the performance I think this has an enormous potential for growth. So we would like to look at that before getting attention diverted to the new acquisition as and when this takes place.

Percy Panthaki: And on domestic, you made it clear that you will look at mainly the HPC basket and products which would benefit from leveraging your existing distribution. But if it is an international acquisition, then what is the approach or what is the sort of filters you will apply to decide whether it is worth it or not?

Sumit Malhotra: I think the biggest would be the distribution in that country because rather than use and milk that brand in that country, we would like to use it as a distribution reach for our products to get into that country. So unless it has a good reach in that country, really not worth, only trading is out there.

Moderator: Thank you. The next question is from the line of Jubil Jain from PhillipCapital. Please go ahead.

Jubil Jain: My first question is what is the growth rate in Sachets for this quarter?

Sumit Malhotra: This quarter is around 32%.

Jubil Jain: What would be the tax rate for next year?

Sumit Malhotra: It will still be approximately MAT; we have MAT credit which we started deducting from our actual tax liabilities.

Jubil Jain: So would it be around 20-21%?

Sumit Malhotra: Yeah, that is right.

Jubil Jain: Third, if you look at the breakup for LHO market, South India is just 4%. So, is there any strategy which you have in mind how you can penetrate this market?

Sumit Malhotra: Strategy is already on and we have been at it not now, more than five-years ago we started that strategy, but just to bring it into perspective, the strategy will yield results very-very late. The reason is very simple; here, you are changing attitude, you are not changing perception about a product, because to give you a marketing lecture again, perception of a product can be changed through communication. Habit has to be changed through generation. Because if I believe the best thing in my hair is coconut, you cannot change it by changing the perception on Bajaj

Almond Drops. You have actually got to change the perception on coconut first and then only you will try Bajaj Almond Drops, and that normally takes generation and often quoted example is the one of Corn Flakes and Kellogg's strategy entering into India and places like Brazil.

Jubil Jain: So, is there any plan to launch some other format of Hair Oil or will we be only pushing Almond Oil majorly?

Sumit Malhotra: Nothing that I can share with you at this moment.

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

Karthik Chellapa: Two follow-up questions: Firstly, on Nomarks if I remember right in the last three quarters, we have actually been seeing a steady improvement in the gross margin on account of the mix. Could you share with us where that gross margin stands at the end of the fourth quarter? And related to that, how much of the Nomarks sales would be coming from Creams and Face Wash?

Sumit Malhotra: The fourth quarter the gross margin on Nomarks is around 62; it is slightly lower than the gross margin in the third quarter basically because of the change in mix between domestic and international and between the products. You would realize that Soap has a much lower gross margin than Cream does. In terms of proportion for the year, we got around 42% of our sales from Cream, around 30% from Face Wash, around 20% odd from Soap and remaining from the other categories.

Karthik Chellapa: In terms of let us say a category like Face Wash, when we say #2, I recollect that the market leader is Himalaya who has about some 65-70% odd market share, what would our market share be today in the Face Wash category?

Sumit Malhotra: We would be around 6%.

Karthik Chellapa: We are like #2.

Sumit Malhotra: We are clear #2.

Karthik Chellapa: You also commented on the urban growth being weak for almost six quarters in a row right now. At a micro level, can you share us what exactly is going on – is it downgrading to lower ml kind of SKUs or is it down-trading to other forms of Hair Oil that you are seeing in the urban side?

Sumit Malhotra: Both.

- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** One question pertaining to Nomarks Creams. Could you help us understand what could be the YTD growth rate in this particular segment?
- Sumit Malhotra:** I said in my opening remarks that YTD offtake on Creams is 27% and on Face Wash it is 58%, not sales growth because it is not right to compare last year with this year because last full year we did not have this product with us.
- Nitin Gosar:** In Creams space, this would be largely coming in from territory expansion as of now or it would be more of repeat sales which has also gone in?
- Sumit Malhotra:** When I am saying offtake growth that comes from repeat sales.
- Moderator:** Thank you. The next question is from the line of Sheetal Bhat from Catamaran. Please go ahead.
- Sheetal Bhat:** Sir, wanted to know your thoughts on what direction the LLP prices would head over the next year or so? And if the company has entered into any forward contracts on LLP?
- Sumit Malhotra:** I do not know for a single analyst in the world who can predict crude oil prices and therefore since LLP is linked to crude oil I cannot really predict that, but we believe that the price has bottomed out and we would like to store as much as we can because none of these manufacturers are giving us long-term contracts; they are giving us spot buys and if you want, you can buy for 6-months a year and stock, nobody is going to give you a long-term contracts now, because unfortunately they cannot even predict the crude oil prices.
- Sheetal Bhat:** Have we stocked anything like more than a regular requirement at this point of time?
- Sumit Malhotra:** I said in the beginning that we are stocking up for the first quarter of this financial year.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Just wanted to clarify, you mentioned that you have taken a 5% price hike from 1st of April?
- Sumit Malhotra:** Yeah.
- Sachin Kasera:** This is across all packaging products or this is a weighted average for the entire basket?
- Sumit Malhotra:** I said, weighted average, because things like Sachets and the 20 ml which are at Re.1 and Rs.10, you cannot take a price hike.

Sachin Kasera: But you mentioned earlier in the call that the market is a little slow and you are going ahead and giving a lot of promotional activities especially on the sales promotion side. So, in that scenario, do you think the market will be able to absorb the price hike?

Sumit Malhotra: If you look at the 'Investor Presentation' we have a chart specifically giving you the market share and the prices for the last 11-years. For the last 11-years, never has the price increase affected volume growth. The reason why we are taking a minor or a small price increase is that we believe it is a matter of hygiene that you take small price increases rather than wait for LLP or glass prices to hit your book bottom line and then take one large price increasing. That is the only reason that we have.

Sachin Kasera: Considering that the near-term scenario on the input cost remains a little soft only, so we are going to further look in terms of increasing the sales promotion spends in that case or we would like to see that category reflected in better margins?

Sumit Malhotra: No, we would like to increase the category by investing behind it.

Sachin Kasera: So which means the current quarter margins are the margins you are comfortable, you do not want to ...?

Sumit Malhotra: Not comfortable, we are actually more than comfortable, we would be comfortable like I have always been saying with EBITDA of between 25% and 28% and 32% which is for this quarter is really very high.

Sachin Kasera: From what you are saying, can we infer that in the next 1-2 quarters, the ASP activity would further go up because you mentioned that you would like to go in terms of increasing the volumes more?

Sumit Malhotra: Let me answer it in two ways: One, in terms of percentages it will be this much, but since sales will be less in the first quarter versus the fourth quarter of this financial year, you would notice that fourth quarter normally is the highest quarter of sales. So, as absolute, it might go down slightly, but it will be right to assume that the ASP would be between 17% and 18% of sales.

Sachin Kasera: You mentioned in one of the previous queries that last you are 1-2 quarters focusing more on sales promotion because advertising has reached an optimum level. For the full year can you give us a breakup between what was the spend on advertisement versus last year and sales promotion for what was last year?

Sumit Malhotra: If you look at the LR you will get those figures, let me read it out from the LRs advertising for the full year has been Rs.58.26 crores and ASP total has been Rs.83 crores. So if you minus 58 from 83, so 25 is what is spent on sales promotion.

Sachin Kasera: What was the sales promotion figure last year?

Management: Rs.64 crores.

Sachin Kasera: Rs.64 crores was combined?

Sumit Malhotra: No.

Management: Then Rs.64 crores plus Rs.46 crores was advertising.

Sachin Kasera: So sales promotion has come down that means this year?

Management: No, it has increased.

Sumit Malhotra: From Rs.64 crores it has gone to 83 crores.

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

Sumit Malhotra: Thanks a lot to everyone who joined in the conference call and I think at the cost of sticking my neck out I will say that we would like to achieve even better margins and better growth in the coming quarter and coupled with the extra effort of the team, announced the result early so that we can focus on the current sales and the operations rather than wait a long time for us to look at the results and then bring it out. So, see you sometime in July 10th approximately and till then thank you, bye.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Kotak Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.