



“Bajaj Consumer Care Limited
Q3 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Bajaj Consumer Care Q3 FY2020 Earnings Conference Call hosted by ICICI 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. Manoj Menon. Thank you and over to you Sir!

Manoj Menon: Good morning friends. It is a pleasure to host the Q3 FY2020 conference call of Bajaj Consumer Care. Today morning we have the management of Bajaj Consumer Care with us represented by Mr. Sumit Malhotra, Managing Director, Mr. Jaideep Nandi, Chief Executive Officer, Mr. Dilip Kumar Maloo, Chief Financial Officer and Mr. Kushal Maheshwari- Head Treasury and IR. Now over to the management for the initial remarks and we could get into Q&A after that.

Sumit Malhotra: Thank you Manoj. Good morning to all and welcome to the conference call for declaration of the Q3 quarter results for the financial year 2019-2020 of Bajaj Consumer Care Limited. With me, are Mr. Jaideep Nandi, CEO of our organisation, Mr. D.K. Maloo, CFO of our organisation and Kushal Maheshwari, Head of Treasury and as we would all know he also looks after the Investors Relations.

The company closed the quarter with the operating income of 205 Crores. The operating income has declined by 7% vis-à-vis the Q3 of the last financial year. The volume has also shown a decline of 8%. The EBITDA to sales ratio is at 27.1% which is a decline of 560 basis points versus the EBITDA shown last year same quarter.

The EBITDA for the quarter is 56 Crores which is a decline of 23%. PAT and PBT are Rs.50.1 Crore and Rs.60.7 Crores respectively. The hair oil industry continues to see a sequential slowdown in growth rates as against of 4.4 volume per growth in the Q1 of the financial year. The Q2 slowed down to 1% and in this quarter a decline of 1%, so major contributor to this slowdown remains the rural sector which has seen a decline of 3% in this quarter. On the other hand urban volume growth has shown a minimal 1% growth.

All the subsegments of the hair oil industry except the low cost Amla hair oil have declined in volume and sales in this quarter.

The slowdown in FMCG and especially in the hair oil industry has affected the trade channels also. The cash tranche that has been visible over the last three quarters is even more pronounced this quarter. This has posed our channel partners to relook at their investments more critically.

Their trade receivables have gone up and hence to balance the exposure they are reducing the paid up stock. Other companies have begun to give credit to their distributors whereas we have refrained from giving extra credit there has been a reduction in this distributor stock.

Our association with BAIN has now been extended into the second state in India. The first state where we tried the strategy of micro segmentation continues to show a growth in sales which is

markedly different to the offtake of growths of the total hair oil as per Nielsen and also our own national secondary sales growth.

In the second state we were already the single largest hair oil brand and we are already seeing early signs of success. The micro segmentation forms the basis of the BAIN brand accelerator entails formulating different strategy for each state and even within the state to ensure that the consumers are aware of the differential benefits of our Deep Bajaj Almond Drops we are now spending more and more on TV advertisement. The increased level of our advertising has helped us increase the market share of Almond hair oil and total hair oil and we have reached the share of 10.4% in the month of December 2019.

We have also launched a new stock keeping unit for the price of hair oil which is 160 ml to play in the sub Rs.100 price range. We expect this SKU to help gain market share from other players in the hair oil space. The two areas of sales CSD and Nepal continue to bring down our overall growth numbers whereas CSD has shown a decline of 31% in Q3. We are seeing a 13% drop in sales to our Nepal importer. The endeavour to reduce operational cost is continuing and there has been a 133 basis point reduction in manpower cost. However the investment in advertising and sales promotion has gone up by 597 basis points this has led to the drop in EBITDA margins. We stand by our commitment to invest behind our hair oil brands to ensure that we double our market share in hair oils over the next four years to five years time.

Another key initiative has been to automatize our sales and supply chain processes. To this effect we have started implementation of SAP and also the use of Artificial Intelligence to improve the efficiencies of our sales force. To help our frontline sales team members we are working with a start-up to use Artificial Intelligence in improving the efficiency of the team. The app being developed has a capability to highlight outlets that can buy more to re-route beeps and also train the representatives on the go.

On the cost front we have exhibited our capability to absorb fluctuations in our RM PM even this quarter you will not see a major jump in the cost of goods sold and despite spikes in fuel prices we have been able to keep the purchase price of LLP well under control.

Finally I would like to also welcome Jaideep Nandi into the Bajaj family. Jaideep joins us after successful 29 years long career in Asian Paints. Currently, designated as the CEO he is undergoing an accelerated integration programme so that he can start contributing to the growth ambition of the company.

Thank you. We are now open to questions.

Moderator:

Thank you. We will now begin the question and answer session. The first question is from the line of Tejas Shah from Spark Capital. Please go ahead.

- Tejas Shah:** Thanks for the opportunity. First question is on interim dividend. I think perhaps for the first time in our listed history and surely in last many years at least last four years to five years this is first time you have not declared interim dividend, any rethink on the dividend policy?
- Sumit Malhotra:** There is no rethink on the policy. The only thing is that there was no visibility on the kind of spends we would need to build the total hair oil portfolio which could entail more advertising, more spend on infrastructure and acquisition and therefore the board thought that it would be better to wait for a few months and then declare a final dividend.
- Tejas Shah:** Earlier we used to say that at least 70% of the earnings, our dividend payout ratios will be maintained, so are we still sticking to that stance?
- Sumit Malhotra:** I cannot answer on behalf of the board because this is the policy that our stance the board will take in the next two months or three months but yes we are committed behind sharing the profits that we get during the year with our stakeholders.
- Tejas Shah:** Second on, if I look at your slides the BAIN led project which we have done in state one, we are clearly seeing benefit in the urban market share but if I see from August since the pilot was initiated in state one rural has actually gone through ups and downs even in market share, so if you can elaborate on what is going wrong and what is the pain point there?
- Sumit Malhotra:** The difference basically is that we were very strong in urban distribution in any case and therefore all the expense that we are doing in terms of building the brands, launching new SKUs etc., have shown results much faster in the urban area. In the rural areas our first approach was building distribution and as you would know it takes much more time to build distribution in the rural areas and that is why it is taking a slightly longer, even in state 2 if you see rural will react much more slowly than the urban area.
- Tejas Shah:** Lastly, should we see this heightened investment in A&P as new normal for annual basis or is it just case for this quarter?
- Sumit Malhotra:** No, you will see it in the next few quarters also because currently we are in two states. We hope in the next two quarters we will cover a majority of India and therefore wherever you go you will not see results immediately. Investments always precede results and therefore for results to really come there is a lag between when you invest and when you get returns it is not something that you press buttons and it suddenly investments starts yielding results and therefore you will see this and then I think it would turn. If you remember when the Chairman said that in the short run you would see a deceleration in our EBITDA margins but it would come back to either to normal 30% odd in a medium terms.
- Tejas Shah:** Sir if may squeeze in one bookkeeping question, what will be the cash on books as on quarter end?
- Sumit Malhotra:** 450 odd Crores.

- Tejas Shah:** That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life. Please go ahead.
- Trilok Agarwal:** Good morning and thanks for the opportunity. Just quickly because of the existing strategy of increase in market share through BAIN in one state and you are obviously replicating to other states, had you not done these kind of strategy, is it fair to assume that your revenues could decline or volume decline would have been much more sharper and also obviously given that all the other companies have also declared the results apart from the general rural slowdown coin whereby most of the people, what do you think is leading to such sharp volume deceleration?
- Sumit Malhotra:** Two quick questions. I think the answer to your first one Trilok is that what would have happened if we had not started this project. I think it is quite difficult to answer it because currently we are actually for the whole quarter we have only been in one state and I do not think that state was large enough to change the outlook of the whole company in terms of its turnover and profit and all that. That the first state was around 8% of my total saliency so if 8 grew X percent, it does not really change 100% of the turnover so the real effect that you see will happen when we get into a larger number of states. That is the one thing you need to look at. Answer to your broader question on what is happening. I think I will go back to the broken records like three things that are happening, one is, which has been happening for the last two years odd which is the change in the infrastructure itself of route to market which is the stress on the wholesale because all mass distributed products rely heavily on the throughput through wholesale and once this pressure on wholesale through demonetisation and structuring of the tax route have change, the wholesale definitely is going down and therefore in event actually your distribution in the smaller areas or rural areas is under stress. That is one. The second is, what I would like to call out is the cash crunch and today people are not being able to pay their suppliers on time. The big problem happens with the distributors who do not have very large working capitals but supplies to so many retailers and if they do not pay the whole payment cycle gets jammed and company like us who have taken a call that we will not provide credit because that is only one way of building stocks as per the distributor level. We do get under strain in a short-term. The third which is the biggest hit is the rural area and this is something which has gone on for my memory around six quarters already and what will turn that I am really not sure because we are used to receive monsoon will turn that but we had a decent monsoon and still the consumption has not grown up and you are seeing that in durables, we are seeing that in staples, we are seeing in all across that rural has not been responding as we have seen them respond in the past.
- Trilok Agarwal:** Given that context itself, and answer to previous question you mentioned that these sorts of margins of getting more aggressive ad spends and through state strategy. Given that we do not know how long will the recovery will pan out and obviously our strategy to expand, do you not think it is counterintuitive in that context because I know this in investment will play out in matter of two years or three years?

- Sumit Malhotra:** Trilok, you are right and it is counterintuitive and most companies have and will start reducing investments because they do not see when it turns but our thought is that this is the time to invest because the returns on your investment will be faster when there is less sort of noise in the market and which has been happening, to give you an example in one of the states we were targeting a X percent share of voice and we were spending on that expectation that Y amount of money will give you X amount of share of voice what actually happened we spend Y amount of money and we got two X share of voice. This means that the competitors are actually reduced investments and therefore with the same kind of money you are the getting a much bigger eyeballs with the consumer and we believe that and I think I have been saying that for the last seven years to eight years when the industry is down that is the time you invest and not conserve money because conserving money is really does not help you there.
- Trilok Agarwal:** Okay and lastly what is the salience of e-commerce for you guys and how is it growing?
- Sumit Malhotra:** It is growing at around 80% this quarter but it is still marginally and under 1%.
- Trilok Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mihir Shah from Nomura. Please go ahead.
- Mihir Shah:** Good morning. Given the current weak demand environment can you throw some light on the competitive intensity on the hair oil category and the subcategories currently?
- Sumit Malhotra:** See currently if you look at the competitive in density a lot of fight is happening in the low cost brands and therefore big one's the two big players in hair oil are fighting among themselves for the low cost and people have not really started investing beyond their market shares in the premium products and this is logical so if you are in that segment you will face a lot of stray bullets if I can put it but in terms of other major part of the market, investment is not so high. New launches have been delayed, route to market exercises have been put on hold so a lot of companies have actually taken the defensive stance rather than the offensive, the only segment where you see the offensive initiative that has happened sometime in October and part of November that has also cooled off is in the low cost brands that are there in the hair oil industry.
- Mihir Shah:** Understood and Sir in your opening remarks you had mentioned that all categories in the FMCG of course except for the low price Amla hair oil have seen volume decline and value, can you elaborate bit more on that so it is only restrict to hair oils or other categories as well, I missed that part?
- Sumit Malhotra:** I said all categories including hair oil that is what I have said. Yes all categories mass categories like shampoo, soap, toothpastes all have seen a slowdown in their overall consumption volumes.
- Mihir Shah:** Value also?

- Sumit Malhotra:** Some case values has gone up but they have not but currently it is safe to assume that volume decline will happen in value also because people are downtrading in all segments. Really will you find any segment where there is premiumization which is working currently.
- Mihir Shah:** Understood got it, thank you. I have one quick broad level question for Jaideep. While I am seeing in your presentation you entail the strategic choices of doubling market share and focussing on what hair oils what we know, maybe if you can just throw some light on insides on your vision for the company and maybe apart from the strategic choice I mean see focus areas that you will put your energies into, Jaideep?
- Jaideep Nandi:** I have spent about month and ten days or more into the trying to understand how this category works, so two–three things clearly coming out are clearly with Almond Drop we have a brand which is extremely strong that puts up actually in a strong foundation that is not nothing unknown to all of you guys that clearly is coming to me as an area which can be a great foundation from where we can start. So some of the strategic choices that the company has already embarked on whether be it BAIN, whether be it investments in the various areas like SAP, Selina which was AI tool for the front end sales guys I mean that itself would put in exactly what Sumit was saying, one side we are investing on you are looking at the ad spends going up so we want to bring our brand into a far greater space you see some works that will happen on our main flagship brand. On the other side with BAIN we are also looking at segmenting the market a little more focused we have had some learning in the last seven months to eight months as to where possibly we can shop in our strategy and that would I think will be the going forward for the next one year our focus will put our heads down and focus on what we need to achieve for the next one year. Get some confidence back across all of us and then we will look at what we need to do maybe a little later as to how the three years to five years will pan out.
- Mihir Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shirish Pardesi from Centrum Broking. Please go ahead.
- Shirish Pardesi:** Thanks for the opportunity. Just wanted to understand few clarifications, so you said your second state which has shown the number, will you be able to share what kind of sales you have at the second state where you have done this pilot?
- Sumit Malhotra:** It will be around 20%.
- Shirish Pardesi:** Sumit if I heard correctly you said you did not get the full quarter benefit till this date, so would you be able to share how this has happen in month of January?
- Sumit Malhotra:** No, I cannot because I have not shared it with everyone, I think this call is basically for Q3 and let us keep it to Q3.

- Shirish Pardesi:** Okay. You also did mention Sumit that you have not extended the credit and because of that your credit inventory would have come down and probably that is the right strategy what you have taken that and the competition is not spending on advertising and we are pushed the inventory and focussed on the inventory, so would you be able to share or quantify what kind of inventory the channel would be poised now?
- Sumit Malhotra:** Currently it is holding around 23 days of stock that is our distributors which means our distributor plus the super stockist who supply to the rural areas. The highest which was around three odd years ago was 42 and we were stable at around 30 in the first quarter of this financial year.
- Shirish Pardesi:** The next question, you mentioned that your net sales, has declined 7.4%, would you just quantify what kind of decline in ADHO in terms of volume decline?
- Sumit Malhotra:** See it is mainly ADHO, so ADHO it is volume is around 7.2% volume.
- Shirish Pardesi:** In the quarter.
- Sumit Malhotra:** Yes in the quarter.
- Shirish Pardesi:** My question is related to that, what could be category growth because the presentation does not have because earlier you used to give that growth number?
- Sumit Malhotra:** See in my opening remark in which I said the category has declined by 1% by volume.
- Shirish Pardesi:** I am saying light hair oil.
- Sumit Malhotra:** We now do not measure light hair oil and this is the conscious decision we took in May of last year and therefore actually if you look at it the category in light hair oil is Bajaj Almond Drops because currently we are something net 64% market share so you do not need to ask me that question light hair oil could decline or grow as much as Almond Drops.
- Shirish Pardesi:** That is exactly Sumit what I wanted told in for it that has you gained the market share on actually?
- Sumit Malhotra:** We do not follow it so I would not to comment and change our strategies because of this question.
- Shirish Pardesi:** Okay and the last question on CSD will you be able to tell us what is the nine month number this year and last year?
- Sumit Malhotra:** Nine month CSD is -29%, Shirish it is -30% for nine months or so.
- Shirish Pardesi:** -30 nine month also Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset. Please go ahead.

- Rahul Ranade:** Thank you for the opportunity. Just wanted to understand what is the sense or what is the thought process that goes behind selection of states for the BAIN strategy as in the first state we took was a low saliency kind of a state and the second state is kind of 20% saliency with a good market share also. So what is the logic?
- Sumit Malhotra:** Five things we go back. Number one is the size of the state. We obviously do not want to take a state which may be 1% or 2% of our total turnover and even if you succeed or fail it does not matter that is one. Secondly, your market share of Almond oil in that state because if you take a place where your market share is 1% and again like the first question double it, it really does not move the needle too much. The third is the number of different players that exists in that state. So if you have a state where you are the clear leader and you do not have competition what is the point in trying to do that. The fourth in my opinion is your own strength, by my strength I mean my own infrastructure, number of distributors, number of sub-stockists, number of people I have, what kind of team do I have out there and last but not the least, how much you can divide that state in to cluster because this whole exercise backbone is that you do micro segmentation and suppose I have state that does not have a cluster then I am really not experiencing what I want to experience and therefore it is very difficult to decide whether the strategy is right when it comes to micro segmentation or not.
- Rahul Ranade:** Okay so more the number of clusters you can divide the better it is?
- Sumit Malhotra:** It is better to experiment. Now the next state will not be experimentation. So now we are past experimentation, now we have a much better idea what is working what is not working, where have we gone wrong we are aware of it so now you will have a bunch of states coming in together and not one state at a time because if you go one state at a time it will take you years for the whole strategy to start showing visible results.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. The next question is from the line of Alok Shah from Edelweiss. Please go ahead.
- Abneesh Roy:** Thank you, this is Abneesh here. My first question is I do not see any mention of Nomarks in the entire presentation. Has BAIN suggested that that it is better to focus on hair oil where you already have a very good position, is that the conscious strategy?
- Sumit Malhotra:** No, BAIN did not get into the structure of the organisation. This partnership is basically to see how we can double our market share in hair oil. Their objective was not to see how we can restructure our organisation. That will come later after we see success here but currently they are not suggesting anything like that. It is our internal assessment that we do not have the resources to fight both battles so let us focus on something that we are more confident, we have more visibility and we have the support of our strategy that most probably would work going forward.

- Abneesh Roy:** We have seen 80% growth in e-com and you have mentioned double the market share in Grofers so have done anything specific in Grofers and how have you done in Big Basket which I think is much bigger than Grofers so I think it will be more relevant how you have done there?
- Sumit Malhotra:** Again it is basic marketing. You should have a product, you should have a way by which you can tell the consumers what you are trying to indicate and give an exciting offer. We tried it out in Grofers and the route we are taking everywhere is do not go out, try out in small pockets where you have a right to win, once you win you will take the learning and the failures into support and then go broad base. So yes Big Basket is much bigger. We did not start off with Big Basket we started with Grofers and probably in the next one or two quarters you will see a similar kind of slight pause for other e-commerce players also.
- Abneesh Roy:** But on CSD in Q2 you mentioned because of the name change there was no sales so now this time there is a 30% dip, so is the worst behind that name change those issues are behind now we can see similar kind of growth versus the national average so similar growth happening there?
- Sumit Malhotra:** I would have like to say yes but after meeting the people in CSD I would say I am not so sure because it is not only name change, it is not only stock correction, I think this is rethink in CSD itself and that in my opinion and this is personally my opinion after meeting the senior officials in CSD they themselves are not very sure of what direction to take.
- Abneesh Roy:** Sir on follow up on competition so Dabur after a leadership change is in general more aggressive and in Almond also they are quite aggressive and similarly Marico has come out with the dry fruits oil, are these an extra issue on terms of competitive intensity because for you obviously Almond is very important so if you comment on the competitive intensity in terms of trade margins and in general pricing is there a big concern?
- Sumit Malhotra:** Yes, there is because obviously they are also under stress you read the commentary on both these two competitors, both of them are under strain. So they are trying in their own way. Some of them are trying the low cost variants, some guys are looking at using only modern trade as a way to gain market share. So each has his own strategy but my contention has always been that more the competition better it is for the category and unfortunately after the burst in October-November, December-January has again seen a slowdown in advertising of most of the hair oil players.
- Abneesh Roy:** Last question to Mr. Jaideep Nandi he has spent only a few weeks and obviously that is a short time but his experience has been in a world class company Asian Paints we all know the systems and processes are there. So anything he has identified in terms of applying as a change in terms of system strategy, in terms of the overall information, matrix etc., anything you can highlight I know this is all competitive information, can you highlight a bit on that?
- Jaideep Nandi:** One of the things that again as you rightly said Asian Paints is a very different kind of a size with a different kind of process systems but one of things is that I like straightaway in this company is in terms of basic overall controls in the company is very good, it is pretty good straight forward management so that is a extremely good point to start with. Obviously with any new thoughts I

mean there will be some changes in process systems that we would like incorporate as you rightly said and it is too early we are also going through the process, we would also like to see how our management committee is also looking at the future and looking at how process systems etc., can changes which and how we evolve our strategy over. So that is something we will be on work in progress may be in the next few quarters hopefully we should be able to see some change.

- Abneesh Roy:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Sir I just wanted to check whether you have taken any price increase through the year in particularly ADHO?
- Sumit Malhotra:** Like I said earlier the only price increase we took was in April so post that we have not taken any price increase.
- Shalini Gupta:** April of 5% right?
- Sumit Malhotra:** Yes.
- Shalini Gupta:** Alright. Thank you Sir and right now no-no case of price increase also I suppose?
- Sumit Malhotra:** I am sorry I cannot share.
- Shalini Gupta:** It is okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Prashant Uppuluri from Foyston. Please go ahead. As there is no response from the participant I have muted the line. The next question is from the line of Sonal Munnar from Prescient Capital. Please go ahead.
- Sonal Munnar:** I just wanted to understand may be directional view on how do you want to build the hair oil portfolio specifically with regard to the M&As directionally if you can share some light on that?
- Sumit Malhotra:** We have said that our ambition is to double our market share in hair oil and we internally realize that in all states you cannot possibly do this through Almond oil alone so we are looking really at various types of oil that we have in our portfolio and we may need to add certain types of oils. Now in the last part which is the addition of other hair oils, we will be analyzing on whether it makes sense to build a brand or buy a brand and that is why the third part of acquisitions may come into force.
- Sonal Munnar:** Got it Sir and it will be largely around the hair oil or you are talking about hair as a larger category just to understand that?

Sumit Malhotra: Currently in the short term it is only hair oil.

Sonal Munnar: Okay got it. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Fine Wigs Invest. Please go ahead.

Sanjay Singh: Sumit, your advertising spend in the presentation is 21.7% right, but that will entail having it in the statutory line items?

Sumit Malhotra: Well at large you do not need to put it there it is all in other expenses.

Sanjay Singh: Sir I did not get you?

Sumit Malhotra: In LR that is limited release that we do you put it all in other items then.

Sanjay Singh: Okay it is not a 10% of sales benchmark?

Sumit Malhotra: No.

Sanjay Singh: Okay and this would be completely above the line because now below the line is?

Sumit Malhotra: It should be below the line also something which is not specific to any invoice.

Sanjay Singh: Yes I am sorry I am talking about trade promotions not below the line sorry?

Sumit Malhotra: Yes lot of it goes in the Ind-AS and is knocked out from the topline but they are fair bit of below the line activities that features and sales promotions also.

Sanjay Singh: Okay and your market share would be this quarter how much?

Sumit Malhotra: As such 10.4% in December.

Sanjay Singh: And what would be like-to-like a year back or whatever number you can give?

Sumit Malhotra: It will be 9.6%-9.7%

Sanjay Singh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Awiga Capital Advisor. Please go ahead.

Jinal Sheth: Good morning Sumit ji, just to touch back on the point that you mentioned about dividend, so one thing that you mentioned in that is that we are open for acquisition in hair oil segment in that particular market if you find only is that right?

- Sumit Malhotra:** I think you misunderstood me. What I have said was that we do not have the visibility at this point of time to decide how we will allocate the money that we have because currently we are spending only on advertising, we may need to spend on infrastructure building and possibly acquisition, so to answer your question at this moment, I do not know whether there is acquisition how much I need to pay for that acquisition but like I said for the last question is that is one way of doubling your market share also.
- Jinal Sheth:** Right so one thing you are open for that is what my question is?
- Sumit Malhotra:** Yes, it is the part of the strategy and it was the big distance generalised that you are not looking at a national strategy so I can actually buy a regional brand just to gain or double market share in one region or one state rather than buy for a national rollout and all that. If you remember earlier we used to say that let us buy a regional brand and take it national. Here we are saying it we will pay for that regional brand so that it helps gain market share first in that region itself.
- Jinal Sheth:** Understood and as you mentioned that suppose by the next few months once you guys are clear on your spend you guys would mention the incomes to the capital allocations whether there will be a dividend, there would not be a dividend. There will be some sort of clarification would that be fair?
- Sumit Malhotra:** Point number one yes, there will be clarity in the dividend payout. More dividend, I do not believe I cannot make a statement but I doubt whether that will be option. But when, how much and what would be the allocation of the money that I have with me.
- Jinal Sheth:** Great and lastly you still are seeing trends negative in the rural, are you seeing any bottoming out or still continues to be negative?
- Sumit Malhotra:** Again sorry to be pessimistic, I am not a pessimistic guy but January has been worst than December.
- Jinal Sheth:** Thank you.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir couple of follow-ups, if you reconcile the commentary from FMCG companies this quarter or in the recent past also there is a consensus on rural slow down. But when we do a similar exercise for established hair oil brands the category slow down is a consensus but when we compare it with some of the new premium brands in the hair oil categories there has to register healthy growth. So how should one read this trend is it just base effect or there is volume migration in favour of new brands?
- Sumit Malhotra:** These new brand normally will not have a distribution nor a mass distributed brand outlook so these would be possibly niche brands or highly urban brands or brands that are promoted largely through modern trade and e-commerce. So they are then in the different playing field apart from

the base effect because if I have brand which is one-tenth of our size and available only in modern retail you could show growth.

Tejas Shah: Sir you are essentially saying that these new brands are largely driving growth through modern trade or new commerce strategy is that correct?

Sumit Malhotra: Modern format and e-commerce.

Tejas Shah: Sure and last question for Mr Nandi, Sir the early days that when we compare the hair oil category with your earlier category let us say coatings, the penetration level is materially different and over here the challenges and opportunities are slightly different. So what is your first impression of hair oil as category since now company is also committed to this category for future growth?

Jaideep Nandi: Because it is so highly penetrated and we having a market share now that our entire thought process has changed rather than looking at light hair oil as category at overall hair oil itself. I mean clearly it gives us much larger play for us so all these strategies as far as BAIN is concerned or even otherwise internally that we are doing is more to play in the larger play and if that means whatever that means as Sumit said rightly pointed or eluded to whether that means acquisition, whether that means a little larger brand portfolio play I mean these are the spots we would be looking at so rural clearly is an area where we have lesser presence at this stage and that market is clearly struggling at this stage. But clearly there is also opens up for spaces where we can play so may be next year you will see some play from us which will be more focussed geographically as well in terms of product portfolio which we would play for. Next one will be more of possibly if you look at consideration of where we are using the ADHO as a base refencing ADHO and may be looking at where else we can go, so whether we thought in to that, whether be some of the other markets that we have through trades and that is what we will be.

Tejas Shah: Thank you.

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

Harsh Shah: Thank you for the opportunity. First thing you have been highlighting about the challenges that wholesale network is facing so can you just tell us what is your direct distribution today and what is your target going ahead how much of occupied overall distribution are you targeting in terms direct?

Sumit Malhotra: Our total distribution is 40 lakh outlets. Normally a good FMCG company aims for 20% so our aim remains for direct distribution at around 800,000 outlets. Currently we have 5.2 lakh outlets direct distribution both urban and rural.

Harsh Shah: And what is your target in terms of increasing the overall distribution?

- Sumit Malhotra:** Overall distribution is a summation of whatever pull you get so you actually target direct distribution and overall distribution is result of various other segments that you push which could be a pull or a push driven strategy. Pull through advertising, push through wholesale.
- Harsh Shah:** Can you just explain what is this line item called government grant in the P&L last year and year before, 25 Crores in FY2019. Can you tell us what that exactly is?
- Sumit Malhotra:** Where have you picked that up?
- Harsh Shah:** This is in the annual report, government grant other operating income?
- Sumit Malhotra:** Those are GST refunds. You are reading from the annual report last year's annual report. Those are GST refunds. We were granted GST refunds for our presence in the northwest and northeast tax free areas so what the government said that you would get a refund of 58% of the Central C-GST that you pay and that is the government grant that you see there.
- Harsh Shah:** Just for clarity I think in Q2 and even in Q3 what you have seen is that the overall industry volume growth while it has been tapped, Bajaj Consumer's volume growth has been even lower than industry, is it because of the fact that you are not extending credit or is there any other reason?
- Sumit Malhotra:** There could be multiple of reasons. It could be credit. It could be that our strategy is currently focussed only on a few states so we are not yet going all out probably that could be one of the reasons for this.
- Harsh Shah:** But you are targeting even volume market share?
- Sumit Malhotra:** Volume, value both.
- Harsh Shah:** Thanks.
- Moderator:** Thank you. The next question is from the line of Shirish Pardesi from Centrum Broking. Please go ahead.
- Shirish Pardesi:** Sumit, just one quick question. We are saying that the ad spends in this quarter has gone up substantially and I picked up that you say that focus is going to be now more on cluster based approach and we might go may be two or three more states in the near term. My only question is that this ad spent if you can split at what how much it has gone up for these two pilot states and outside that, is it that largely the states require out of proportion spend than that could be the next like when you are expanding your pilot any more states.
- Sumit Malhotra:** Shirish, I will not split it for sales figures that is something that remains the internal thing but yes the logic is this that normally when you advertise you advertise in relationship to you market share. For example, if you have a market share of 10% in a particular state, your GRP should total up to a share of voice of around 10% give or take a percent. What we are actually strategically done is

that we have looked at a much higher share of voice to the market share that we have and therefore in areas where let us say we have 10% market share we have gone to the extent of pumping it 20% share of voice. Now this is done when you want to aggressively grow your market share and remember this is not one month or one week or one quarter this is something that you will have to continue for a longer period and therefore my answer to your earlier question on how long do you see this ASP at such a high level I said at least for the next two or three quarters because that is something that will be required to grow your market share aggressively.

Shirish Pardesi: Yes I do understand Sumit what you are saying I am only making some mathematics calculation, you said that top two states where you have gone and that is pilot your contribution towards sales is about 23% and your advertising as a net sales as a percentage has gone up to 27%. So is the strategy is that the more number of states coming under this programme which is done by BAIN and Companies strategies. Your expense may cross be 30%-35%?

Sumit Malhotra: It would not happen because the first state was media as labels so I could spend only for that state, the rest of the states are not as label so it is not that I go into another state and my advertising doubles again. You should realise that and that is why I am not willing to give you numbers to support your calculations.

Shirish Pardesi: Thank you.

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

Sumit Malhotra: Thanks all of you. I think it has been a very good conference call and like I keep telling you guys you force us to think more than you think and that is one thing I will always look forward to. Thanks for having trust in us and supporting us for the last nine years that have been listed. Looking forward to coming back with much better numbers and may be like people said healthier dividend in the next concall. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.