



“Bajaj Consumer Care Limited
Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Bajaj Consumer Care's Q2 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. Vismaya Agarwal from ICICI Securities Limited. Thank you and over to you Sir!

Vismaya Agarwal: Thank you Nirav. Good morning everyone. It is a pleasure to welcome you all on behalf of ICICI Securities for the Q2 FY2020 Bajaj Consumer Care earnings conference call. I would like to thank the management for giving us the opportunity to host the call. From the company side, we have with us today Mr. Kushagra Bajaj, Chairman, Mr. Sumit Malhotra, Managing Director; Mr. D.K. Maloo, CFO; and Mr. Kushal Maheshwari, Head Treasury & IR. I now hand the call over to Mr. Bajaj for his opening remarks. Over to you Sir!

Kushagra Bajaj: Thank you everyone for joining the call. My name is Kushagra Bajaj; I am the Chairman of Bajaj Group and Nonexecutive Chairman of Bajaj Consumer Care. I would first like to apologize for cancelling the call last minute for Tuesday, I had to travel on urgent meeting therefore I had to cancel the call, there was no other reason so sorry about that last minute thing.

I would just like to give you an overview of what is happening in the company as you might have read and seen the promoters have sold 22% stake a couple of days ago in the secondary market, with that the money has come yesterday, we have repaid our entire personal debt yesterday and there is no more personal debt at the promoter level and with that all pledges on the stock will go away so that is one development. Second commitment is that no further debt will be taken at the promoter group level and no more pledges of Bajaj Consumer Care stock will be done going forward. That is one thing I would just like to put it on record. For us in the Baja family reputation is much more important than money because reputation is built over generations and once lost can never be regained, but shareholding once fallen can also through creeping acquisition be regained over time, and I assure investors none of us in the promoters are interested in selling the company to any third party. On the contrary as liquidity in the group improves over a period of time as per the laws of the land we will increase our shareholding to at least 51% through the creeping acquisition route.

Second the question, which everybody has, is on the search for the CEO. We are almost on the verge of finalizing between two people and hopefully that new person should join by January of 2020 in the role as CEO, that does not mean that Sumit Malhotra is going anyway in the near-term because there will be a handholding period and which is required both from Sumit's end and from the new person who is going to be joining as CEO from his end, the final modalities of compensation, etc., being worked out, but by and large there is a meeting of minds, we have met this gentlemen for at least five, seven times between Sumit Malhotra and myself and hopefully the final compensation issue and the timing of joining should be finalized very, very soon. Even if 99.9% this will work out, but say 1 in a million were not to workout. Still Sumit is here until

replacement for Sumit a new incumbent is found and there is no risk on continuation of business. Let me state that very, very clearly.

Third as you know we had appointed Bain consultants to look at strategy and growth, we had taken one state, it is there in the presentation, which has been uploaded on the website and that one state, which we had taken was West Bengal. We started the whole execution strategy in the month of July exactly on July 11, 2019. Just like to give you what has happened over there. The West Bengal market for the total hair oil segment has degrown in terms of value, has grown at 2% in the month of July, -3% in August and -6% in September, this is West Bengal, urban and rural together, this is value growth. Volume growth in West Bengal was for the industry, for the total hair oil industry was -6% in July, in August -9% and in September -11%. So this is data for the industry as per Nielsen. We in those three months have grown, our primary sales have grown at 19% in July vis-à-vis 2% for the industry, in August we grew at 15% again primary sale against -3% for the industry and we grew at 10% in September against -6% for the industry, this is all like-to-like comparison. Compounded primary sales grew 14% against -2% for the industry in West Bengal. Our secondaries were much higher than our primaries in West Bengal with the new strategy in place, secondaries against 14% compounded for three months was at 19% so this has been done actually we have reduced inventory in the pipeline even though our volumes have been disproportionately higher, so our secondaries in July in West Bengal were 20%, in August 22% growth and in September 17% growth, so this is not euphoric, we cannot say that we have succeeded in our strategy, but the initial signs are very, very positive and inspiring this is in a category, in a state where the category is degrowing in terms of volume, which is again very, very rare, we have not ever seen that for the category at least in the last five, seven years, we have grown at double digit, so obviously we have done some of the right things in terms of our strategy with the help of Bain.

We would now continue to push in Bengal and we would be taking up from November 1, 2019 a very large state, which for total hair oils and we will be following the same Bain strategy over there from November 1, 2019. If that state also outperforms significantly the industry growth then we would implement this pan India sometime in the middle of first quarter 2020. So that is the strategy going forward, I think our emphasis is very clear on growth and getting market share. Let me emphasize this would mean that we would be significantly increasing our A&P spends as we go forward and go pan India. Today we spend between 16% to 18% on advertising and sales promotion, we could operate to as much as 23% to 24%, which could mean that once we go pan India, which could mean that we would sacrifice on margins in the short-term maybe for a year or so, but we are okay with that as long as we get increased market share.

We are assuming that over the next four to six quarters industry growth will be flat, will be zero and in spite of that we want to grow in double digits to gain our market share so that is where we are on our strategy let me be reemphasize strategy is to grow double digits we have done it in one state West Bengal, second the results for last three months have been quite encouraging we cannot say it is a home run or we have completely succeeded still too early we would be implementing it in a very, very large hair oil state from November 1, 2019 and then we would

wait for two, three months results over there also. Once we have that confirmation in terms of actual volume then we would go pan India with the same strategy, obviously the strategy is to identify gaps and then form separate execution plans for each state, not even in state even within the state we are baking up the states also in to different geographies and for each geography we are having different strategies. So the emphasis is to gain market share as stated in the May presentation from 10% to 20% as soon as possible and for that we would be significantly increasing advertising and sales promotion spends even though the economy is slowing down, even though the category is slowing down, and should remain slow at least in the short to medium-term, but our emphasis on growth, capturing market share, so that even if it means reducing margins by couple of percentage points over the next 12 to 18 months, but the idea is that at some point the economy will start growing again and if on a larger base we have a larger market share then the delta to earnings will be significantly disproportionately higher. So that is the third thing that I would like to highlight.

On the cost cutting front, we have been quite successful in implementing some of the cost cutting initiatives that we have taken and hopefully by June of next year the entire target that we had set out for cost cutting would be fully implemented. We have also initiated automation the next step AI automation in terms of we already have handheld devices, but now there is an AI tool, which is available so it is only for sales people, which is available on handheld, which we are implementing and that tool will basically make it easier for the sales officers the ISR the lowest sales people in the organization make it user friendly for them exactly what they need to do for the day or for the month and what they have done wherever gaps in the market in terms of the people whom they are selling to or the SKUs, which are slow moving, fast moving, etc. So it basically make it very user friendly and it is an app so we are in the process of implementing that. Two we are in the process of implementing SAP across the organization and hopefully by March SAP should get completely from production all the way to sales, it will be fully automated. So we are doing that exercise and as I said on the cost side we had initiated a target of about 16 Crores of cost saving I think we have achieved 5 Crores as of now and the rest will come by June of next year, so that is on track. This cost saving includes manpower reduction out of about 500 people we have almost downside 89 people already other than this include sales as well as general support, which includes all other departments. Basically now the whole strategy is growth even in a slowing category, slowing economy and we will leave no stone unturned to get that growth. With that I would like to all wish everybody a happy Diwali and a very prosperous New Year and hand over the thing to Sumit Malhotra to take the matter and if he had anything further to add and then we will open up for questions.

Sumit Malhotra:

Good morning all of you. After the initial comments by our Chairman, I would just like to add one or two things that has been concerning most of you, which is the actual slowdown in the industry and there are two or three points to be noted in the slowdown at least ever since I have been in this industry I have never seen hair oil growth so gloomy. In the second quarter of this year the volumes are flat, that is a big cause of concern, but the bigger cause of concern is the growth engine, which used to be the rural growth is for the first time negative. So in the second quarter total hair oil has degrown by 2%. The third thing that really concerns all of us is that

urban is actually now outgrowing rural and if this continues you will see a longer-term period of zero to flat growth in the coming quarters, I think this is something that all of you have been quoting in your various reports and we see it in figures that we are getting from Nielsen and from other agencies like Kantar IMRB that is the first point. The second point that people have been talking about is cost and fortunately the cost has not gone up for us and this is a statement on our affectivity in spite of maintaining cost and like you have seen over the last three, four years even in bad times we have been able to maintain or better our margins and this quarter also we have been able to do it quite successfully, which is available in your presentation that we have done is despite increase in my A&P by around 160 basis points my EBITDA has not gone down. The third thing I would like to talk about is that the Bain experiment as we called it has done quite well in the state that we piloted it and this has given us a lot of confidence and we are well into implementing it in the second state and we will keep you all informed as we go along. With this small synopsis I would now like to hand over the mike to you all to ask your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Laxmi Narayan from TN Capital Advisors. Please go ahead.

Laxmi Narayan: I have two questions, the first question is with respect to your direct coverage which you actually increased substantially over the last three years, now what is the growth you are getting from the direct coverage what is the mix between the old and new and what is the cost of increasing the distribution that is my first question, my second question is related to the uptown property, which we applied in 2011, what is the plan for that do you intent to infuse more capital into that and what is the end plan for that, so these are the two questions?

Kushagra Bajaj: I am Kushagra Bajaj I will answer the second question on uptown because I would like to just nib that question permanently. We are building our own office building on that premises, we are waiting for final approvals from BMC it is a mess in BMC to get approvals we are not asking for extra square feet so we are waiting for final approvals and we will start construction on office building on the uptown property and obviously that would require capital to be put in to build that property so as and when we get approvals we will then go about and building that building.

Laxmi Narayan: What is the kind of outlay you are expecting for the next three years towards this?

Kushagra Bajaj: I think over the next 18 months will be about 25, 30 Crores for basic civil works and then the interiors and things like that, but we have projection of about 18 months after that the interiors will cost us significantly more, about 25, 30 Crores over the next 18 months once we get permission and we still have not got the final approval, so hopefully should get this final approvals in the next two, three months and then we should start civil construction work should be digging and piling and things like that and then we will start the civil work and then once the civil work is complete then the interiors can start.

Laxmi Narayan: And it is just how the Bajaj Consumer Care it is still larger premise?

- Kushagra Bajaj:** No it will have all the group company offices so from promoter offices to part of the energy business, part of the sugar business and the consumer business and if there is any extra space we have not exactly planned the interiors as yet, but that is how we plan to do it, but it is only be for Bajaj Group not for outsiders.
- Sumit Malhotra:** Answer to your question on distribution. Currently our direct distribution has gone up to around 513000 outlets and you would remember that when we started tracking around three, four years ago it was a little under 3 lakh. Now to your second question how much has it added to business, actually there is a little bit of background that I had to talk to you about because one is that these outlets are obviously the smaller outlets that you get to it, so actually addition in terms of turnover prima facie would be much less than the other outlets that we used to cover earlier on, but the second part is something that we will need to understand is that we use to depend on wholesale to the extent of 55% that has come down to around 34%. If we have not increased the direct coverage actually our overall reproduction, so it is not only increase in outlets that you are looking at is, but also the necessity of moving to direct from indirect because of the strain in the wholesale market and if you look at wholesale it is still under strain and largely because of the liquidity crunch, but also because of the demonetisation and GST pressure that were applied on all kind of dealings that were being there in the informal circuit.
- Laxmi Narayan:** And what is the cost of this distribution increase is it something which we have worked out like just want to understand that for every 10000 outlets have increased?
- Sumit Malhotra:** The calculation is very simple Laxmi, every person you adds around 400 outlets and a person normally cost at the lowest level between 10000 to 12000 a month, but the big question mark is what kind of outlets are you adding. For example in the pilot state that we are doing the Bain study we have actually added 10000 outlets so from around 38000 to 48000 we have moved, but this has only given us one third of the growth that Mr. Bajaj was talking about, which is we grew our own 19%, one third of that got added because of the new outlets that we have, the remaining came from the existing outlets and as we go along you will see this mix existing in new outlets moving towards more delivery from existing outlets because of more pull and higher market share.
- Kushagra Bajaj:** One of the things Laxmi that we have put ourselves as a target is in West Bengal the target is that we should over the next couple of quarters hit 20% of the total retail outlets as direct coverage and that is what we plan to do as we go to the second state also where the number is much lower and eventually to the pan India. So it may take two or three years to do 20% direct outlets, but that is what we plan to do. I think that is also necessary because the wholesale sector because of liquidity crunch is just hand to mouth and there is in some places it is even degrowing the wholesale so it is better to have a direct reach with the customer and as you get volumes it is more than offset the increase in cost of adding manpower and distribution cost.
- Laxmi Narayan:** Got it. Thank you so much.

- Moderator:** Thank you very much. Next question is from the line of Amit Sena from Macquarie. Please go ahead.
- Amit Sena:** Firstly my question is on the new strategy and is it possible to share more details on the new strategy apart from the things, which you have already mentioned that you are spending higher A&P spend and more regional stuff and also the direct distribution is kind of taken up is it possible to share more details of things which are happening on ground?
- Kushagra Bajaj:** I think a lot of details have been shared in the investor presentation, if you go through it has been quite exhaustive and quite transparent. So I would request one to go through that, but answering your question yes the whole idea is to go more direct, to go for example in Bengal we have already made a special ad in Bengali with a Bengali actress in the Bengali language after seeing what the requirement of what they were looking at in hair oils and things like that, we come out with a new price point, which is a fast moving price point, we have increased direct coverage substantially through van operations. So these are multiple things that we have done, all of them, most of them is not all are there in the presentation, which I have already repeated, and then we significantly our share of voice has significantly gone up in terms of spend vis-à-vis our market share in Bengal so it is a combination of everything not just one thing that we have done, so increasing in share of voice on advertising, increasing direct distribution, new price points, improving per man return, launching a new ad in the Bengali language with a famous Bengali actress and things like that. Without obviously giving any credit the whole thing is on cash and carry basis, and so I think those are broadly the major initiatives that we have taken.
- Sumit Malhotra:** Amit I think you should appreciate that we have been transparent and just about everything we do. So here also on the call if you need any theoretical insights in to this you are free to contact me I can help you with, there is nothing to hide and all of this and I do not think any company would be as transparent as we are.
- Amit Sena:** No, sure, sure, I will take in detail later from you. Secondly on the cost cutting plans and in the initial statements you have mentioned that there has been a significant cut in terms of number of employees, just wanted to understand what are the areas where you have cut employees and when you say that this is further going to go up in terms of the cost savings what are the other areas apart from the employee cost where you see a meaningful savings coming from?
- Sumit Malhotra:** Amit I will first try to talk to you about the whole idea of cost cutting, it is not cost cutting, it is that basically we called it cost optimization and when the strategy moved from diversification providing option value to focus on hair oil you did not need such a widely distributed setup in each of the department so what we have done is we have optimized each department and this is not only sales, not only some of the support it is each and every department keeping in mind the new strategy and we have already seen that the employee cost to total cost has gone down by around 200 odd basis points and you have just seen only a part of it because as you know employee reduction has not happened overnight you will see more of it and the other departments will also start pitching in towards reduction in cost and improving efficiencies in their delivery because now the target is very, very crisp, which means that focus on the hair oil industry do not

start focusing in on many other things like international business, merger acquisitions, other categories you would like to go in and so on and so forth.

Amit Sena: But you would still say that the larger part of the employee reduction happened in the sales force right?

Sumit Malhotra: Obviously out of 500 odd 300 odd are sales people so which is the larger part of your organization.

Amit Sena: Lastly when you say that you have to take up the market share from 10% to 20% what goes under that assumption I mean you have been launching host of product in the last one to two years so firstly wanted to understand is the main market share gain going to come from ADHO or the plan is for having bigger set of portfolio and the bigger market share will come through that route and second is in the last few presentations there have been no mentions of some of the earlier product launches so while you have given some details of the cooling oil, which you launched recently just wanted to understand the updates on some of the earlier product launches in the last four, five quarters?

Kushagra Bajaj: I think it is very clear that we did not have a really clear focus strategy before we launched anything and it was more trial by error kind of a thing. So the whole emphasis now is that to identify the gaps in a state and even within a state go micromanagement so say West Bengal could have a different strategies and Kolkata could have completely different strategy for the city metro then the hills Darjeeling and things could have completely different strategy southern part has a different strategy so we are not looking at even one state as one state and then within that also you could have rural separate urban separate things like that. So that is one, second the growth can come from almond can come from cooling can come from amla, it could come from coconut, for us we are not light hair oil company anymore we are a hair oil company, hair oil consists of everything and not just light hair oil and therefore we are not talking about market share gains in the light hair oil we are talking about market share gains in total hair oil from 10% to 20%. So depending on what the gap is what sells in a particular region in a state we would then focus our strategy on there for example cooling this is not the season to sell cooling oil right the cooling oil serve only four months of the year primarily in summer. It does not sell in some parts of the country even within a state some part of the state it does not sell even in the summer it is only in a particular region within the state that it sells, so that is the focus that we have right now that is the strategy because it is all data driven and it is not gut feel driven so it is all data driven with actual numbers and seeing competitive analysis why say a Himgange does not do any advertising but does only a trade push where the Navratna and cooling oil does a lot of advertising so what is the right strategy to do when to do it, how to position your product I am just saying for example in cooling oil and when to do it, right now there is no point doing anything this is not the season for cooling oil at all, it is 100% of sales almost comes in four months for that product. So whole thing is to have potentially have focus products across the value chain in the hair oil segment and then see as and when whatever the gap whatever the

requirement based on the particular region we will then form a strategy for that region and push that product.

Sumit Malhotra: Amit just to sum up what Mr. Bajaj has been talking about one answer to your question directly it will not come only from almond because our ambition is not to go from 10% to 20% in almond because even today 10% is not almond's market share in total hair oil it is 9.6%, 0.4% comes from the other marginal branch that is number one. The second thing is like we launched the products nationally we will not be launching a product nationally. For example what you have seen is cooling oil or Brahmi we launched nationally and it did well in some of the places it did not do well in the other places and therefore to support that kind of strategy we never had a clear allocation of the resources, now we will do a microsegmentation within states even within states and which we will identify products and therefore the kind of resources those products need in that particular state. The third thing is yes we have talked about some of the launches, but as we go along we are focusing on trying to update you on the new strategy, which does not tie-up with the strategy we had up till around two years ago, which is launching products nationally. I hope I have answered your question.

Amit Sena: Thanks a lot Sir. That is it from my side. Thank you.

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

Percy Panthaki: Basically just wanted to understand some historic perspective to your pledges I was just looking at data from the stock exchanges. As of end of June the number of shares pledged were 53.8 and June end price was 325 so if you multiply these two the value of the shares pledged was about 1750 Crores, but as of September 2019 the number of shares pledged was 55.6 million and the share price on that date was 245 so the value of the shares pledged came down to about 1360 Crores so about 400 Crore reduction in the value of the shares pledged would mean that the security available with the lender has gone down to that extent so in that period did you repay some part of your debt through some other means or it is just that the lender was okay with a lower security.

Sumit Malhotra: Yes we did repay from other group companies in the promoter level we repaid plus now we have fully repaid with the stake sales so now there is no more pledge going on, no more pledge as on today.

Percy Panthaki: Sir can you just tell me what was the promoter level debt as of June 30, 2019?

Sumit Malhotra: Offhand I do not remember now it should be 640, 650 Crores which was there, 643 Crores, which was there as of today also.

Percy Panthaki: Yes, which was there as of September end but as of June end it would be higher right because you mentioned that between June and September there has been some repayment out there.

- Sumit Malhotra:** No March we sold shares, if you remember we sold 6% in March and 643 Crores was the same between June and September end am I right Mr. Maloo.
- Dilip Maloo:** Yes.
- Sumit Malhotra:** And now it is nil.
- Percy Panthaki:** So 643 Crores was the same between June and September, but the value of the shares pledged fell by about 400 Crores so the lender was okay with a lower security by the end of September.
- Sumit Malhotra:** Yes honestly I do not look into that the other team does that so I do not know why that was done. I am not even aware that was reduced frankly speaking I thought it has increased.
- Percy Panthaki:** Sir secondly just wanted to understand the Bajaj Energy you have filed for an IPO but in case because of bad market conditions or whatever the IPO does not go through and there is a substantial debt in that company what is the plans to reduce debt in that company Sir?
- Sumit Malhotra:** This is the conference call for Bajaj Consumer Care I would not be answering anything on Bajaj Energy.
- Percy Panthaki:** No, just from the point of view that it might have sort of.
- Sumit Malhotra:** Let me complete you asked a question give me time to complete. Second that company is I cannot talk much because SEBI restrictions are there, legal lawyers are there, because the DRHP has been approved so I am not allowed to speak much but it is a profitable standalone company extremely profitable it has been in operations and profitable for the last eight years, which is mentioned in the DRHP. So there is no overhang of that on this business whether the IPO happens or does not happen that business by itself is profitable and the debt over there is much more than sustainable to form its own cash flows.
- Percy Panthaki:** Understood Sir. That is all from me. Thanks and all the best.
- Moderator:** Thank you very much. Next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** I have few questions first question is on the CSD in the investor presentation you have said that after a long time you have supplied to CSD so I hope the name change issue has got sorted out, but if you actually look at last five quarters CSD has been very, very volatile. So is that shipment which is happened will give the benefit saying that another two quarters there will be further more shipments?
- Sumit Malhotra:** Shirish there are two parts of it, one part is obviously the zero sales in the first quarter of this year because of the issues CSD raised because of our name change from Bajaj Corp to Consumer that has been sorted out, but the bigger problem Shirish is the way CSD themselves and the

government is looking at canteen stores they do not want to make it a hot bed of stock flows into the local general trade market and therefore they have been constraining the amount of stock in the canteen stores as well as the kind of number of outlets, the products that are there in CSD and that is not going to change. So third if you are asking me will this kind of invoicing continue over the next few quarters yes but I do not think you see a major growth in canteen stores from now on.

Shirish Pardeshi: No, my only question was you have reported 1.45% saliency, which has come up approximately 6 Crores stock which had gone, so my only question is that is that gone to one shipment or it has multiple shipment which has done?

Sumit Malhotra: It is multiple, it was two months, and it will be a steady state 2%, 2.5% of our total business as we go along.

Shirish Pardeshi: We have seen the substantial improvement in the international business is there any new markets we have gone and what kind of number we should look at for full year?

Sumit Malhotra: No we have not gone to any new markets if at all we are actually constraining our expansion plans into new geographies we are concentrating on basically five markets and that is what is giving us our growth and we are happy with that we are not because we have to look at a new strategy in the international business itself because consequent to our change in strategy from diversified to hair oil or hair care directly strategy in the international business will also change which will be formulated as we go along.

Shirish Pardeshi: Last question on the GT growth this growth what we have seen is reflected into the volume growth also. So I assume that the volume growth on ADHO would be sub 1.5%, 1.6%?

Sumit Malhotra: You are right it is 1.3%.

Shirish Pardeshi: So, if you can help us because if I look at we are very strong into the northern markets some specific markets. The whole question is that which part of GT is it urban GT is flowing much slower or is the rural GT is flowing much lower?

Sumit Malhotra: If you remember Shirish Mr. Bajaj.

Kushagra Bajaj: You are talking for our product or you are talking for the hair oil category?

Shirish Pardeshi: No I am talking about ADHO per se.

Sumit Malhotra: Yes actually if you look at the industry and also ADHO our growths in the urban is higher than the growth in the rural areas and this sort of mirrors what is happening in the total hair oil industry.

Shirish Pardeshi: Thanks and all the best.

- Moderator:** Thank you very much. Next question is from the line of Sachin Shah from Emkay Investment Managers. Please go ahead.
- Sachin Shah:** What I would like to know is that, after this Bain experiment that we have done and with the success that we have tasted over there will it be fair to assume that for the next two, three, four years our focus to grow will be largely on the organic growth and not too much through inorganic and I am coming from here this question is also is that in the last three, four years we have had a very, very high dividend payout ratio, do we expect that to continue or we might have some other options of using the cash flow?
- Sumit Malhotra:** Thank you for your questions. I see there is two parts, one is whether we will actively look for merger and acquisition in the next two to four years and the second is the dividend payout. Answer to your first question I think four years is a long horizon that they are looking at and I would like to tweak it out and say that I think we have enough on our plates in the next two years that we may not need to do any acquisition of a hair oil because we have enough scope, enough products, enough understanding of the hair oil to be able to do organic growth whether it be through our current lead brand Almond Drops or new categories or new products in different categories that may need to be sort of worked on in particular geographies as per the microsegmentation plan that we are doing state-by-state. In terms of dividend since like Mr. Bajaj said that we would be increasing our investments and if you probably see the profits come down over the next two years, you could possibly see a reduction in the kind of dividend that we have been giving because you would agree with me that we have been giving very high dividend in the past three, four years, you could possibly see a reduction because of the extra investment we are giving behind a brand building and getting organic growth.
- Sachin Shah:** But will the dividends of profits may come down and that is why the dividend may come down some bit, which is fine but will the dividend payout be as high as 70%, 80%?
- Sumit Malhotra:** May not be.
- Kushagra Bajaj:** May not be because we will keep cash one because we do not know how much more we are going to be spending on organic growth and how aggressively we will need to be on that because our whole strategy is to just gain market share and is the gap identified then we may need to acquire something we would also like to keep cash for that and second obviously as I mentioned earlier we are also going to be starting to spend on building our own office premises for which we will require money although for the next 18 months the amount is much less, but eventually be a much higher number over a four year period, so the dividend payout will be as a percentage and then absolutely lower than what it was.
- Sachin Shah:** But we already have a decent amount of cash in the balance sheet, is not it at this point in time?
- Sumit Malhotra:** Yes but if you look at an acquisition for example suppose the Bain strategies throws up that there is a requirement to do fill in a gap through an acquisition of a particular brand in a particular segment of the hair oil then what do we do at that point and as you know these valuations are

prohibitively expensive in India to acquire anything and at that time then we would not like to further sell equity either through primary or secondary means to acquire something and is better than have cash on the table.

Sachin Shah: And if I can just squeeze in one more, with this strategy of growing organically I would say that from the organic growth and I am saying a little longer timeframe say four to five years can we have a goal or is there a goal of doubling our profit from 250 to say 450, 500 Crores in the next four to five years will that be a fair thought?

Sumit Malhotra: Yes that is the target that if you increase market share then as mentioned in the presentation in May but that had assumed that category will continue to grow at the historical growth rate, now obviously that was 12% or 14% in the presentation now category is flat growth but the whole idea is that you should do more than double your profits if it were to continue to grow at 12%, 14% and I do not believe that over the next five years the category is not going to grow at all. Yes there maybe 12 months, 18 months, 24 months of very little growth, but if you say that the economy is just going to collapse I do not see that happening I see no growth or a very little growth being there for at least the medium-term, but long-term I am still very bullish on India and the Indian economy because it is very resilient.

Sachin Shah: Thank you so much and all the best.

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

Tejas Shah: On pertaining to the new CEO that you spoke about, now in terms of our long-term vision we have just pivoted and committed to our new vision and so how important is that the new CEO should be aligned to this vision and it is not negotiable or we are open to pivoting again if the new CEO has a new vision on the business.

Kushagra Bajaj: He has to be completely aligned and that is nonnegotiable and that has been explicitly discussed in great detail over four or five sittings each of three, four hours both with me separately and with him with Sumit separately so that is nonnegotiable strategy is this in strategy if there is a 100% bind of the new CEO then he comes in, if he has a completely different strategy then he is not the right fit for our organization, but the persons that we have the two people that we have shortlisted both seem to have 100% bind on this strategy that we are implementing as we speak.

Tejas Shah: Sir second this is for Sumit sir, in your quarterly prostration organization starts international business position is missing from this chart, so is there an attrition or there is a rethink on the international business as well under a new strategy?

Sumit Malhotra: That is also attrition, but post attrition we are looking into how to handle it.

Tejas Shah: But international business will be part of this strategy right?

- Sumit Malhotra:** We do not have a strategy for the international business as yet and therefore under the new scheme of things we are looking at Bain for India only, but we are sitting and looking at our strategy for the international.
- Kushagra Bajaj:** I think first we need to get growth and market share gain in India and we still far away from that, once we have that in place strategy for all the states and then implemented get the execution right get the growth there over a couple of quarters then we will look at how to look at it for the same thing how we can replicate it internationally.
- Tejas Shah:** And lastly this is for Mr. Bajaj Sir I agree that you did not want or you do not want to speak on Bajaj Power IPO on this call, but just from Bajaj Consumer Care's perspective when you say that you will defend your holding at this level are you building a contingency of let us say all the contingencies including that in Bajaj Power IPO because of market scenario getting delayed by two years or more are you building that contingency in that guidance?
- Kushagra Bajaj:** Well the only overhang was promoter debt, which has been completely taken care of and I have addressed it upfront other than that there is no overhang if the IPO does not have and nothing changes consumer business continues to grow the way, it is the power business will continue to behave the way it is and the sugar business will continue to behave as it is, any of them will not have an overhang on each other even if the IPO does not happen.
- Tejas Shah:** Thanks Sir. This helps a lot and all the best.
- Moderator:** Thank you very much. Next question is from the line of Rohan Samant from Multi Act Equity Consultancy Private Limited. Please go ahead.
- Rohan Samant:** My question is with respect to the pilot project that we have done. So have we seen any sort of a reaction from the competitor, so have they kind of increase their A&P in that state, so where I am coming from is our competitors also have a lot of headroom in terms of increasing the A&P so should not kind of lead to as you have some kind of a gain are we going in to that kind of a thing so that is my question?
- Sumit Malhotra:** Let us look at it very pragmatically this is 13500 Crores category hair oil industry 62% or 63% if I remember my data market share is by three players Marico, Bajaj and then Dabur that means it 38% or 37% market share is still to be gained from 1300 other local mom and shop brands, there is no international competition in this category because of the nature of the category which is hair oil. So we have three guys, in the 13500 Crores category which is the second largest personal care category. So even if all three were to spend money they can they still have one third of the market share to gain from the other 1300 brands point number one. Point number two is everybody start spending disproportionately they will definitely grow the category. Third over and above these 13500 Crores there is another 3000. 4000 Crores of unorganized segment, which is not captured in this 13500 Crores and within this 1300 brands so there is ample scope for growth for all three of the top players to grow and in fact rather than cannibalizing each other I would wish that all of them actually disproportionately spend and grow the category.

- Rohan Samant:** And so far we have not seen any reaction from the competitors in that particular state.
- Sumit Malhotra:** No, we have seen, it is not that we have not, obviously nobody is going to be sleeping, we have seen competition but we have prepared for that, that is the basic thing that we have to take before we even start executing our strategy that this is how competition is going to react at least the big players yes the local players obviously they do not have the financial muscle to hit back dollar for dollar.
- Rohan Samant:** And my second question is with respect to the royalty, so we should not expect any change in the royalty structure right?
- Sumit Malhotra:** No it has been locked in for 99 years at 1% and that would not change.
- Rohan Samant:** Sure thanks.
- Moderator:** Thank you very much. Next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.
- Arshad Mukadam:** My first question is I wanted to understand the volume growth in terms of cases for probably both ADHO and total products?
- Sumit Malhotra:** See like I said initially ADHO has grown at 1.3% and total volume is flat.
- Arshad Mukadam:** My second question is in terms of the Bain agreement the Bain partnership that we have. So I think is that the cost would have gone up on our income statements from this quarter onwards which is Q2, so are we seeing that impact currently?
- Sumit Malhotra:** I do not know where you got this that is coming, we are engaged with Bain from April and therefore all our income statements from April include the impact of Bain because this is not something you can amortize you have to take it as an expense.
- Arshad Mukadam:** Agreed and then if I just look at the income statement also I see there is a sequential fall in other expenses in the IP so is that something you do with the seasonality?
- Sumit Malhotra:** We said that we are looking at cost optimization and one of the biggest costs is actually reduction is the cost of manpower so other expenditure also you are looking at the LR the LR also includes wage bills and other exemptions. Everything but the biggest drop is wages.
- Arshad Mukadam:** But wages would come under employee expenses right or would it come under other expenses as well?
- Sumit Malhotra:** No, in LR it would be other expenses. If you look at the investor presentation you will get a split there, you are looking at two different things.

- Arshad Mukadam:** Thank you. That is it from my end.
- Moderator:** Thank you. Next question is from the line of Saptarshi Chatterjee from Centrum Broking. Please go ahead.
- Saptarshi Chatterjee:** Sir my question is again on the pilot so basically I want to know the criteria for choosing this state for pilot so how is we or how difficult it was to run the pilot and compare to other states through A&P spend and micro management?
- Sumit Malhotra:** We have not done it in any other states so we do not know how it will be running at the state. We took Bengal simply because it is an isolated market from an advertising perspective isolated and it is the third largest market for hair oil so it is a fairly large market to do strategy over there. So you could see meaningful gains, so how it will pan out for other states at this point in time is very difficult to say we are hoping for the best and we are giving it 100%.
- Saptarshi Chatterjee:** And secondly when you said that this kind of micro management you have done PTYS and you have used like languages, local languages and actresses the similar kind of thing are you going to do for the other states for pan India and how do I think how feel it or will it be like to expand it to pan India and what can the current timelines you are looking at?
- Sumit Malhotra:** As we progress we will answer this question at this point it is too premature to say whether we need to, depends on the size of the market whether is a requirement or not and things like that obviously there is a cow belt, which is the Hindi speaking belt where only the Hindi language ad can do and that is in multiple states it will benefit, but let us go state-by-state and see whether there is a requirement to do a specific ad in local language, it is too premature to say whether that will happen or not we are completely open to it, if need be we will do it, if need be we will not do it.
- Saptarshi Chatterjee:** And any kind of timeline you are having for this like 2 to 3 years or like any kind of?
- Sumit Malhotra:** I have already mentioned when taking up the call that we will be taking up the second state, which is a fairly large state from November 1, 2019 waiting for the results to see over the next two, three months after November and then go out with the pan India strategy.
- Saptarshi Chatterjee:** And Sir thirdly as you have said our strategy is not only light hair oil, but the entire hair oil market so for other segments are you having any new product or are you thinking of inorganic expansion?
- Sumit Malhotra:** I think we have already answered that question on the call already so I would suggest that you go through the transcript it will be repetitive for everybody else.
- Saptarshi Chatterjee:** Thank you so much.

- Moderator:** Thank you very much. Next question is from the line of Srinivas Seshadri from Mirabilis. Please go ahead.
- Srinivas Seshadri:** The first question is relating to this No Marks so until last quarter we were launching say the sunscreen, etc., so in the new strategy like No Marks getting if at all and what are the plans with that sub-brand?
- Sumit Malhotra:** Yes No Marks was a part of our diversification strategy that we have under the new strategy we are focusing on hair oil, which basically means that we will not be over investing in No Marks as of now, at this point of time we would like to continue selling no marks and making money and not taking money from the hair oils to no marks.
- Srinivas Seshadri:** And if the opportunity presents we would look at some kind of a sale also?
- Sumit Malhotra:** I cannot answer it but if it happens we will decide at the top between the board whether it make sense to diverse it or not.
- Srinivas Seshadri:** And Sumit just regarding this entry of the other categories of hair oil so one you already kind of doing and then there are potentially more on the way over the next few quarters so we use to have a portfolio of products spanning several hair oil categories until a few years ago where of course Almond Drops continue to be your market leader while the other categories you are not able to kind of challenge enough. So just what was the learning from that and how would we do things differently now compared to the past, which can be to a better measure of success.
- Sumit Malhotra:** Again I thought I had answered it but let me repeat it while boring maybe the other people. The strategy earlier on use to be one strategy for the whole nation and therefore if you had a strategy on let us say Amla brand for the whole of the country you would have some parts that did well some parts did not but you will be spending all over the country and therefore you would never give the impetus that brand needed. Now the big difference is you will do microsegmentation and therefore you will push one brand in one part of the country or one state or within one state one part of the state and therefore the strategy is one of focus and pushing a brand where it has a better chance of gaining market share because now it is not just about getting volumes all over the country it is about getting market share they need small segment of the country. That is one big difference that you have to rely so you will maybe be ending up getting a bouquet of brands but not all the brands will be sold all across the country.
- Srinivas Seshadri:** And we use to have liked the presence in some five, six hair oil categories.
- Sumit Malhotra:** We still have on paper we still have.
- Srinivas Seshadri:** You still have but will that aspiration still remain that we want to be sizable in each of these or that be like more spaced and we will discover things as we?

- Sumit Malhotra:** We want to be where the hair oil sells so it is in a place like let us say Jharkhand cooling oil sells we want to be there, but if in Jharkhand Amla does not sell you will not be there in Jharkhand so it is not about having a big size all over India it is having a market share in a particular subsection of India.
- Srinivas Seshadri:** And Sir just the final question on the A&P which earlier you refer to on the call in what timeframe should we expect a substantial increase in the advertising program for the company as a whole are we looking at 6 months or 12 months?
- Sumit Malhotra:** Have not you already seen it, I think I have also said that our ASP to sales has already gone up as a percentage and this is only one state that we are looking at once you get into other states you will see this increase much more apparent.
- Kushagra Bajaj:** The increase in spend is already started you see the full impact once we rollout pan India.
- Srinivas Seshadri:** That is the timeframe I am asking about is it 12 months.
- Kushagra Bajaj:** So that is why I said first quarter of next year we plan to roll out pan India end of first quarter next year.
- Srinivas Seshadri:** Fair enough. Thank you so much for answering my questions.
- Moderator:** Thank you very much. Ladies and gentlemen due to time constraint, we will take the last question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Given that you are planning for a high growth strategy going forward any guidance that you can give on your EBITDA margins going forward, basically will revenue and expenses grow in tandem or you see that the growth?
- Sumit Malhotra:** One we do not give out guidance per se but I have already stated that we will significantly be increasing our A&P spends. Second over the next year or two we do not mind taking a dip in our EBITDA margins if it requires just so that we get growth and increase in market share, but what the exact quantum will be it will be very difficult to say and we do not give our guidance on that.
- Sarvesh Gupta:** And secondly Sir related to the pledging issue so while the company which was the promoters holding company for the Bajaj Consumer would be depledging all the shares but is the promoter level debt gone from the other nonoperating companies of the group as well?
- Sumit Malhotra:** Yes, absolutely there is no more promoter debt from all our group companies at the promoter level. There was only debt in this company there was no other debt so there is nothing else to go.
- Sarvesh Gupta:** So except for the operating companies which will have some debt of its own there is no debt now at any of the nonoperating companies or the holding companies as well as at the personal level at for the promoters.

- Sumit Malhotra:** Yes.
- Sarvesh Gupta:** And Sir final question related to the pledging since the company had substantial cash on its balance sheet so one way to manage this sale of promoter shares was we could have announced high dividend which could have given some liquidity to the promoters to avoid selling?
- Sumit Malhotra:** It is over and done with this question is irrelevant at this point in time, share has been sold, the decision had been taken by the promoter to sell down the stake not let anything affect the company and its growth and its future and that is the decision we have taken this whole discussion now is meaningless so let us I am not even further answering this question.
- Sarvesh Gupta:** Understood Sir. Thanks a lot and best of luck for the coming quarters.
- Moderator:** Thank you very much. I will now hand the conference to the management for closing comments.
- Kushagra Bajaj:** As a sum up I repeating for us in the Bajaj family reputation is built over generations and once loss can never be rebuilt so that is most important much more than money or anything else that is why the stake sale to place the 22% that we sold with that promoter level debt is zero across promoters, their holding companies, nonoperating companies, etc., and with the commitment that no further debt will be taken at the promoter level and no further pledges on Bajaj Consumer Care or any other group company will be done. We have been very almost close to finalizing between two people for the search of the CEO and hopefully in the first quarter of next year you should hear the formal announcement of that individual joining. So this is the clarity on continuation even from a long-term perspective for the company the strategy that we have adopted, the new CEO will be completely aligned to that, he will have a 100% bind there will be no change in strategy even when the new CEO coming in place. Third our strategy is to grow double market share as stated earlier in May for that if we will be increasing as we go along as we have already started, but as we go along further increasing our A&P spend significantly both in terms of absolute value and as a percentage of sales, which would mean that over the next two years it would be a reduction in EBITDA margin and profitability, but we are okay with that provided we get growth and we will monitor that on a monthly basis as we go forward and that is what. We know that the industry has slowed down considerably something we have not seen in many, many years, but in spite of that we are very bullish with our strategy and we hope that when the industry growth comes back after maybe six quarters, eight quarters or more if we have a higher market share on a higher base that will disproportionately add to the bottomline in the future, but the medium-term strategy is to get growth even at the expense of EBITDA margins. So with that I would like to close today's session and wish everybody a very, very happy Diwali and a prosperous new year.
- Moderator:** Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.