



“Bajaj Consumer Care Limited
Q4 FY2020 Earnings Conference Call”

June 19, 2020



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Moderator: Ladies and gentlemen, good day and welcome to Bajaj Consumer Care Q4 FY2020 Earnings Conference Call hosted by ICICI Securities. 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. Thank you and over to you Sir!

Vismaya Agarwal: Thank you, Ayesha. Good morning, everyone. It is a pleasure to host the Q4 FY2020 conference call of Bajaj Consumer Care. We have with us today from the management, Mr. Sumit Malhotra, Managing Director, Mr. Jaideep Nandi, Chief Executive Officer, Mr. DK Maloo, Chief Financial Officer; and Mr. Kushal Maheshwari, Head, Treasury and IR. Now over to the management for their opening remarks and we could go ahead into Q&A post that. Over to you, Sir!

Sumit Malhotra: Thank you, and good morning to all, and welcome to the conference call for the declaration of the Q4 results of the last financial year. With me, are Mr. Jaideep Nandi, who you all know, will be taking over as the Managing Director from July 1, 2020. We also have Mr. DK Maloo, who is the CFO and has been with us for the last 32 years, and Kushal Maheshwari, who is the Head of Treasury and also looks after the Investor Relations. As you all know, we have been operating under lockdown since the March 22, 2020, which was imposed to contain the COVID-19 virus from spreading across the country. Q4 performance of our company was hugely impacted due to disruption in sales as a result of this lockdown.

Consecutively, this also impacted the full financial year performance to a great extent. The company closed the quarter with the operating income of Rs.175 Crores. The operating income has declined by 28.6% vis-à-vis Q4 of the last financial year. The volumes have also declined by 30%. On YTD Feb 2020 basis, our sales were in line with the same period in the last financial year. The sudden lockdown in the third week of March resulted in the sales falling by Rs.63 Crores in March 2020 versus March 2019. This hurts the overall performance of this fourth quarter and also the financial year. Keeping in mind the uncertain economic scenario and lack of visibility of hair oil demand going forward, the Board has recommended a final dividend of 200% or Rs.2 per share.

Prior to the lockdown, the hair oil industry was under strain, with volumes growing at a tepid 0.9% on YTD basis. This was driven by a 2% volume growth in the urban sector and a decline of 0.5% in the rural sector of the hair oil market. We do not have the news and figures post Feb, but indications are clear that the hair oil market has slowed down even further. Our strategy of micro marketing of hair oils was well underway until the first two weeks of March, in which we had developed plans to launch this in the entire Hindi-speaking market of India. While the plan was to implement these across the market from April 1, 2020, this was stalled when the entire country was put under lockdown. As a part of our strategy to gain market share in hair oil segment, we had already committed large investments in advertising and sales promotion and our go-to-

market initiatives. The sudden lockdown stalled all of our efforts and by the time we could roll back these investments, it was well past mid-March 2020. This resulted in the advertising and sales promotion to sales ratio in the fourth quarter to rise to 28.6% from a normal ratio of around 14%. This was the largest reason why EBITDA was pushed down to an unnaturally low level.

The EBITDA for the quarter was just Rs.25 Crores, which is a decline of 68% versus EBITDA shown in the last year for the same quarter. EBITDA to sales ratio is at 14.85% and PAT and PBT are at Rs.24.5 Crores and Rs.29.7 Crores respectively. The fourth quarter saw sales in all our channels declined, while lockdown post all the retail and wholesale outlets to stay shut, even the modern trade outlets that were open worked with constraints and ordering significantly less quantities of our brands.

This resulted in a 12% decline in revenues of the alternate channel. Army canteens continue to remain unpredictable and the strain on finances passed by the Ministry of Defense saw collections of our old outstanding also slow down considerably. While on the international front, the orders from the Gulf continued, Nepal and Bangladesh completely shut their borders and hence, in the national business also saw steep decline of 52% in revenues. Since hair oil was not declared as an essential commodity by the Government of India, and all the circulars from the Ministry of Home Affairs did not put hair oil as an essential commodity, we were not able to open our depots, transport our stocks and help our channel partners to resume operations. From March 22, 2020 to mid-April, our operations were under complete shutdown, and all our employees were working from home. Though most of the retailers and wholesale outlets were closed, there was some demand from the smaller retail outlets, especially in the rural areas, which were opening for a limited period every day. To cater to this demand, our operation team lies with the municipal authorities to start opening our depots in the third week of April.

Simultaneously, all employees started telecalling our channel partners and collecting orders over the phone. This was then transmitted to the distributors and depots, who serviced these orders. Slowly, business got back on to track, and the number of calls that were being made every day rose to a staggering 43,000 a day. Not only did we get business through this initiative, but this also helped our team remain in touch with our channel partners, all of whom appreciated this gesture. After several rounds of lockdown extensions, all our depots, factory, distributors opened for business in the first week of May. Nearly all our sales team members are now in the market collecting orders and supplying our products. With the launch of Bajaj Nomarks hand sanitizers, the turnover has picked up, but uncertainty associated with sudden declaration of containment zones across the country persists. Among all this mayhem, the silver lining was the implementation of SAP HANA 1809. This was done with all the teams working from home and interacting with the implementation partner through digital means only. The team met the targeted go-live date of April 4, 2020 in addition to this, our HR automation software success factor as well as our Artificial Intelligence application, Sellina, was also implemented during these troubled times. The last 3 months have shown us that with a committed team like we have in Bajaj, you can overcome almost all odds. The entire organization has ensured that positivity does not flag and we continue to do business which we in the senior management did not think it

was possible when the first lockdown was enforced. I would like to end my part of the introduction and open the floor to questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Manoj Menon. Please go ahead.

Manoj Menon: First of all, thank you it is a good presentation and congratulations to Jaideep, as you take on the responsibilities from July 1, 2020 and all the best. My first question is actually on the dividend policy and the philosophy underlying it and thanks for the comment, Sumit, which you made in the opening remarks on the EBITDA being very low, and I think you are alluding to the reason for a lower dividend, if I understood it correctly. But still, when I look at the balance sheet, Rs.450 Crores of cash, you see a negative working capital, low capex business, which is essentially meets at all points in time, and it is cash positive so just trying to understand the underlying philosophy for the lowest dividend in 10 years that is question number one.

Sumit Malhotra: Yes, thanks Manoj. I think even though you congratulated Jaideep, you should have also congratulated me for hanging up my boots, but it is okay. In terms of the dividend, we had a long discussion, not only in this Board meeting, but also in the previous Board meeting because as you remember that we normally give an interim dividend year by year, and therefore, mostly, at least, as far as I remember, we declared the dividend in the January Board meeting. At that time, the economic scenario was bad, but the main reason at that point of time for parking the thought of dividend towards that, we had a new strategy in place, and we really did not know how much money and where the money would go. You are right that we have a negative working capital. So you do not actually need to take money from treasury to launch a new product or implement the strategy. But the strategy was just not about advertising and going to the market, but also a differentiated product strategy that we are thinking of. I think it is quite unfortunate that we did not give a large dividend at that point of time because now the scenarios even worsened, and at this point of time, we really do not know how the demand for hair oil is going to pan out, and therefore, what should be our strategy going forward, and the Board thought it prudent at least this time to conserve cash in the treasury rather than give it back to the shareholders at this point of time and that is the only reason behind giving a lower dividend or a marked lower dividend this quarter of this year, financial year.

Manoj Menon: Okay. Sumit, I have some follow-ups, which I will come back on this later, and before that, I am sorry, for just missing out on that. All the best to you as we move ahead.

Sumit Malhotra: Manoj, you know me I am joking.

Manoj Menon: No, I was not actually. So I just meant it seriously. Sorry for that. Second question is on the revenue side of it. Two questions there if you could comment about the primary and secondary, that is one. Second is, given the 28%, 30% sort of decline, which we have seen in Q1 because of a few days or a few weeks of disruption. Is it fair to assume that given that your tertiary consumption does not really have this level of variability as the pipelines get filled up, etc., let us say if I took cumulatively, March, June and let us say, September, which is 9 months put

together. Would it be fair to say that it will be, let us say, an index of 100? I am not really saying plus 5% or minus 5%, which is the consumption part of it. Adjusting for the consumption changes, primary, secondary on, it is 9 months period, can we say that it will normalize?

Sumit Malhotra: Yes. I would say it normalized, it would normalize. But remember, this disruption has also caused quite a few outlets to down stock. So yes, idly, primary and secondary over a 9-month period is equal. But these are difficult times, and you will find that a lot of outlets, especially the wholesale outlets are actually dropping their stocking, and therefore, this translates back into distributors dropping their stocks and so on and so forth, and therefore, you could have a minor difference between the primary and secondary. But theoretically, over a 9-month period, you cannot play around with primary, secondary too much.

Manoj Menon: Understood. I will come back in the queue. Thank you.

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

Percy Panthaki: My first question is on the lockdown impact on sales. So I do not know if this is the right way to look at it. But if I see the number of days that you have lost is approximately 1/9 of the quarter. The amount of sales you have lost is about 1/3 of the quarter. So in a sense, the last 10 days of the quarter, the daily run rate of sales historically would be 3x that of the rest of the quarter. So what is the reason for such a big sort of seasonality, or whatever? I mean, this is not a seasonal product. So why should the last 10 days of sales account for such a large part of the quarter sales?

Sumit Malhotra: Good question and I will start by just warning you that you are looking at primary sales, where secondary sales do not move up and down in a non-seasonal product like hair oil, but primary does and if you look at historically, the last quarter in Bajaj Consumer Care normally accounts between 28% to 30% of our yearly revenue. In this, there is a heavy skew towards March and like most of the FMCG, this is always back ended, and this is back-ended during the month, especially in March because all the incentives, extra schemes that we want to give, the salesmen awards and incentives always peak the demand to treat the primary demand and please remember the primary towards the end of the month, and therefore, you suddenly had a period, which was very high. Normally, the last week or 10 days of March gives us 60% of March, and March is typically over around 45% of the last quarter, right? So if you do those numbers, you will see a different side of the whole thing.

Percy Panthaki: Understood. So can you give us any idea? I mean, for the first 2.5 months of the quarter on a Y-o-Y basis, what was the growth that you clocked?

Sumit Malhotra: We were flat.

Percy Panthaki: Okay. Sir, second question is, as you said, this quarter, the lockdown was suddenly announced, and you did not have time to recalibrate ad spend. But for the June quarter and for the rest of the year, what is your thought process or outlook for the ad spend? I mean, as a percentage of sales, do you think ad spends for the rest of the year would be lower on a Y-o-Y basis?

- Sumit Malhotra:** I would not add the visibility for the whole year because like you have seen that it is still a very choppy ocean that we are navigating in and when the second wave happens, when which metro closes down, you really do not know so rather than that, I think what we are looking at, we are actually living month-by-month at this point of time and even though sales were not there in April and May, we were still evaluating whether to go back on air. We did not go back on air. We have only gone back on air in mid-June. But this is something that the goal post will keep on moving as they go forward.
- Percy Panthaki:** Okay. But any comments for June quarter whether ad spend as a percentage of sales can see any savings to sort of buffer the impact of negative operating leverage?
- Sumit Malhotra:** I would avoid commenting on the first quarter of this financial year, and I would only request you to wait for maximum a month when we announce the first quarter results.
- Percy Panthaki:** Sure Sir that is all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Sanjay Singh from PineBridge Investments. Please go ahead.
- Sanjay Singh:** I just want to know what is your ad spend for the quarter. You generally give the number, I think in the presentation, but I could not see this time.
- Sumit Malhotra:** Yes. I said the ASP is around 28.5%. Typically, it is half advertising and half sales promotion. But in the fourth quarter of this year, it was a much higher percentage of advertising. If you like to know Rohit, what is the exact figures we can give him?
- Sanjay Singh:** Which quarter?
- Sumit Malhotra:** Fourth quarter advertising only.
- Rohit Saraogi:** Increase was about Rs.13.22 Crores, right?
- Sumit Malhotra:** Right. Total increase was Rs.13.22 Crores, but that is advertising and sales promotion. A large part of this was advertising, Sanjay.
- Rohit Saraogi:** So your advertising for sale will be more than just advertising, the ATL or whatever, the way advertising is now defined, it will be more than 10%.
- Sumit Malhotra:** Definitely. Yes. Out of 28% I do not remember the exact figures, maybe I am getting old, but would be close to around 17%, 18%, at least.
- Sanjay Singh:** Okay by that logic, should not it be part of the statutory requirements to declare the expense? I mean I think the rule is more than 10%?

- Sumit Malhotra:** No. Not under the new LR rules.
- Sanjay Singh:** Okay. So earlier I think it was 10% rule, right?
- Sumit Malhotra:** You are right. Earlier, it was, and earlier, you used to put advertising or any spend more than 10% separately, but now you put it in other expenses.
- Sanjay Singh:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.
- Harit Kapoor:** Sumit, I just had one question. I wanted to get a sense of the early trends that you would be seeing in June in terms of hair oil consumption. If you could just throw some light on how the premium space is doing from a category perspective, any downgrading, this will be missing? Anything that you can kind of talk about maybe about smaller players, etc., I just wanted to get your sense on that?
- Sumit Malhotra:** Harit, before I go and I will try and answer this question to the best of my ability. Please, the statutory warning is that I cannot talk figures, right? Because we are talking about the fourth quarter of last financial years and me talking about a quarter that is underway is technically not right. I do not even want to get whether it is legally right or not. But what has happened is after the lockdown started opening in parts of the country. The first feedback that we got was that the wholesale market had collapsed in and there were 2 reasons for it. One was that you would realize that all the wholesale markets are in the large cities and within the cities in very congested areas and most of these, whether it would be Khari Baoli or Masjid Bandar or Bada Bazar. Khari Baoli for people who may not know is Delhi wholesale, Masjid Bandar is Bombay, Bada Bazar is Kolkata, Spencers is Chennai, and all these places were actually under containment zone. So these guys could not open it. The second reason was that wholesale operates on the fact that retailers from far off come to wholesale to buy their requirements because they do not get the kind of discounts or the kind of credit that a distributor would pass on. But they come to pick up smaller lots and a large variety of products but since transport and movement itself was constricted, retailers were not coming to wholesale. So that is also the first indication that we got that this was the new normal, and things were not as normal as was even as late as the first week of March. The second indication that we got was that we got certain demand from the rural areas. Now as you would know, most of the rural outlets used to get their supplies from the wholesalers. But suddenly, wholesalers were not there, and therefore, we got a direct demand from these rural areas. But we did not have the wherewithal to read so many places and you are talking about 650,000 villages all over the country. So how do you reach these kinds of things so we did attempt to overcome that, and we tried pushing our direct distribution? How successful, you will probably see in the mid of July when we sort of announce our results. That was the second thing that happened. The third thing that happened is within our portfolio, our lowest unit pack or MRP brand, which was what we call Amla Hair oil, suddenly started jumping, and this was a clear indication of down-trading happen. But again, since I said in my beginning of my introduction, we do not get Nielsen. So we would probably not be able to give you exact figures

of what is the amount of downward rating that has happened. But it is visible whether you sort of like it or not. So these are the 3 big changes that happened. Yes, there were other changes like e-com, doing very well modern trade for the first time being under strain. These were, I think, the other indications, but the 3 big ones were wholesale crashing, rural going up and the lower MRP products doing better here.

Harit Kapoor: This is extremely helpful. Just one question, if I may, so if you look at in the next 12, 18 months and prior to this, the strategy, thought process was to focus on the hair oil space and try to extract more market share from this space overall. In the context that the category has been slow as well as the fact that there is some stress going forward as well. Is there a thought process on relooking at single category focus versus diversification? Or is it just too early to comment on that?

Sumit Malhotra: I think it is too early to comment. It is not that we are not working. But I think the parameters have changed drastically. So if you analyze your strategy on something that was there in January, February, or even early March, you could go horribly wrong. So at this moment, we are watching the situation and believe me, it is changing every day. What we used to have maybe a month review, we are now having nearly a daily review because it is changing so fast every day. So I think deciding and being able to discuss strategy is still at least a quarter, if not more away.

Harit Kapoor: Wish you all the best for future endeavors all the best for Mr. Nandi as well for future.

Moderator: Thank you. The next question is from the line of Harish Bihani from ICICI Asset Management. Harish, we would request that you please come back in the queue. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: Good morning to you Mr. Malhotra, all the best for your future endeavors and congratulations to Mr. Nandi. Sir, my question is on a point which you already mentioned a bit, which you have noticed a bit of movement of your Amla product and maybe early signs of sort of consumer preferences, I would not use the word downtrading. So do you see that as a challenge in your journey, which you have been embarking on for a long period of time to get people to move on from heavy oil to more value-added and preferably your type of product as a medium-term scenario?

Sumit Malhotra: Ayaz, 2 parts of it. Actually, we have moved away from premiumization, if that is what you are talking about, and we were talking about the whole basket of hair oils, and if you had gone through and heard us talk about the strategy in the last three quarters, you will realize we are not talking of almond hair oil alone. We are talking about market share of Bajaj hair oils in the total hair oil.

Ayaz Motiwala: Yes. So I have been attending the calls. I have observed an attempt on sort of coconut oil, there are other type of oils which you have expressed in a couple of calls earlier where you talked about Rs.13000 Crores of market and unorganized versus organized, etc. Yes. So my question was on that. Sir, if you could elaborate maybe the entire spectrum of hair oils, as you described,

and elaborate the point on potential take off on Amla versus other type of oils, and how does that affect your portfolio?

Sumit Malhotra: I understand where you are coming from, but unfortunately, I think it is too early because like I said in the previous question, the market itself is changing nearly on a daily basis. So the strategy that we had earlier on in which we had identified certain areas across India where Amla could possibly help us gain market share. It does not hold true today, and we could be totally wrong if I start elucidating the strategy that was there as late as said. So I would like to park this question and maybe as we go along in the subsequent quarter, when things become a little clearer, we can talk about it. But yes, like almond oil, like the cooling oil, like the value-added coconut oil, Amla is also a very important part of the hair oil segment, and therefore, if you were to try and gain significant market share, you would have to play in this. But where would you play? How would you play? What would be the investments? I think this is a part of the strategy that will evolve once again, and we are back to the drawing board as we go forward.

Ayaz Motiwala: Sure, and just a question related again to your experience in this market in a more normalized long extended period of time. So there is a talk that we read about in the press and otherwise, that as consumers have been at home, whether it is housewives or others and people who go to work as well, a lot of this type of hair products have had a challenge on the demand front. So from your past experience, if you draw on that, do you think these things are a passing moment in the long growth of this category? Or you think there is going to be a departure where I think the consumer starts sort of cutting this expenditure itself?

Sumit Malhotra: See, in my experience, these are normally blips. They do not last longer. But having said that, we have never had this kind of scenario ever, and I have been in the field for 33 years, I have never seen this kind of a scenario. So even though I would like to say that I have experienced it all, I never experienced anything like this. So unless I have some consumer research or talk with the consumers and the household, I would not like to make a comment because I have seen too many of people becoming heroes and voicing predictions, but I think nobody really knows what will happen in the future. So I would not like to fall into that group of people there.

Ayaz Motiwala: I appreciate your comments Sir and if I were one more on the wholesale trade I will come back. Thank you.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Thanks for the opportunity. Just a question, I am not able to understand why our inventory actually has not gone up to a good extent, if we have kind of lost around Rs.60 Crores of sales in the last 10 days, should have been seen in the inventory, right?

Sumit Malhotra: Yes. Why? There has been an increase. There has been an increase. I do not know where you got inventory is not going up. Because not only are depots full, we even had around 70 trucks on the way which really did not ever reach the depots until the end of March. So where did you get this?

- Rahul Ranade:** So I am just looking at the balance sheet. So last March, we have an inventory of around Rs.61 Crores and this year, we end with around Rs.63 Crores of inventory so just a few Crores kind of an increase in inventory.
- Sumit Malhotra:** My CFO has helped me. You are looking at inventories as a whole. FG has gone up and RM has gone down drastically.
- Rahul Ranade:** But then even if I look at the annual P&L, so change in inventory, the line item, in the column for the full year ended March 31, 2020, it is only at the range of around Rs.12.5 Crores whereas if we have lost out sales to Rs.60 Crores, I would put it at around at least a 5 Crores kind of a change, right?
- Sumit Malhotra:** Yes. I think if you look at it, we have reduced our inventory for LLP drastically and our finished goods have actually gone up. So I do not have the exact figures in front of me and maybe if you can send me a mail, I will reply to you one-on-one on the mail. Yes?
- Rahul Ranade:** Okay. All right and just to clarify, I missed the earlier comment on the dividend. So if I understood it correctly, it is the Board being prudent in order to kind of keeping in mind the objective of being a total hair oil company, you kind of envisage marketing spend also and new product development also, and that is why you kind of cut down on dividends. Is my understanding correct?
- Sumit Malhotra:** Yes.
- Rahul Ranade:** All right. Thank you.
- Moderator:** Thank you. The next question is from the line of Harish Bihani from ICICI Asset Management. Please go ahead.
- Harish Bihani:** Can you please clarify on the new dividend distribution policy?
- Sumit Malhotra:** Harish, what I heard in between your disturbances, you want to know what the new dividend distribution policy is. Am I right?
- Harish Bihani:** Yes, Sir.
- Sumit Malhotra:** Harish, there is no new dividend distribution policy. We our policy, like I have always been telling you that we said that we would try and distribute 1/3 of our PAT as dividend minimal. But the kind of situation we are in and the economy is in that we have to deviate from this policy, and all I can tell you that this is only a deviation, it is not something that will continue for any length of time.
- Harish Bihani:** No, Sir, I appreciate that, but we have to my humble suggestion is that we have to clarify this once and for all. As you would be aware, there is a lot of discussion on this particular point since

last few quarters they obviously every investors have their own view of looking at things of how shareholding has changed and how this has kind of got influenced by the change in shareholding. So my humble suggestion is that whatever the new dividend distribution policy is and whatever you decide on that, please do it and please help clarify? Given net cash, balance sheet and given large cut in dividend distribution, in this particular year does not kind of leave a great taste to anyone.

Sumit Malhotra: I get your point, and I have got your point when we met last time also. I will definitely keep it in mind and convey to all concerned, and hopefully, we will be able to sort of your concerns in the future.

Harish Bihani: Yes. We just have to kind of clarify that. Look, this is my new dividend distribution policy, one-third or whatever, half or one-fourth and then will be once and for, we will kind of move forward, and we will look forward to execution, M&A and etc., whatever you would want to do incrementally and focus on execution and business rather than on the dividend?

Sumit Malhotra: Point taken, Harish, but not to have the last word. I am not doing it just because I want to have the last word. But you should also remember that this is a very extraordinary situation that we are in and therefore, even though you may have a policy, you have to be flexible in times like this that is my point. But I take your point because I had conveyed your point to the management earlier on also. I will do so again.

Harish Bihani: Thank you very much.

Moderator: Thank you. The next question is from the line of Aditya Malpani from Rainstone Investments. Please go ahead.

Aditya Malpani: Sir, could you please talk about the implementation and progress of our micro segmentation strategy, specifically in West Bengal and Uttar Pradesh? How these two states have performed compared to other states?

Sumit Malhotra: Yes, I think this was a question that made a lot of sense when we had the meeting in January, and if you look at that presentation, you will see all those figures there. But again, where we stand now, and unfortunately, we are really in the end of the first quarter of the financial year rather than the fourth quarter of last financial year. This discussion has to be sort of tweet, and I will try and change the discussion for your benefit. For people who may not have been there on the previous calls, we started the experimentation of micro segmentation in West Bengal sometime in July of last year, right and post seeing success in which we were getting significantly higher market share gains and even better growth in Bengal, we moved on to UP, and UP, we went there in November when we ran UP till January. Once in January, we believe that this could be at least taken forward in the Hindi-speaking areas. So we looked at 10 states, and we worked along with the consultant on looking at what we need to do in more states. We have started implementing in some of these states when the lockdown happened. In fact, the whole Hindi-speaking market strategy for micro segmentation would have taken off on the April 1, 2020 but as the situation

prevailed, we did not go into it. As we stand here now, we are not even sure whether that strategy is implementable today because the situation on ground is changing so rapidly that you cannot have a fix on what will work, what would not work, and we at the top at this moment are keeping the strategy discussion purely on a theoretical basis, and we are not going forward as we speak. Today, we are waiting for things to sort of normalize and then maybe sometime during the next quarter or the quarter after that, we will revisit this. So at this moment, we are not actually going ahead with that micro segmentation because today, the segmentation itself has disappeared.

Aditya Malpani: Okay thank you.

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

Tejas Shah: Thanks for the opportunity and best of luck for your future. Sir, a question on quarterly and dividends have been addressed so just wanted to know that it has been 15 years. You are still 15 years plus to enter Bajaj Consumer. What would you call out one biggest strength of Bajaj Consumer you would like Mr. Nandi to protect and grow and what is the biggest regret or unfinished agenda you would like Mr. Nandi to address?

Sumit Malhotra: Tejas, you are going to make me a politician rather than a business guy, but thanks. Maybe that is the future thing that I might get into it. But yes, over 15 years, I think the biggest strength this organization has is actually people and you will realize that an organization that was low on systems, low on sort of strategy still did so well in the past and I think the reason behind that is people and Jaideep in his 6 months has had a chance to see the strength of the people that we have, and I am sure that he will take it forward. Maybe the regret, I would say, is that I was not able to push processes as fast as I wanted to. I knew where the gaps were, I knew where we would possibly falter in the future and unfortunately, for whatever reasons, and I am not ascribing the blame to anyone but myself. I was not able to implement that as well as I wanted to, and that is perhaps the only regret. But I am actually very happy that we got Jaideep in because I am sure he can take this to it, I would not say, logical conclusion because there is no conclusion in improvement of processes. But he will take this to what I dreamt for the last 10 years at least because that is the time that I have been trying to push processes.

Tejas Shah: Great Sir. Hearty best wishes on that and if we can hear from Mr. Jaideep also his perspective or key priorities as he goes ahead on taking the role?

Jaideep Nandi: Thanks, Tejas. So it has actually been now 5.5 months, and it has actually been an absolute baptism by fire, if you can say. I mean, this is a completely new sector for me, and the basic reason of coming into this sector is more than the basic tenants of business really do not change too much. While the sector is different, I understand consumer behavior is different, the primary, secondaries are different. But if we look at process systems and the way companies have been built over time, I think there is a method in most of this madness that you see, and in Bajaj, as you rightly said, Sumit has really built this company from nearly scratch, nearly nothing to what it is today, and it is at this kind it was anywhere at a point of some inflection point where we had to go in some direction, and this COVID-19 actually has changed quite a bit of it. If you look at

last year when this gain strategy was thought through, and that micro marketing segmentation, all the 2 states that we got into, there are a lot of clarity as to where we want to take it for the next 1 or 2 years. Now whether all of that had got implemented, would have ended results, etc., we do not know. But at least there was some direction that the company was taking and the entire company was rallying behind it. Now middle March, everything seems to have completely changed, and as you heard from Sumit is narrative, the entire direction as to where to go forward, etc, is now completely in a different direction. So that is the entire micro marketing. So a lot of information we have or a lot of action points we have. When to implement all of this is something that we would also want to wait and watch and see how it is. So for the next 1 or 2 quarters, I think we will play it as it comes. I do not think, fortunately, for a company like us, which is a little smaller in size, flexibility is a huge advantage. We can be flexible without too much of impact on either our consumers or shareholders or any of the people who are with us. So this, I think, would be an advantage in times like this, which is clearly, nobody knows where it is going. For the next 1 or 2 years, we will be hopefully fleet footed. We will also look at what are the areas we can access into, and if that changes some of our bean and so be it. But the basic tenants remain the same, how can we increase shareholders' value and how can you ensure that this company comes to a path where it has something to offer to both the consumers to all the other stakeholders involved. So that is the direction. So for the next 2 quarters, let us see how it goes. We are playing by the year. So one big advantage that this COVID has feel at least for this company is that I think this has made the people, as Sumit was talking about, the great stint in people. I think people have rallied behind each other, and whatever little we have been able to do, and in the next quarter, will we be able to come up with some of those points. You will see that at least the company is trying to rally back in spite of a not so good March quarter, has been able to, it is not down and out. They are coming back strongly. They are trying to do whatever little they can do from their end. So there is a very, very positive scene that I see as far as the company. So I am confident, let us see how it goes. It will be a difficult time. It will be choppy, right? No question on that. But let us see how it goes.

Tejas Shah: Great. This is very helpful. Best of luck to both of you.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Frontline. Please go ahead.

Shirish Pardeshi: I just wanted to understand what kind of category growth you are seeing? Because generally, you used to give this all details but if you comment on March, February, these 2, 3 months, how the category growth has happened for light hair oil, and the question is related to that, what is the volume share we have got for ADHO till February?

Sumit Malhotra: Shirish, I think what you have to understand is Nielsen from March is not available. We do not have Nielsen and you would realize why because this is actually done by picking up data from retail outlets, by people going into the market, and you could not go to the market after that period and therefore, an answer to your question is, we do not have figures as of now, and YTD

February, I told you that the hair oil market was growing at 0.9% by volume. Urban was growing by 2% and rural was declining by 0.5% and that is the last Nielsen data we have as of now.

Shirish Pardeshi: Yes. I got it, Sumit, what I was trying to understand how the light hair oil segment, where we have strength, how this category performed in January/February, and if you can help ADHO volume share till February?

Sumit Malhotra: Okay if you again remember when we started the strategy of trying to gain market share in hair oils. We had warned everyone that we stopped talking about light hair oil because we believe that if we had to make a certain dent in the hair oil market, it would not only be light hair oil, it would be other brands across the segment. But to answer your question in January/February, the light hair oil market actually grew lower than the total hair oil market. The only segment that was doing well was the low-cost of the Amla segment and light hair oil was actually flat in that period. But our strategy was to gain market share, and therefore, end of February, we had a value market share of 10.7% in Feb, and that was the last Nielsen data that we got there.

Shirish Pardeshi: Okay and my last question is on, can you guide us what is the capex which we are planning for next, say, 9 months, and maybe 2022?

Sumit Malhotra: Shirish, this is not a capex-driven organization as you rightly know and the capex we would only need for either building a new plant for a new category, which I do not see happening in the next nine months or the office that we are trying to construct in Worli, which also currently is on hold, looking at the kind of situation. So the answer to your question is I do not think there would be any major capex.

Shirish Pardeshi: Yes. I got that, Sumit. Why I wanted to ask because in the press release, I have read that you have converted 1 factory into manufacturing of hand sanitizers. So is that the balanced capacity will suffice for us the growth rates what we are looking for FY2021 and 2022?

Sumit Malhotra: We strongly believe so until the market surprises us, but I doubt whether there will be such a massive rise in demand that we will have to build a factory in a hurry. But we have enough capacity at this moment.

Shirish Pardeshi: Okay and just a quick question on Project Vistaar. You mentioned that the tenth base what we are trying to enter, and the strategy was supposedly to be implemented by April. I think that strategy will now change or will that go beyond June, July?

Sumit Malhotra: I do not know whether it will change or not. All my statement was that the things are so uncertain at this point of time. So therefore, predicting whether that will change, how it will change, what will be the new strategy is actually crystal ball gazing, and therefore, I would seriously desist from this kind of.

Shirish Pardeshi: Okay. I have one question. I will come back.

- Jaideep Nandi:** This is Jaideep here. Just to take that question on whether we will continue with project Vistaar, etc., see one of the things that happened is after the two states that we implemented, a lot of learning's, which has come back to us as well as there is a lot of work that has happened for the other Hindi-speaking states. I mean, as you can understand, if you are planning to go live in April or May, in this quarter, basically. So obviously, there is a lot of back-end work that has happened so that the repository of data already remains with us, and we will keep continuing to monitor the market and see when it will be relevant for this kind of a strategy to go forward because market needs to normalize before we can launch this. But at this stage, we are ready with this. So there will be no real long pickup gestation period before we can get into it. So when we feel the market is right, it is certain, we can always come back to this.
- Shirish Pardeshi:** All right Jaideep and congratulations and we have more interaction and Sumit this is a request will remain good friends. Thank you.
- Sumit Malhotra:** I not being Managing Director does not change friendships.
- Moderator:** Thank you. The next question is from the line of Jay Modi from Emkay Investment. Please go ahead.
- Jay Modi:** Sir, you mentioned that YTD growth for urban was 2% and rural minus 0.5%. Is this a similar sort of number that even our company has seen or it is different for us?
- Sumit Malhotra:** I think I told you YTD February, we were flat in value. No?
- Jay Modi:** No, I meant rural and urban growth, is different for us?
- Sumit Malhotra:** Our rural growth was faster than the urban growth, in our case, and that is because of the work that we had been doing, like Shirish said, the project Vistaar. We are doing better than the rural areas. We were down in the urban largely because of wholesale strain.
- Jay Modi:** Okay, and what would be a rural early split?
- Sumit Malhotra:** Now or then?
- Jay Modi:** Now.
- Sumit Malhotra:** I cannot tell you now, but then it was 42%, 43% was rural.
- Jay Modi:** Sir, with respect to sanitizers, what would be a monthly run rate, if you could talk about that?
- Sumit Malhotra:** By the end of March, we had not launched sanitizer, and therefore, I would desist from answering this question. Please wait for a few more days when we announce the first quarter results and you will have enough dope on sanitizer, what is happening, how did we launch, what did we do? All of that will happen in a few days time.

- Jay Modi:** Sure, and last question was around recent players. So do we see any inorganic opportunities popping up for us?
- Sumit Malhotra:** At that point of time, before the thing, we were looking at various options but now again, things have changed. We are going slightly slowly but that could be if the strategy remains what it was earlier on, you could be if you are looking at certain acquisitions in hair oil. But like we have been trying to point out to all of you, the strategy itself could change depending upon the changes that are happening on ground. So what made sense in February may not make sense in August.
- Jay Modi:** Okay got it that is it from my side. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Ajay Sharma from Maybank. Please go ahead.
- Ajay Sharma:** I think I find you reluctant to talk anything about the first quarter, pretty surprising because I thought you were on CNBC on June 9, 2020, where you talked about pickup in rural and migrant workers going back to rural aiding demand and all that stuff so **(inaudible) 56:24** is available for everybody to listen to?
- Sumit Malhotra:** But where did you hear numbers in that interview? Whatever I said, I have only told you that I am reluctant to talk about numbers in the first quarter. I have been talking about rural. I have been talking about wholesale.
- Ajay Sharma:** No, I did not hear you talking about any pickup in demand and things like that?
- Sumit Malhotra:** Yes, I did not because that was...
- Ajay Sharma:** Then how come, you were talking about the same thing on a CNBC interview?
- Sumit Malhotra:** Where was the number? Did I give a number for pickup of demand and all that?
- Ajay Sharma:** No. But in this particular call, I have not heard you talk about pickup in demand as well.
- Sumit Malhotra:** Nobody asked me whether demand has picked up or not. All I have said is, I will not talk about numbers.
- Ajay Sharma:** Okay. Maybe not talk about numbers, but quarterly, how are you seeing things in this quarter, both in the rural and urban?
- Sumit Malhotra:** Again, I will repeat what I have said. I said that what has happened is that the rural areas demand has come back faster than the urban areas. Demand within the urban wholesale has been badly affected even now, now if you say demand is what I sell into the market that is a composite of 2 things. One is pipeline filling because in the period that there was a lockdown, there would be depletion in the stocks in the channel. So a lot of stock got picked up as soon as locked down opened. But in terms of demand, we are yet not being able to determine what is the kind of

consumer demand pattern that is emerging because this changes and again, this is what I have said, the change is nearly daily.

Ajay Sharma: Yes. But I find the reluctance pretty amusing because none of the other consumer companies would behave like this. If you talk to Hindustan Lever, they, in fact, talking about the extent of that we are back to 80% to 90% in terms of production and demand and things like that. Why are you being the exception? I do not understand.

Sumit Malhotra: Well, that is the way I would like to present it.

Ajay Sharma: But, this is a public call.

Sumit Malhotra: I have answered as much as I could and that is a call I am taking.

Ajay Sharma: You guys do placement of Rs.200 and it is down to Rs.150, you are responsible to shareholders.

Sumit Malhotra: Yes, I am. But that is how I telling you.

Ajay Sharma: Yes. You cannot totally secretive, means, come on, why are you having this call otherwise then?

Sumit Malhotra: It is not secretive. Where am I being secretive? I go to the extent of saying, I am as open as anybody else is. The only thing I am saying I will not give you numbers. That is all.

Ajay Sharma: No, but you are not even talking if you were to compare your production levels or your operation levels compared to when you were during lockdown, how is the situation?

Sumit Malhotra: You never asked me?

Ajay Sharma: Production wise.

Sumit Malhotra: Today, we are at least 70% of our production levels now, right? That is there in the investor presentation, if you look at it also. I do not know what is upsetting you. You have my number, you can please call me directly, and I will try and assuage your discomfort.

Ajay Sharma: Sorry, I do not want to do it in a one-to-one. When you have a public call, which is available for everybody, I think it will be more both from ends and especially where at the time when you are actually going to leave the company, I think you are leaving investor totally clueless what is going on. I mean you are sounding so depressing.

Sumit Malhotra: That is such an unfair statement, and I would not like to comment on it. It is got nothing to do with me leaving the company after 16 years in this company and I am being as forthright as I could and if you do not like it, but I can only say that please call me, I will try and help you.

- Ajay Sharma:** This is not a comment on you, but it is why announcement coming at the controlling shareholder, means they dump the stock and then they do not bother about the shareholders.
- Sumit Malhotra:** Sorry, you made a statement that at the time I am leaving the company, you are not forthcoming. That is a statement you made, and I am reacting to that.
- Ajay Sharma:** Yes. I mean, I think you should not leave the shareholders in a lurch at a time when you are no longer going to be there for the next call, probably that is where I am coming from.
- Sumit Malhotra:** That is a personal comment you are making. I do not want to comment on that any further.
- Ajay Sharma:** No, if you took it personally, I am sorry about that, but it is not directed to you as a person, but I am saying the management, not only you.
- Sumit Malhotra:** That is the way you are making it out.
- Ajay Sharma:** You do not have to personally answer, but your colleagues can, right?
- Sumit Malhotra:** I have nothing further to talk about this, please. Can we go to the next part?
- Moderator:** Thank you Ajay. We would request you to please come back in the queue as we are several participants waiting for their turn. The next question is from the line of Shailesh Kumar from Inside Edge. Please go ahead.
- Shailesh Kumar:** Thanks for the opportunity and congrats, Sumit, for bringing the company to this level. So recently across a particular trade channel, I come across a new product by Bajaj Corp., which is basically anti-graying hair oil. So my specific question is, what is the market size? Who are the competitors? What are our strategy, and what kind of revenue we are looking at from next 2 to 3 years perspective for this particular product?
- Sumit Malhotra:** Good. Actually, you would have come across this only in modern trade, and we actually were test marketing this product in a few modern trade and a few e-commerce channels and the logic for this was basically that as we go along, these 2 channels would become very, very important, and the consumers on these channels would see benefit from hair oils and specific benefits like graying or any other disease or problems that you have with the hair, and that kind of a thing was the whole idea for launching anti-gray. It is a very small market in India. Currently, it is not even developed. You have, at the moment, basically around 2 or 3 of anti-graying products that are there, largely very expensive products. We did not touch that kind of a thing and therefore, it was more a test market that you saw and therefore, at this point of time, what is the amount we expected, how much we will be doing is something that I am not too sure how it will pan out. But it was a very, very small market that we are looking at while doing the test market.

- Shailesh Kumar:** But Sumit, do not you think I mean when you started Bajaj Almond Drops hair oil, that was also a very small market, and today, hair dying is a very I mean, around Rs.4000 Crores market. So this particular product is also going to compete with those products as well?
- Sumit Malhotra:** That was the belief we had, and that is why we are test marketing. We are not going all out and putting it into the general trade. Because we thought that it was initially going to be a niche product, and it would grow in future. So we still have it, and if you see, we are still selling it to the modern trade outlets that we targeted at, and as things stand today, e-commerce is becoming big, and we have shown that this and other hair oil brands that we had in mind would do well in these 2 channels.
- Shailesh Kumar:** What kind of revenue we are targeting from our hand sanitizer in next 2, 3 years?
- Sumit Malhotra:** Very difficult because I will give you numbers, hand sanitizers by February were nationally Rs.150 Crores market, and by April, people were already talking of that being Rs.600 Crores market nationally. Now with so many unorganized players, etc., coming in, nobody really knows. But yes, I think this is going to remain a much bigger segment than the Rs.150 Crores it was. How big? Time will tell, and we are in for a long-haul here because we truly believe that this is something that the consumer will want, and we have the wherewithal to provide the consumer a range of products that can help them maintain the health and hygiene that he has.
- Shailesh Kumar:** Thank you very much Sumit and all the best.
- Moderator:** Thank you. The next question is from the line of Amit Doshi from CARE PMS. Please go ahead.
- Amit Doshi:** Sir, last year, of course, we decided with this new strategy that we want to target the entire hair oil segment and not the light hair oil only as we were a significant player there. So as our product basket stands today, what portion would be light hair oil and what portion would be the hair oil? I mean, the overall other than light hair oil?
- Sumit Malhotra:** Currently, Bajaj Almond Drops would be around 90% to 93% of our total portfolio. But it is changing as we go along and therefore, it could change very, very fast in the coming years.
- Amit Doshi:** You believe that in last one year, despite the hair oil segment, which is far larger than what LHO segment is, I mean the contribution could increase only to that 6%, 7% that other hair oil?
- Sumit Malhotra:** It remained flat. We were always 93% dependent on Bajaj Almond hair oil there because we did not really implement the strategy across nation. Like you would have heard me talk, we actually went to only two states by January and while we were planning to implement it across the Hindi-speaking area, this lockdown happened. So the whole strategy, and therefore, getting other brands of hair oil becoming salient actually really did not happen.

- Amit Doshi:** Sir, can you share something about what are the LLP prices being a significant raw material and it is a crude dependent. So how they have been panning out over this last five to six months where the oil has been crashing?
- Sumit Malhotra:** Surprisingly, the LLP prices have not fallen as much as we thought it would. Currently, we are at around Rs.48 a kilo and that is really not the figure that we are looking for when crude dropped to even \$25 a barrel. This is something which has surprised us and the only reason we could really decipher is that a lot of the LLP manufacturers in India were holding high-priced stock and therefore, they had to liquidate it and since production itself was low across the industry, they were not being able to sell this out and refill it and that is the only reason we can talk about. Even BPCL, who is actually indigenous producer has not actually dropped its rate to that extent.
- Amit Doshi:** But should not it be a proper market linked?
- Sumit Malhotra:** It should normally.
- Amit Doshi:** When I looked at the Q4 presentation, the prices were down just very marginally. So I thought maybe probably January, March, the effect would have been on the lower side. So now it should have been on the heavier side.
- Sumit Malhotra:** It has dropped. The rate in the presentation, it has gone down. It has gone down. It has gone down to Rs.48. But it has not crashed like we all thought, and that is something that really belies the trends that we saw in the past.
- Amit Doshi:** Sir, sanitizer, you said that I would really appreciate that you quickly launched the sanitizer and that shows the productiveness of the organization. But I just wanted to know, because since Nomarks is purely a northern focused brand, did we launch this sanitizer in particular state only?
- Sumit Malhotra:** We went national because the demand was all across the country and even south which is very small for us in hair oil, there is a good demand for sanitizer and we had the advantage of quickly turning it around and being able to produce significant numbers, and therefore, we launched all over.
- Amit Doshi:** Just last one, Sir, continuously on the call you mentioned that this new strategy is currently put on hold, and we do not know how really things will pan out and that was one of the reasons why even dividend was not declared. But do you really believe that this, of course, this lockdown of two months was a different ballgame, but the customer consuming the hair oil would change drastically? I mean, of course, it would change from say a premium product to a lower value product or something or a high SKU to a lower SKU but how come the internal strategy of micro management and micro state-wise going and that strategy could be under question because the product itself still remains, and I am sure the consumption would be there, it is just that a plus or minus here or there. So I am just slightly trying to understand why such a low visibility you believe this lockdown has put under the product or the demand of it?

Jaideep Nandi: This is Jaideep here. Just to start from a very, very broad perspective, if you look at for the last three months, I mean, this is the first time maybe in the history of this company that for three months we are off air, right? I mean we have just come back from the June 15, on our product. Never in our history, have we done that. If you look at the strategy that we had for micro marketing and as we were discussing what we did in West Bengal and UP, and it was still evolving. It was really not like fine tuned and casting stone. One of the key things that we were seeing is it was a pretty 360 kind of an approach. It is looking at which are the micro markets in each of the states that you would want to work at, what are the other SKUs that you would want to do. Our GTM strategy right up to the retailer back to the consumer and then also on the entire marketing strategy. So it was all of these put together and if you look at all of this still does not remain the same. While you are absolutely right, in terms of consumer preference, etc., while there have been a little bit of downtrading that is happening, I mean at the core level most of the consumers might still remain, and that is why we are still seeing traction in our sales. But if you look at the ways the companies have been approaching marketing itself in terms of our ad spends, etc., the kind of channels that you are seeing that many people are on, I mean the DD is big today, and news is big. I mean, all the mainline channels of general entertainment, most people are not there today or they are there in a substantially reduced quantity. So a lot of our strategy was based on all of this and that obviously has taken a bit of a change and for the next two quarters, we do not think it will come back completely to this stage. So if you have to implement all that and as you can see from our results they were pretty high cost investments that we have gone into. So if you want to really go big bang on that and really take that forward, it has to be in a market which is a little more stable because returns would not come immediately. Returns would be expected after a few quarters or maybe even a year or so or even more. So if that were to be happening, the market needs to stabilize before we can embark on that. This is exactly while we will not completely put this on hold. Obviously, the learning's that have come up in some manner or the other in some segment or the other will come back, but the entire strategy in totality will not get implemented is what is being said.

Amit Doshi: On the employee rationalization front, we were taking some steps on reducing the number of employees. That strategy, of course, it started last year itself. So what portion of it is still left and can you give some idea as to what is the plan on that front?

Sumit Malhotra: That was done and dusted by June of last year itself. Post that, we have not even thought about rationalization at this point of time. You will be happy to note that we have been giving salaries in advance. We have not laid off any person and even in March, we paid on the March 25, 2020, all our employees. In April, we paid on the April 28, 2020 and not a single employee, and I can tell you upfront has been laid off. So that strategy was something that was done initially at the beginning of the year, and that was closed by June 19, 2020.

Amit Doshi: Thank you so much. Happy retirement period to you and wish you all the best to Jaideep.

Sumit Malhotra: I am not retiring, I am just moving on from being the MD of Bajaj Consumer.

- Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.
- Keshav Garg:** Sir, after the promoters sold their stake in the market say in one-and-a-half years company's dividend has reduced from Rs.14 to Rs.2. Sir, we are operating in the same market where other FMCG companies are operating, nobody has cut dividend, that is why our share is trading at a single-digit PE multiple and if you see HUL is trading at 70x earnings. So if today, HUL announces a swap ratio for a merger at double our P&P, it will still be earnings accretive for HUL because they are trading at 70 PE and we are trading at a single digit PE. So I would appeal, request to our MD to please tell this to the promoter that this poor corporate governance will really take a toll. The market will lose faith because in FMCG business, if you are not expecting losses, you have Rs.450 Crores lying cash in your balance sheet, you are trading at single digit PE multiple, still you do not want to do buyback. So this is really unfortunate that is all I can say and before market loses confidence in your stock, please do something about it.
- Sumit Malhotra:** Thanks for your advice. We will definitely talk to the Board about this. Not to say that we have not. I think you heard when I answered Harish's question, I said that we had, and we will again talk and I will pass on your concern on dividends to everyone in the top management here.
- Keshav Garg:** Thank you very much. That is all from side.
- Sumit Malhotra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.
- Sonal Minhas:** This is Sonal Minhas. I have a non-quantitative question. Typically, organizations have, let us say, like two, three year milestones, on revenue, on product, on things where they want to be. Now I think you were in that direction with the test pilots that you were doing. Post COVID and maybe I am a little provocative deliberately. But does hair oil fit in the longer scheme of things? Would you want to grow beyond that category to actually meet the longer-term targets of the promoters that they have set for themselves for this particular business? That is question number one. Sumit, I understand that I think you are moving on from being an MD and taking a position in the Board. I just want to know like what have been the organization learning's as a company to actually work with Nomarks and what would basically the company do differently going in the future? Maybe be a little bolder in terms of taking decisions right for the longer term? Basically will it be tough on the company in the shorter term, but just, I think building it up to understand is there a shakeup in the company in terms of understanding that the more of the same would not lead them to a longer-term milestone? Just trying to understand the undercurrent of the management in the company and the team overall. That is how I want to sum it up.
- Sumit Malhotra:** That is a very, very long question, and we can actually go on talking of this for quite some time because this is exactly what I and Jaideep were trying to tell the people that the strategy going forward needs to be relooked. It is not that we were in a wrong strategy. It is basically the

parameters that govern the strategy, which was on ground situation, consumer buying behavior, the effect of price versus the effect of premiumization, all of that will need to be reconsidered. That is why at this point of time, we are holding our cards saying because let things get back to normal and so we know what the future is going to be because you cannot have a strategy in such an uncertain future, at least in such a short time, three months that we have tried understanding what is happening in COVID. We have not really been able to sort of pinpoint what would happen to the consumer. We know what will happen in the market, we know how to handle rural versus wholesale. But ultimately, the consumer wants, we really do not have a complete view. If you make a strategy without having a complete clarity on the least common denominator, which is the consumers, is bound to fail, right? I think one question that you asked about learning from Nomarks is very pertinent because we keep asking ourselves this question because as you would know that the best learning experience comes from the biggest failures. This is something that we have been consistently looking at and I think the way we need to attack new launches, the way we need to look at acquisitions, the way we need to look at future strategy while evaluating all of that, how important is your bench strength, all of that has come into visibility now, and we will continue to keep an eye on this going forward.

Sonal Minhas: Okay. I think the last part of it that do you see the future of the company beyond hair oil? Again, I am like too early to ask this question, but asking more on a gut feel level, and I think it would have been driven in your mind maybe in the last three, four years. That comes out as a strategy that comes out as execution. But just want to understand, like, is there that thought from the top management at all? Or is that something which is too premature right now?

Sumit Malhotra: See it all depends on what time period you are looking at.

Sonal Minhas: Maybe two, three years if I let us say, little longer.

Sumit Malhotra: If it is five years it is a different song, if it is in the next year or two the answer is no but I think it is too premature to answer that question but obviously that is something that we keep evaluating and Jaideep going along will also evaluate these kind of opportunities that may come up in the future.

Sonal Minhas: Got it. Sir I have a bookkeeping question, since we have cut down the dividend just want to understand the numerical level what is being the change in the royalty which is paid to the promoters and also remuneration which is being paid to the promoters Y-o-Y if you could share the numbers, the promoter I am talking the KNP, the family the promoter family if you could share those numbers that will be helpful for bookkeeping.

Sumit Malhotra: The royalty cannot change and the agreement we have with the owner of the share which is Bajaj Resources is that we will get a 1% royalty which can be changed for next 99 years so there is zero change, we do not pay anything to the promoter family. The only person who is on our employment is Mr. Apoorv Bajaj who handles the CSR activity and his increment is actually lower than what the people get normally and he is paid less than all our GMs there.

- Sonal Minhas:** Thank you.
- Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.
- V.P. Rajesh:** Thanks for the opportunity, most of my questions have been answered but I was just wondering if you have some sense of the EBITDA margin. I know your strategy is in flux. But as a long-term shareholder, what should we be thinking about where this margin will settle down, given the prior change in strategy and given what may happen with the change in current thinking?
- Sumit Malhotra:** Rajesh, let me answer that on two fronts. One is a general overview in the last two quarter meetings, we had said that this investment in the long-term strategy of gaining market share in hair oil will see a reduction in EBITDA. That was something that you saw last quarter also. But having said that in this quarter, the EBITDA to sales ratio of 14.8% or 15%, if you only change the amount of money spent on ASP, right? Which moved up from a 14% to a 28%, and you add that back to the EBITDA, it becomes 29%, which is more in line with what the situation was earlier on. Therefore, I think this is a one-off low or a major drop in EBITDA. That is why in my opening address, I said are naturally low EBITDA and I do not think EBITDA is that big a problem unless you get another hit like COVID.
- V.P. Rajesh:** Okay thank you that is all I had.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Frontline. Please go ahead
- Shirish Pardeshi:** Sir just to follow up. You have mentioned about LLP. Can you also throw some light on the raw materials, bottles refined and the perfumes, what is the status there? Is there any inflation?
- Sumit Malhotra:** No inflation. We are looking and trying to reduce those rates because in a situation where demand is not very high we should possibly talk about reduction. There is absolutely no increase in all of these even RMO is not. Glass, you could see an increase because of the energy cost. But otherwise, we have been holding that also. At this moment, we have not increased any.
- Shirish Pardeshi:** No the reason why I am asking, is there any sensitivity that we need to take price increases or maybe it will impact our margins?
- Sumit Malhotra:** Shirish, in this kind of environment taking a price increase or MRP increase could be very detrimental. So I do not think we are even considering taking anything, in all our strategy sessions, I do not think, Jaideep, correct me if I am wrong, we have not considered a price hike?
- Shirish Pardeshi:** No, because there is a change in price. So I thought that maybe there is a change of thought also.
- Sumit Malhotra:** No. Good one, Shirish. I do not think organizations work like this, and I do not think my organization works like this that on July 1, 2020 everything will change. It does not work that way Shirish.

- Shirish Pardeshi:** But we will change, Sir. So my last question is on the distribution. I think what you have highlighted is that we have gained 4.1 million outlets. I think if you can help us, so what is the direct and I am not saying target, but where do you think next two years because our strategy is clear that we want to be a hair oil company. So in terms of distribution, where we want to have a direct coverage given that wholesale is not picking up or not delivering up to the mark?
- Sumit Malhotra:** See, our direct distribution in Feb was around Rs.5.04 lakh outlets. You rightly alluded to the fact that if you are to take care of the drop in wholesale, you will have to keep increasing your direct distribution which we are trying to do. Most of our increase in distribution is and will come through our rural reach. This is being done by adding people, adding infrastructure all along the way.
- Shirish Pardeshi:** Yes. Thanks Sumit. Just quickly on wholesale contribution in Q4 FY2020?
- Sumit Malhotra:** I said it had dropped. Earlier on, it used to be 34%, it had dropped to 32-odd percent in the fourth quarter, and it is dropped even further in the first quarter of this financial year.
- Shirish Pardeshi:** Okay thank you and all the best.
- Moderator:** Thank you. The next question is from the line of S.N. Rajan, an individual investor. Please go ahead.
- S.N. Rajan:** Hi good afternoon, first of all, thanks for extending the call for more than one-and-a-half hours so that people later can get to ask questions, which is not a norm these days with other companies and all the best to Sumit and Jaideep in their new roles. I have three questions. Actually, none of these questions are related to either Sumit or Jaideep or the management, it is related to the promoters. Quickly, number one, dividend enough has been talked about the dividend policy cut and the dividend, thanks to attribution as a reason of their bringing down the stake, it would have been better since every January, the company has been declaring dividend. This January, the company could have at least given an indication by instead of paying Rs.14 by paying Rs.1 or Rs.2 or Rs.0.50, whatever it is that would give an idea to people as to what to expect rather than I would say, coming as a rude shock yesterday when it came to Rs. 2. I would attribute this to, not to the management, as I said, again, it is to the promoters. Second is, I mean after the stake reduction to bring out the pledged shares there has been no preferred or any indication about either a buyback since the company has the money or the promoter increasing the stake. In fact, last week, the SEBI has allowed the preferential allotment to 10% now. So after a drop in price by 15%, I think the market does not derive real comfort from the promoters not buying shares from the market or talking about a preferential route, they are very happy with the reduced stake. Number three, hand sanitizers, I think it is an extremely crowded market. My personal view, I may be totally wrong. I think neither Sumit nor Jaideep would think this is a great area to be there in this crowded market when everybody is there and your realization base is, I mean, for every sugar mill is at Rs.150 is the max realization that is going to be there and looking at the bottles that I could find from the net, I think this is not being manufactured by us, you are doing contract manufacturing somewhere else and the preference these days is for sanitizers with a

pump and rather than a pour down sanitizer and the pump, because of China, you are not having it. So it is a very surprising foray, in my view, if you can throw some light on that. I would like to get a categorical yes or no, whether this has got to do anything in terms of getting ethanol from Bajaj Hindustan Limited. Thank you.

Sumit Malhotra:

Rajan, thanks, and I think the first two, which was your commentary on dividend and your feedback to the promoters. Secondly, whether buyback, etc., is being done or there is going to be a preferential allotment, I think the promoter can answer. I will pass your feedback on to him definitely. I will pass it on but I can answer on his behalf. I think I and Jaideep can answer on the hand sanitizer. I think there are two or three misconceptions that you have in mind. I think let me try and clarify that. One is that, yes, it was a very temporary upswing initially that you probably saw. But believe in me, it is there and it will continue in the future. The reason is simple that I think finally, the Indian consumer will spend more, at least thought and maybe even money on hygiene. Therefore, in hygiene, things like hand sanitizers and other hygiene products that we are looking at, will definitely be a consideration in the future. The second thing, what you probably saw was made by a 3P. But the major part, and today, as we speak, as much as 75% of the production is made by our own factory based out of Paonta Sahib. Actually, we have converted our Paonta Sahib Hair oil manufacturing plant into a hand sanitizer plant. That is the commitment we have behind this product and other products that we are launching, and we will launch in the future. The third thing that you said, the pump, I think you probably would not have seen it, but you will see it in the market very, very soon. We realize, and we have been in touch with the market, and we realize that pumps, is something that people want, but unfortunately, like you rightly said, most of the pumps used to come from China. Therefore, sourcing took some time, but we have done that, and we have now enough of the packaging material to be able to supply to the market. The last thing, I think, which you saw that is it connected to ethanol coming from Bajaj Hindustan, I would say, yes, it is. That is the strength and not a weakness because when all of this started exploding and people started seeking alcohol, the biggest source of alcohol was actually sugar, and we have that within the group. We are paying whatever we pay to anyone else. But the advantage is that the supply is assured. Therefore, we do not need to go running around to various other manufacturers to get supply of this, which is a big advantage. The quality that we get from Hindustan is really good. Therefore, I think at least internally, my team views it as a positive rather than any kind of negative attached to it.

S.N. Rajan:

I am very happy if it has approval of Sumit and Jaideep. But my view is, I would be happy to be proved wrong. This is going to be just a rounding off error in terms of our total five even three years down the line, we will revisit it after 3 years. Thank you, Sumit Sir.

Sumit Malhotra:

Thank you Rajan.

Moderator:

Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: Thank you for the opportunity. Sir two questions; one was, I think Jaideep mentioned about the change in the entire sort of marketing elements, including how consumer viewing habits have changed in the short-term on the media front or the buying habits or the preference for purchase in the lockdown period. So do you think this is a sort of dramatic change in sort of marketing 101? Or things get back to normal as such? The second question, maybe you can take that first, is on the wholesale side of the business. Sumit, you mentioned about it. We read also that the channel is quite broken. There is a challenge on funding and this is from the demon times, this has been structurally getting damaged. So as a company, you mentioned the number has come down for you from a high late 30s number. Do you see this channel being of less and less importance to you as you go forward, please?

Sumit Malhotra: Ayaz, I see your questions being three in number. One is advertising. I think changes do happen and viewing patterns keep on changing. But the big one that has happened is in TV shift from the normal GEC of things like Star and Colors, Sony to DD. Suddenly, after many, many years, and I would say, more than a decade, DD has certainly become big. Now they are asking for top dollars per 10 seconds spend. So that is something that is there. When I said that we are not willing to comment on what the future might hold. One of the reasons were that these kind of indicators, these kind of parameters were changing so fast that it is very difficult to predict where it is going to go in the future. It was not that I was trying to stall somebody's question. It was basically that frankly, it is very, very difficult to predict what will happen. If you had asked me on February 25, 2020 that would you pay Rs.65000 for a 10 second on DD, I would say, are you mad? I do not advertise on DD. Now today, you are paying that and I am paying that. It is not that and tomorrow, you might suddenly find that TV viewership drops and things like the OTT channels of Netflix, Hotstar all of that takes over. So how do you predict that kind of a thing? How as a responsible manager can I even lead you off the garden path here? That is the whole point I was trying to make here. The second question was wholesale. I think I gave a large commentary on wholesale. It is, yes, it got hit in demon. It got hit again in GST. It is badly hit now. Today, it is not to do with funds. It is largely due to wholesale outlets not being allowed to open because if you have seen a wholesale outlet, you will find it is in one small crowded area, the outlets are small, you normally have 10, 15 people crowding at the counter. All of these things have come to a close, they cannot crowd that outlet. Until they get turnover, the margins are so low that they cannot run their businesses. That is why they got hit today. So what we are trying to do is we are trying to speed up our direct distribution in outlets, which hitherto were buying from wholesale. Whether it be the big wholesales in the large cities or the feeder wholesale in the semi-urban areas. Both we are trying to track and we are trying to sort of go to areas that used to come to wholesale to buy stock. This will be a key going forward. Maybe the total distribution of our brands may remain stagnant, but our direct distribution will go up.

Ayaz Motiwala: All right these are helpful points Sir. If there is anything I will reach out separately.

Moderator: Thank you. The next question is from the line of Paha Merchant an individual investor. Please go ahead.

- Paha Merchant:** Good afternoon. So I think it was in the Q2 conference call that Mr. Bajaj alluded to the fact that one of the other reasons why we should look to a lower dividend payout ratio compared to the past is the fact that we are building a large corporate office, in Worli, not just for Bajaj Consumer, but also other promoter offices and other promoter group companies. So my question is that considering the fact that now that we so significantly slashed the dividend this time because of the extraordinary situation that we are in, are we also looking at a long-term kind of strategic rethink on that large corporate office and the investments that it would entail?
- Sumit Malhotra:** At this point of time, because of the situation, we have stopped work on the corporate office. Therefore, what it will cost, when we will do it is something that probably in the next few months, we will be able to talk about. At this point of time, it does not make sense in spending more money there.
- Paha Merchant:** Okay. Yes. At this point of time, it does not, but just in terms of like on a strategic level in terms of the utility of an office, considering what we are seeing right now. On that level, are we had any discussion?
- Sumit Malhotra:** Yes, we are thinking about it, but I do not think we have reached a decision at this point in time.
- Paha Merchant:** Okay. The second question is that I think we are paying about 17.5% MAT effective tax rate currently. So over the next few years, what are our tax rates likely to be going forward?
- Sumit Malhotra:** If you look at our production, you will realize that the only area that is under the tax break or income tax break is Guwahati now. Therefore, we have been looking very closely and our finance department keeps on updating those figures, we are trying to increase our production in the Guwahati area so that we have more MAT credit to extend. So at least in the year or two following now, you will remain under MAT. We are trying to see how much we can extend that to.
- Moderator:** As there is no response from the current participant, I have muted the line. The next question is from the line of Rahul Shaw from Zedo Capital. Please go ahead.
- Rahul Shaw:** I have a question regarding the product design. So recently, I bought the Bajaj Almond Drops bottle and the hole from which the oil comes is really very small. You literally have to shake the bottle so much so that the oil comes in our hand. So can you please expand on the design aspect because our goal should be that the consumer uses more of our products and not less of our products? Secondly, in the previous calls, you had alluded that you will be looking for acquisitions, if you get a good company at a good price. Sir, our company is trading at a single digit PE. So why do not you just do buyback? It is equivalent to buying a good company at a good price.
- Sumit Malhotra:** I will answer the first one because that is a topic I like discussing, which is, why do you have a drop out there when you could possibly use that whole thing of the toothpaste nozzle becoming larger and people consuming faster. See the simple thing is this, that the product is a light hair

oil, which means that it is a non-sticky hair oil, right? Non-sticky depends on the composition of the hair oil and also the amount you use. So even if you were to use 8 ml of Bajaj Almond Drops and apply it on your head, you will say this is sticky. So commensurate with the benefit that we are trying to give, we refrained from increasing the hole on the top of the bottle because more use of hair oil will make it stickier. Then there will be a dissonance between what we are offering and what the product is. Apart from the fact that we use less oil in our composition, and therefore, it is less sticky but even a less sticky kind of a thing, if I use a large amount, and if I pour it into my hand and typical Indians, you will not waste whatever comes in your hand. You will use all of it and if you use all of it, you will have a dissonance between the product benefit that we are offering and the response that is. So I think this is a very conscious thing, and we are not being greedy in trying to get consumers to use more hair oil per application because it would destroy our overall brand equity, right? Second thing about buyback and all that, yes, this is something that we have been thinking for the last many years. I think only time will tell when this will happen. But I think Mr. Bajaj also said that he is not comfortable with the 39% he has, and he will use the laws available to increase his stake in this company because he would like to come back to at least 50%, 51% as fast as possible. So how you do it is something that needs to be worked out.

- Rahul Shaw:** Okay. Sir, please think about the buyback because it is literally trading at a single digit PE.
- Jaideep Nandi:** We are Sir.
- Rahul Shaw:** Thanks.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Sumit Malhotra:** Thanks a lot. I think in my 10 years, after listing, this has been the longest conference call that we have had. But I think I take it as a parting gift to you, your interest in my company, and I would like to sincerely thank all of you from the bottom of my heart. I would not be there on the conference call from next time. But I am sure you have my number, if you need any help in any kind of way, I am there. Jaideep is definitely there, and Kushal as the Investor Relations will always help you keep in touch with the company. Thanks a lot. Take care.
- Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining with us. You may now disconnect your lines.