



“Bajaj Corp Limited Q4 FY13 Earnings Conference
Call”

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EQUITIES.**

Moderator Ladies and gentleman, good day and welcome to the Q4 and FY13 earnings conference call for Bajaj Corp Limited hosted by Kotak Institutional Equities. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touch tone phone. At this time I would now like to hand over the conference to Mr. Anand Shah from Kotak Institutional Equities. Thank you and over to you sir.

Anand Shah Thank you Shyma and hi everyone. On behalf of Kotak Institutional Equities, I welcome you all to the Bajaj Corp of 4Q FY13 earnings and year ended March 31st 2013 conference call. I would like to welcome the Bajaj Corp team Mr. Sumit Malhotra, Managing Director, Mr. Narayan Raman, President Corporate and Investor Relations, Mr. VC Nagori, Chief Financial Officer and Mr. Dilip Maloo, Vice President - Finance. I will now hand over the call to Mr. Sumit Malhotra to discuss the recently announced earnings. Thank you and over to you sir.

Sumit Malhotra Good morning and welcome to the conference call for declaration of 4th quarter results of the financial year 12 – 13 and annual results for financial year 13 for Bajaj Corp. With me are Mr. Narayan Raman who is group President corporate and investor relations, Mr. VC Nagori who is the CFO and President Finance and Mr. DK Maloo who is the vice president Finance. The company has closed the 4th quarter with the sales of 183.69 crores and a PAT of 49.15 crores. This translates into a year on year growth in turnover of 25.32% and a growth in PAT for 44.35%. For the financial year 13, the turnover has grown by 28.25% and the volume growth of our business is 20.53%. On the EBITDA front the 4th quarter, the EBITDA to sales ratio is 28.25% and for the year it is nearly the same at 28.54%. For the whole year the EBITDA has grown at a very healthy 48.21%. This is 10th successive quarter where the turnover has grown by 25% and the EBITDA to sales ratio has been maintained at over 25%. This year's growth in EBITDA is primarily due to the increase in gross margins for the last year that is financial year 12, the gross margin were approximately 53% and this has gone up to 57% this year. This 400 bps rise in gross margins is mainly as a result in the decrease in cost of light liquid paraffin and also marginally due to the decrease in cost of glass bottles. LLP prices in the 4th quarter fell to Rs.17.48 per kg. This was significantly lower than the quarter 4 last year LLP prices. This was Rs.80.65 per kg. This is a 7.7% reduction which was mainly achieved due to better negotiation and securing long term contracts at significantly better rate. Over the last 3 quarters we have been focusing on negotiating with our LLP suppliers for a long term contract. For the current financial year we have locked in light liquid paraffin for the first 2 quarters. On the glass bottles we have been able to secure a 6.5% reduction in the prices in January 13. The price of the other major raw materials which is vegetable oil has remained stable at around Rs.80 per kg during the 4th quarter of financial year 13. We have been focusing on driving the volumes of light hair oil and also on gaining market share within the segment. As a result of this, our ASD spent during the financial 13 has gone up by around 23.31 crores and ASP to sales ratio have gone up to 14.52% which is a 82 bps price over the last financial year. Our lead brand Bajaj Almond Drop Hair Oil continues to show impressive growth and an improvement in market share. The volume

market share as of March 13 is now 52.6% and the value market share stands at 55%. As a result of this continued growth, the LHO or the light hair oil category is now clearly the 2nd largest hair oil category after coconut hair oil. Nielson figures for the financial year 12 – 13 shows that the volume of total branded hair oil has moved up to 6.7%. As vis-à-vis last year the volume growth stood at just 1.2%. This year most of the brands have held prices. As a result of which the value growth has actually gone down vis-à-vis last year. This year the value growth of total branded hair oil stood at 14% whereas last year it was 22%. The light hair oil industry off which Bajaj Almond drop is a part of, continues to be fastest growing segment within the hair oil segment. For the statistical minded, LHO grew by 11.2% by volume and 20.8% by value. Now with reference to our new launch Bajaj Kailash Parbat cooling oil. The first full season has actually shown very encouraging results despite the category not doing well. The volumes of cooling oil during the financial year 13 has actually stagnated. This is on the back of our leader taking 2 price increases during the season which is very rare and hence the value growth is 9.6% but the volume growth is **nil**. Our brand Kailash Parbat has shown very good growth in off take. The off take between last year and this year has gone up by 122% and also significant improvement in secondary sales. So the distribution has over the last 4 – 5 months stagnated at approximately 3.5 lakh outlets with the onset of summer that is now underway. You will see positive effects on distribution and also off take. At Bajaj Corp limited we believe distribution guides demand and hence we continue to focus on improving distribution. The number of stock points that have covered by our field forces now 6,700. In addition we are driving rural distribution through van operations in states where we have high market share. As of March 13 we have close to 150 vans working in the Indian sub continent which cover approximately 9000 villages on a monthly basis. In terms of distribution, that is direct and in indirect our brand Bajaj Almond Drop is available in close to 2.7 million retail outlets across India. The majority of the increase in distribution has come from the rural areas which have resulted in 40% of our value sales coming in from rural areas during the financial year 13. On the merger and acquisition initiatives, the efforts are intensified over the last 12 months. Thought the results may not yet be visible. Our efforts clearly continue. The inorganic route growth forms an important part of our growth strategy and hence will continue to look out for meaningful targets. We are now open for questions.

Moderator

Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Pataki

Sir I don't know if I missed this, can you tell us what is your market share in the non coconut hair oils segment?

Sumit Malhotra

See if you look at the Indian branded hair oil, around half is coconut half is non coconut. Out of the remaining half, there is a segment which is called light hair oil out of which we have 55% value market share. If you look at it from non coconut, we will have around 20 – 21%.

Percy Pataki

Secondly just wanted to understand the competitive landscape on the almond categories, one of the largest non coconut hair oil player as you might be aware has launched almond segment

about a year back. So how is that affecting the competitive landscape? Are we able to make any in routes or something like that?

Sumit Malhotra

I have always maintained that more competition drives demand and therefore if you are in the FMCG segment we should not be afraid rather welcome competition. Yes, the second largest hair oil player in India had launched almond hair oil along 1.5 years ago. That gained under 3% market share in the last 1.5 years. But what is disappointing is 1) their distribution has not really ramped up to the extent that they could have and 2) they are not advertising as much. And therefore the effect that you see on lets say the light hair oil growth could have been much higher if they have pushed the brand much more strongly.

Percy Pataki

And lastly could you give any idea about what is your thought process on any inorganic growth and also separately what are your funding requirements if any based on the inorganic or even otherwise?

Sumit Malhotra

Unfortunately we cannot discuss the inorganic strategy basically because in each case whenever you go in for an acquisition or a proposed acquisition you sign non disclosure agreement. And therefore I really can't tell you what categories where and all that. Because it might help leak the information on the company that we have acquired.

Percy Panthaki

No I am not asking any specific information. I am just asking what Bajaj Corp's general philosophy on acquisition is. How do you approach that subject and what is your thought process as to how you approach very generally speaking?

Sumit Malhotra

Generally speaking we would like to acquire a brand within India and if that is not possible outside India. We would like to acquire a smaller brand first because we know this will be the first acquisition we will do and therefore it's not just acquiring but more importantly what you do with a brand that is going to be important. Therefore secondly it should be a smaller brand. We will prefer a regional brand that we can take national with our distribution and last but not the least, the core competence that we believe we have is distribution and therefore there should be distributions synergies between the acquired brands and our current brands. In terms of funding requirements, at this moment we don't see need to take that to acquire the brand but as you know we have to dilute under the rules framed by SEBI and the dilution has to happen before August of 2013.

Percy Panthaki

And just as a clarification, would you rule out any acquisition in non hair oil space or non hair care space?

Sumit Malhotra

No the core competence is distribution. So if distribution can be used to sell things like mehendi or things like soaps or anything like that. Look they aren't too many targets available in India, second valuations have gone through the roof and third last but not the least there is a lot of competition even on the M&A space in India.

- Management** Just to add to what Sumit was saying we already have a presence in light hair oil. We do not wish to get into the coconut category because that is a commodity with low margins and we also have a presence in the cooling oil category. So restricting ourselves just to hair oils actually becomes counter productive.
- Moderator** The next question from the line of Shailesh Kumar from Indsec Securities. Please go ahead.
- Shailesh Kumar** My first question is regarding KPCO, if you could just help me understand what has been the volume growth for KPCO during FY13 on full year basis?
- Sumit Malhotra** Volume growth if you look at the balance sheet or the P&L it will show you a growth of marginal growth of 4 -5%. But remember these are primary growth figures or the sales that we make to our distributors. When a brand is launched at that point of time you spell to build up stock. So the way you should analyze a new launch in year 2 is the rise in off take and the rise in secondary sales which is the retailing space. In terms of off takes the off take has gone up by 122% and the secondary's have gone up by 36% all volume terms. Here we are talking about volume and not value.
- Shailesh Kumar** Just sometime away you said that the leader in the category has taken 2 price hikes during the period but going by your recent advertisement what you are doing is you are offering some freebies like some kind of talcum powder with KPCO, how do you want to position your product in the market?
- Sumit Malhotra** They are 2 different things. We are positioning ourselves as cooling oil with sandalwood. The freebies or the consumer offer is to initiate trial and those core strategies which is sandalwood oil in cooling oil remains the same. You use these tactics which are sales promotional tactics to improve off take.
- Shailesh Kumar** Also what I understand, your target is to take a total sales proportion of KPCO to around 30% of total sales over the next 3 years period, how do you intend to do that?
- Sumit Malhotra** I don't know where you got this percentage from. Our target is to first break even and we break even when the markets share reaches 6%. Proportion of total sales is a derivative of how fast we can grow. So we don't have a target to reduce the dependence on Bajaj Almond Drop by increasing cooling oil sales. Now how do we intend to do that, we believe that in hair oil until you provide the differentiation that is basically in layman's term, tell the consumer why your cooling oil is better than other cooling oil nobody is going to try you. I think the first thing which is create a differentiation is what we have been trying to do over the last one odd season by harping on chandan ki champi or the sandalwood oil in the cooling oil we also have a distinctly different packets I don't know whether you had the chance to see this, this is a gold foiled blue color packing, not the normal red and harsh color packing that is available in the cooling oil segment. Third we have changed the color of the cooling oil itself which is now the color of sandalwood. As the perfume which is also sandalwood.

Shailesh Kumar During February 2013, I came across a note from ICRA giving you A1 plus rating for 150 crores short term borrowing programs, so if you could just help me understand the status of that program because it is not reflecting in the balance sheet?

VC Nagori I am VC Nagori. I am the CFO of the company. We were on the verge of acquiring some brands. That's why we have raised the borrowing program. But that issue did not materialize and that is still open as on date. We are looking for good targets. So as and when the need will be there we will definitely move forward in that direction.

Shailesh Kumar And sir just wanted to understand your procurement, how do you enter into contracts for perfumes and additives corrugated boxes and caps, I mean what is the duration of the contract and what is the pricing?

VC Nagori In terms of perfume it's a proprietary item. So we have the international supplier. With whom we have the arrangement. So we also study the cost structure and based on our cost structure and our negotiating skills we enter into a contract. And our proprietary perfume is not given to anybody in the world. And regarding KFC boxes and all these things there are couple of suppliers so we keep on bargaining and we keep on negotiating with all supplier depending on our requirements. So there are no long term contracts with KFC boxes, packing material and other items. In case of perfume it is a proprietary item. There is a long term contract and our proprietary things are not given to anybody in the world.

Shailesh Kumar What are the accumulated losses in up town properties?

VC Nagori No there are no accumulated losses. These are only the entries. Earlier we have got these properties from the Raheja Group. They used to keep their properties to stock n trade. Now we have I think transferred that property into a fixed asset. And one more thing that we have created our ICD into the equity. So other things are consequential things. Losses that are appearing, these losses will belong to that will form part of our purchase agreement. These are the carrying forward losses from the seller company which we brought. So it has been suitably mitigated.

Shailesh Kumar And now that you have incorporated a subsidiary in Bangladesh, have you finalized the business plan?

VC Nagori In Bangladesh we have **incorporated** a wholly owned subsidiary company and we have already I think finalized a third party manufacturers who is already in process of developing land and buildings and he has already initiated order for acquiring plant and machinery. We have already appointed a national distributor and also opened a letter of credit and next 15 – 20 days from now, we shall we shipping our first consignment. Office also, we have appointed a country manager and our sales team is also there. Hopefully 6 months from now we will be starting working in that direction in full stream.

- Shailesh Kumar** Regarding promoters stake dilution will the companies be issuing fresh shares or promoter will be selling their stakes?
- Sumit Malhotra** It all depends. There are several negotiations that are happening in terms of an acquisition. Should a acquisition actually can't be consummated before the deadline. Then we have an opportunity to finance it with equity. Should that not happen there could be 100 of reasons as to why it cannot; we would be constrained to do a secondary sale. Because honestly for us it is better that we get the money in to the business. But considering the fact that justifying the use of proceeds without appropriate acquisition will become very difficult.
- Shailesh Kumar** And my last question, if I can get email id and contact number of Mr. Nagori that would be really helpful.
- Sumit Malhotra** You can send me a mail later, I will give it to you.
- Moderator** We have the next question from the line of Abhash Poddar from I Alpha Enterprises. Please go ahead.
- Abhash Poddar** Just wanted to understand when we last had a chat in December we said Keo Karpin's market share was 16.8% and it being the second largest player. So what is the market share of that currently?
- Sumit Malhotra** Now down to 16.2, it's now the third largest.
- Abhash Poddar** We also said that once it's down below the second spot we will see an accelerated market share decline in the same. So what would be our targets for the next 1 – 2 years in terms of market share?
- Sumit Malhotra** It is not dependant only on Keo Karpin's market share.
- Abhash Poddar** When we met in December we said once it loses the second spot we may see an accelerated downslide in its market share.
- Sumit Malhotra** Bajaj Almond Drop is not the only brand. The deceleration happens fast. It could be that somebody else can also pick up the market share. All the new entrants that have come, for example Lever has launched a light hair oil, they are going to gain market share. We are not going to lose, where is that going to come from? Deceleration will happen. We have to assume that we continue investing in advertising investing and distribution. And hence the majority of the loss in market share comes to us.
- Moderator** The next question is from the line of Sachin Bhatia from Baring Private Equity. Please go ahead.
- Sachin Bhatia** Wanted to check what's your effective excise rate currently?

- Sumit Malhotra** Excise, see most of our goods are made in the excise free zones. That is our factories in Himachal and Uttaranchal. There is no excise.
- Sachin Bhatia** And when are these coming out of the excise benefit?
- Sumit Malhotra** Last one which was in Paonta Sahib which was made in 2010 will come out excise in 2020.
- Sachin Bhatia** And the previous ones?
- Sumit Malhotra** I think it starts from 2018 – 19.
- Sachin Bhatia** And so what is your normal excise rate there?
- VC Nagori** 12.36, normal excise rate but we are exempted.
- Sachin Bhatia** How much is it?
- VC Nagori** 12.36% is the normal excise duty but we fall into exempted category.
- Moderator** The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah** Sir just wanted to check have we got into any forward contracts on LLP for this year?
- Sumit Malhotra** I told you in my opening address we have covered till first quarter till September.
- Tejas Shah** That is Rs.74.
- Sumit Malhotra** Approximately, plus minus Rs. 1 – 2.
- Tejas Shah** I believe it is difficult to predict for anybody but since you track this commodity more closely than we do, what is the sense of decent correction in crude oil prices, do you think that going forward there will be some benefit going forward in balance half of the year also?
- Sumit Malhotra** Very difficult. We are assuming that there will not be and that's one of the reasons why we have taken a price hike?
- Tejas Shah** And even that benefit accrues to you, you wont be taking a price cut based on that right?
- Sumit Malhotra** You cannot take a price cut in a premium. If the margins expand you can increase your advertising in sales promotion. We have also done that in the last quarter if you see where our EBITDA expanded, we also spent more on ASP. That is putting more money behind the brand and helping grow a category itself. So that we grow. In fact we have always maintained the onus of growing the category is blessed clearly with the leader.

- Tejas Shah** Also wanted to know what will be our effective tax rate from FY15 onwards?
- VC Nagori** As on date effective tax rate is somewhere close to 20%. And 15 onwards also we will be having tax rate in the same bracket because we are having the arrears of minimum alternate tax that will be adjusted every 2 – 3 years. So up to 2017 – 18 effective tax rate would broadly fall into the same pricing bracket. 1 – 2% here and there.
- Tejas Shah** Because as I recall correctly from one of our con calls earlier you mentioned that your benefit will accrue to only 30% of your production framework.
- VC Nagori** Its true we will be having arrears of minimum alternate tax that will be adjusted against our normal tax liability. So effective tax rate will be around that only.
- Tejas Shah** So you are saying tax rate will go up but you will have arrears of the MAT that you have paid which can be adjusted.
- Sumit Malhotra** It is exactly like unabsorbed depreciation.
- Tejas Shah** So basically to point that it will continue at around 20% for FY15 – 16 onwards?
- Sumit Malhotra** At least for next 2 – 3 years.
- Sumit Malhotra** It all depends on how fast we grow and use the credit.
- Tejas Shah** Just wanted to check status of your up town leasing property, I believe there is some CAPEX which you have mentioned will come through in the next year. So just wanted to check on that.
- Sumit Malhotra** As I told you we had to pull it down and then the new premises will start. We haven't pulled it down and nothing has been done on that. We are still looking at that permissions and the final design. We believe that work will start towards the end of this year. We made a provision but we may or may not use that provision this year.
- Tejas Shah** So apart from this any CAPEX for this year sir?
- Sumit Malhotra** Yes the GST is announced by the government, the Baroda plant we will have to start constructing. The Baroda plant will cater to west and south wherein we gain a lot of amount in terms of the freight because please note that raw material, packaging material goes from the west right up to the north and the finished goods come back. So if GST comes in, it might be more profitable for us to make it in Baroda. So depending upon the announcement that the government makes, we will start constructing the factory. That is the only thing.
- Tejas Shah** Anything pertaining to Bangladesh?

Sumit Malhotra Really nothing. We have an office which we have rented. We don't plan to build our factory or office there.

Tejas Shah And sir just in relation to your one point which you mentioned in your opening remark that as a company believes that Almond Drop at this point should grow based on distribution and from the point you got listed, you got 1.9 million retail outlets, from that point you have come to 2.6 million outlet as we speak today. So till what time you believe distribution growth can support Almond Drop hair oils growth?

Sumit Malhotra Tejas in a country like India where around 70% of India's population is in the rural area, reaching 6.5 lakh villages in India its not going to happen tomorrow of day after. Even for big companies like Lever and ITC and all that nobody reaches these kind. So effectively you can go on increasing distribution at a lower marginal return.

Management And also understand that the increase in distribution should be made by our corporate philosophy that we don't consider ourselves as a 55% market share in the light hair oil segment. We consider ourselves as a part of the overall hair oil segment because hair oil penetration is 92%, we all know that. So any person who is using hair oil is a potential customer. Therefore the distribution leads will continue.

Moderator We have the next question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead,

Kaustubh Pawaskar I have a question on Kailash Parbat cooling oil. I just want to know for this quarter why were the sales flat considering the fact that Q4 is normally good quarter for Kailash Parbat?

Sumit Malhotra If you have relatives or people in the North, you would realize this year the winter got extended. Actually even in early April people were not using fans and they were using blankets in the North. So it all depends on when the winter goes away and summer comes. So this time the summer has been delayed and therefore normally what happens is February you push in stock, March it starts selling. This time it actually started selling in May. Even April has been quite poor.

Kaustubh Pawaskar So we should expect quarter 1 to be better in comparison to quarter 4?

Sumit Malhotra But again please look at things like off take and secondary sales because primary sales which are the numbers reported in our P&L will take time to start showing growth because you have to first liquidate the stock that we have built in with your distributors, with the retail outlets and then only will that normal pipeline flow happen.

Kaustubh Pawaskar Sir how much time will it take to basically to get normalized sales?

Sumit Malhotra I think maximum 1 quarter more.

Kaustubh Pawaskar

Just wanted to know about the transition which is happening in the market because one of your competitors has also indicated that he is seeing a transition from coconut oil users shifting to value added hair oil and for past few quarters at least for Bajaj Corp we are seeing that Almond Drops volume growth is consistently at around 20%. So do you expect this transition to continue in the coming quarters as well is it there room that Bajaj Corp would achieve this kind of volume growth because of this transition which is happening in the market?

Sumit Malhotra

To understand transition you have to understand the hair oil industry. These figures have been shared but I will share them all over again. Around a third of all hair oils being used today are unbranded. Out of the total branded hair oil half is coconut, the other half is value added perfumed hair oil. So if you look at the presentation you will see that light hair oils are approximately 60% of total branded and total branded is around two thirds of the total hair oils being used. So even light hair oil if you say around 10 – 11% of the total hair oil being used and therefore even for the light hair oils to grow, they are still 89% of the market still to be sort of converted. So there is a huge potential for growth anywhere. First people will shift from unbranded to coconut. Some people shift from unbranded directly to value added. Second, people shift from coconut to value added. Third, within the value added there is a shift. So this is a dynamic situation because of which we have continued to grow in volume terms. Having said that please be clear that now there is a base effect that is going to start coming in. 1) We cannot continue to grow at the same level with the base rising and the competition. 2) because if you know what is happening in the market the Amla sector is also started growing all over again. 3 years ago amla had stagnated but thanks to the low cost amla that was launched, that category has also started growing again. So if you expect a volume growth of 20% quarter by quarter for the next 2 – 3 years, I think that's a very high expectation and I doubt whether that could be maintained.

Kaustubh Pawaskar

2 questions to whatever you have said, you just said that amla segment has also started seeing a growth. So can we expect Bajaj Corp enhancing its focus in Brahmi Amla, its own brand that is Brahmi Amla and there it starts seeing some kind of growth in this particular brand?

Sumit Malhotra

We have been trying for quite so many years to create a differentiation within the amla sphere. Around 6 years ago we launched a low cost amla but we realized that the margins there were so low that we couldn't promote that brand. And therefore at this point of time we need to create a differentiation in the product like we have done in the cooling oil where we have created a differentiation in color, packaging, and the main selling proposition. We haven't been able to crack that in amla. Until we do that I would be very hesitant in putting money behind Amla because it's going to be very difficult telling the consumer why Bajaj amla is better than the other amlas. Like you have seen the situation where the other company is trying to tell the consumer why their almond is better than our almond.

Kaustubh Pawaskar

And sir some of your earlier comments that you have taken the extension with SEBI for reducing the promoters stake. Is it specifically because you are sensing that you are doing the acquisition in another 2 – 3 months?

- Sumit Malhotra** They are 2 different unrelated things. We are doing the dilution because there has been a SEBI regulation which says that the promoter cannot hold more than 75% in a listed company. So that dilution is because of SEBI. Now if we do need that money to do an acquisition in the next 2 – 3 months then it will be a primary offering. Otherwise it will be a secondary offering. So first dilution because of SEBI, the route that we will take may depend on whether we acquire or not acquire.
- Kaustubh Pawaskar** My question is more related to extension why you have taken the extension for this particular thing because it has to be done by June '13?
- Management** The laws states that June '13 was the deadline for companies but the laws also states that it has to be within 3 years from date of listed. We listed in August. So we have time till August. Like for example L&T Finance listed about 5 – 6 months back. They are not going to be forced to dilute to 75% in June. They will have other 2 years before they do it that's the rule.
- Moderator** We have the next question from the lien of Gaurang Kakkad from Religare Capital. Please go ahead.
- Gaurang Kakkad** Couple of questions from my side. Like if you look at your raw material basket, mainly your key commodities, LLP as well as glass they would be down on a YoY basis in FY14 largely like ballpark. So I just thought that what is the rationale for a 10% price hike may be I understand that it's a premium brand but may be you could have gone for a lower price hike, and chased volumes. So just wanted to know your thoughts on that?
- Sumit Malhotra** Gaurang, just two things 10% rise is a wrong number you have. It's a 6% rise. And if you look at it vis-à-vis what you have done is you have seen 100 ml. but across the board it is not 10% in every SKU. In some SKUs where there is no price hike so weighted average is 6%.as against 8.6 last year. And the previous year it was 8.5%, point number 1. Point number 2, is to assume that raw material and packing materials will keep at this low levels through out the year is an unsafe assumption. Like I said we have covered LLP till September. But what happens after that you really don't know and looking at the current situation in India things are really unpredictable. Now there are 2 options. One is that I could have taken the price hike when we got it. And by the time the price hike got affected in the market, it would have been too late. The second is to take a predictive price hike in the beginning of the year and play it across the year. Having said that yes, we could have driven volumes by keeping the price low but that really doesn't happen in a premium category because the person who buys a premium category doesn't buy it because it is cheap. He/she buys it because of the image. And the image is created one out of packaging by communication but also because of the price.
- Management** Just to add to what Sumit is saying it is exactly like how the government keeps increasing diesel prices in low doses. If the cost goes up too much, and we are forced to increase it by 10 – 15% to off set the cost, that will be very difficult for the consumer to **absorb**. Therefore as a conscious

thing, you go in line with the trend and a 6% price increase is what is acceptable to the market that's why we did it.

Gaurang Kakkad So this is more in line with the strategy of taking a price hike only in a year and largely at a start of the year. So we don't deviate from our strategy.

Sumit Malhotra We try not to.

Gaurang Kakkad Like RMs also for the first 6 months you are covered in LLP and glass price is recent half percent cut, this should be for the full year because glass price has only changed once in a year.

Sumit Malhotra Not necessary. The biggest cost in glass is power. The gas firing of the furnace. If something were to happen in the next 1 – 2 months they will have to come back to us and take a price hike.

Gaurang Kakkad So there is no contract in terms of glass prices. It will be on spot basis?

Sumit Malhotra Not spot, you have an unwritten contract which says that we have negotiated x% for the next year. But that doesn't preclude us from going back to them and seeking a bigger reduction or they coming to us and seeking a rise.

Gaurang Kakkad Sir generally what is the inventory if I can say in glass?

Sumit Malhotra In glass we don't keep an inventory.

Gaurang Kakkad Okay so this price that is fixed 6.5% till what time would it last like?

Sumit Malhotra You really don't know if tomorrow the price of gas goes up they would come back tomorrow and immediately....

Gaurang Kakkad There could be daily fluctuations like very frequent fluctuations.

Sumit Malhotra But it doesn't because it is controlled by the government.

Gaurang Kakkad Okay and your advertising spent for the quarter were flat. On a YoY basis like despite such a huge improvement in gross margins like you did not invest something back in advertising. Or like you are more focused on promotions as a strategy?

Sumit Malhotra See whenever you have excess, you don't push. To give you marketing lessons if you like it. Advertising is long term. Sales promotion is short term. So when margins go up, margins don't go up long term. They go up short term. So therefore you invest in short term increases in volumes which are sales promotions. If we were to change the formulations or play around with the packaging and thereby increase gross margin on a longer term, you would go on increasing advertising on a longer term. Because advertising is such that you cannot invest in 1 month, forget about it in the second month, again advertise in the 3rd month and forget about it. You

have to be able to have a constant degree of advertising for the consumer to be able to appreciate the message that you are trying to give to him. I would request you to look at it together but unfortunately we used to quote ASP together even in the limited reviews that used to go to the stock exchange but thanks to change in policy itself we have to show advertising and all other expenses separately. It is quite vague because other expenses are things like sales promotions, there are things like freight, and there are things like discounts, which mixes it up. So if it can go to the investor presentation where we give you a ASP together that would help you much better than floating at the limited review.

Gaurang Kakkad Then what could be the targeted margins for FY14 if you could share the internal management estimates like would you be able to maintain margins or like what's the guidance?

Sumit Malhotra We normally don't give guidance. So I wouldn't stress and say that this is our guidance because margins depend on many things. One is your volume growth, second the competition, third your margin, fourth you long term plan. So I wouldn't hazard a guess on what the margins would be. But yes there will be times may be in the next 3 or 4 quarters or in the next year where margins will come under stress. We only get ready for such situations.

Gaurang Kakkad Sir just one more thing on Kailash Parbbat where are you in terms of your targeted distribution reach?

Sumit Malhotra We are around 50% stress.

Gaurang Kakkad So the next 50% would pan out in what period? Are you done for the seasons that you started?

Sumit Malhotra Season has just started in May. No distribution is a process.

Gaurang Kakkad Because your 3.5 lakh outlets is pretty much stable over the past 6 -7 months.

Sumit Malhotra Because it was non-season.

Gaurang Kakkad Okays so will this increase significantly in this season or it will remain in this range?

Sumit Malhotra If off take increase distribution will also increase because off take, that's market share and distribution share go hand in hand.

Moderator We have the next question from the line of Nitin Gosar from Religare Invesco Mutual Fund. Please go ahead.

Nitin Gosar Just wanted to understand conceptually like we have this theory of consumer migrating from coconut oil or unbranded or may be LHO to almond oil. But there are 2 factors that are involved in that also one is absolute and other is relative. Absolute being discretionary purchasing power of the consumer and relative being the price points between the 2 commodity Coconut Oil to

LHO to Almond Oil. Where do we stand now as compared to last year as a sector or may be as a segment if I were to understand?

Sumit Malhotra

If you have been following you will realize that 2 years ago or 3 year ago when we first started sharing our results on the internet and all that. At that point of time the light hair oil was around 12% of the total branded hair oil. In the last 2 – 3 years it's risen to 16% of the total branded hair oil and total branded hair oil has continued to grow. Its not that the total branded has dropped and therefore our share has gone up. So which means that a majority of shift that is happening is happening to light hair oils and like some of our competitors like to call it to value added perfumed hair oils. Now why is that happening? It is happening because one obviously the disposable income is going up. The rural demand is increasing. But also because the consumer need, the consumer believes that it needs a value added product in all categories. For example, you would have read a shift between LCD to LED TVs, why is that happening. It's not that that the picture quality alone is much better. But the perception that a LED is better than LCD and a value added perfumed hair oil is better than an unbranded or a coconut hair oil is driving this shift. This shift cannot be driven if disposable income is not up. But thanks to disposable income going up and the need for a better product going up, this shift is happening.

Nitin Gosar

And so the gap between the relative price points migrating from A product to B product?

Sumit Malhotra

That depends on the socioeconomic class you are in. In the SEC A that gap could be 100% and the guy will shift but if the guy is in SEC E the shift of Rs. 1 – 2 in a month might cause him to **economize** the normal brand that he is using. There can't be a general answer right?

Nitin Gosar

And just wanted to understand again on the purchasing power, does it hold true even in this short term period when things are bit uncertain especially in low income segment.

Management

Look at the hair oil as a proportion of the monthly expenses from consumption. Any average household it is very small and therefore even a slighter higher price increase doesn't not cause the person to down trade. Because if you see the entire basket of consumption items that we take hair oil will form a very small portion because almond drop hair oil 100 ml is lasting for 40 days, Rs.2 increase in almond drop for 100 ml is not going to pinch him that much. And that's the key.

Nitin Gosar

Now let me just turn the scenario. What happened in 2009 I wanted to understand from you especially keeping in mind that this was an election year. So what happens generally in your category when it is an election year? Do you benefit or it's a normal year for you?

Sumit Malhotra

We are too small. Though we would like to believe we are big we are too small for elections to effect us. What may happen is if the government decides to roll out more subsidies to the rural area we might see a slight positive impact. But if you talk to coconut oil guys, it will be more significant reply. Coconut oil is half is branded and at that big but category is just 12 - 1300 crores, it is very small thing in the whole scheme of things.

- Nitin Gosar** Then one last question I guess couple of quarters back when you were holding the conference call you had mentioned that our long term EBITDA margin trajectory is going to be 25% and current being an aberration year if that were to hold true that inched up around 28%, does anything change as compared to your earlier commentary?
- Sumit Malhotra** No it doesn't.
- Nitin Gosar** And the incremental margins that you are commanding right now that will go into new products?
- Sumit Malhotra** We will go into more advertising first ensuring our mother brands growth continue and whatever is left goes in to the new brand.
- Nitin Gosar** And keeping in mind one more commentary had come in from your side 20% is not something as volume growth to be effected from here on, so does that mean you will invest hereon advertising from now on as compared to your last year?
- Sumit Malhotra** like I said basically advertising cannot be a short term investment, when we look at advertising we look at what has been spent on the next 2 years. If we look at next 2 years we are trying keep the advertising spent at the current levels at least. Then depending on competition, depending on the rate at which we are growing depending on our future plans of things like brand extension you can increase the advertising spent. But straight answer to your question we are not planning to milk this brand that has decreased advertng in the short run.
- Moderator** We have the next question from the line of Ruchi Rudra from B&K Securities. Please go ahead.
- Ruchi Rudra** I just have one question on your promotions, it's gone up considerably for this quarter? One is you have some promotions going on for Kailash Parbat. So if you can tell me other than Kailash where you are all investing and going forward for the next few quarters you still have your LLP locked up at lower price. Do we see those promotions numbers being consistent for another few quarters?
- Sumit Malhotra** Again no guidance but where did it go. It went into consumer offers like you have seen in Kailash Parbat. There was a consumer offer in Bajaj Almond Drop also. Apart from that if you remember I was speaking about brand promotions, now that goes into that budget also.
- Ruchi Rudra** So the entire brand promotion stood over 150 as part of your promotion activity?
- Sumit Malhotra** And it's costly. It's not a cheap promotion. But these are investments that you need. Though it might seem short run but when you combine it with advertising spent that we are doing you are talking of a long term and continued impact on the market share and the growth. And like is said in my opening address we strongly believe almond drop will continue to primarily on the back of rural growth.

- Ruchi Rudra** Sir my question is does almond drop require promotional activity?
- Sumit Malhotra** I don't know whether you heard it. We look at Bajaj almond drop not as a 55% market leader in the light hair oil. We consider ourselves a very small player in the total branded hair oil space. If you change the paradigm or the way you look at yourself, the whole equation changes. We as a third largest hair oil brand but consistently for the last 4 – 5 years we have been the second largest advertised hair oil brand. Now why would I do that if I look at only light hair oil, I spend more than 2 times the next guy. I could easily reduce the advertising ____ **56.14**. We have changed our own way of thinking over the last 3 – 4years and as I said that we view ourselves as a small player in the total hair oil space.
- Moderator** We have the next question from Sunny Agarwal from Aditya Birla Money. Please go ahead.
- Sunny Agarwal** Sir can you throw some light on any new product we are developing or testing or any thoughts of entering into a totally new category like Hindustan Level created wherein price point is around Rs.100 for 100 ml so your thoughts on that.
- Sumit Malhotra** Sunny unfortunately on an open line, I cannot discuss plans on brands and all that. You will appreciate what is proprietary to us our thought process cannot be shared in the open forum. Having said that yes, our philosophy on launching new brands is that we will not go out and launch 10 brands in one go. We will launch one brand which is Kailash Parbat. Let it stabilize, by stabilization I mean breakeven, then we will go launching new brands. We should realize that in FMCG making a new brand is very easy. But making it very successful is very difficult. 8% of all FMCG brands succeeds. And that also takes 3 – 5 years for success to be determined. So it's not that Lever learnt that lesson 3 years ago when they moved back from the launching spree that they had and Nitin Paranjpe came and said that look we are now going to consolidate. By consolidation we mean first give the existing brand what they need. Whatever is left we will start flittering around on the new launches because new launches is not a sure method of succeeding.
- Sunny Agarwal** Are there any products which are under.
- Sumit Malhotra** 4 – 5 products which are ready and they have been ready for the last 2 – 3 years. Yes, we keep on testing in consumers across India. We keep trying doing test markets in small areas whether it will succeed, all of these are getting ready for the launch as and when we decide it's the time to go.
- Management** Just to add to what Sumit was saying Kailash Parbat was ready about 3 years ago. We deliberately chose not to launch it because we felt that almond drop required our full attention. And once we got that comfort, that's when we launched Kailash Parbat.
- Moderator** As there are no further questions from the participants I would now like to hand over the floor back to the members of the management for closing comment thank you and over to you sir.

Sumit Malhotra

Thanks a lot to all people who were there on the call. We greatly appreciate your support to this company. Like I have been saying in my answers to various questions we truly believe we are still a very small company with the total FMCG sales and also within the total hair oil. I would like to express thanks of the management to all who have been supporting us over the last 2 - 2 .5 years that we have been listed. Thanks a lot.

Moderator

Thank you sir. Ladies and gentlemen on behalf of Kotak Institutional Equities that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.