



## “Bajaj Corp Limited Conference Call”

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**MODERATORS: MS. AMRUTA BASU  
MR. NARAYAN RAMAN  
MR. SUMIT MALHOTRA  
MR. V. C. NAGORI**

**Moderator:** Ladies and gentlemen good day and welcome to the Q2 FY11 Earnings Call of Bajaj Corp, hosted by Kotak Institutional Equities. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conferences call please signal and operator by pressing \* and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conferences over to Ms. Amruta Basu from Kotak Institutional Equities. Thank you and over to you, Madam.

**Amruta Basu:** Hi everyone and thanks Marina. On behalf of Kotak Institutional Equities I welcome all of you to this Bajaj Corp Q2 FY'11 earnings conference call. I would like to welcome the Bajaj Corp team. Mr. Sumit Malhotra, Director, Mr. Narayan Raman, President, Corporate and Investor Relations and Mr. V. C. Nagori, Chief Financial Officer. I will now hand over the call to Mr. Narayan Raman to discuss the recently announced earnings. Thank you sir over to you.

**Narayan Raman:** Thanks everyone for this call on Bajaj Corp's quarterly numbers. This is Narayan Raman here and with me I have Mr. Sumit Malhotra, Director of Bajaj Corp as well as Mr. V. C. Nagori, Chief Financial Officer. Before we get into the stock details for some of the investor callers who are attending the call and this is a new company for them, let me just give you a two-minute background. Bajaj Corp is one of the leading light hair oils player industry with a dominant market share and it is placid brand Bajaj Almond Drops is amongst the handful of brands, which has a turnover in excess of 330 Crores. There are not many such brands in India across the FMCG space. We are also a company, which is completely debt free. We are selling on cash and we operate on a negative working capital cycle and we have the highest gross margins and with the highest EBITDA as well as probably the highest PAT margins in the entire industry.

Now with that let me get on to some of the quantitative details regarding the quarterly performance. The first things that we would like and it is to tell you what is heartening is that our latest AC Neilson report indicated that our Almond Drops Hair Oils market share in value terms has grown from 48.1% in

September 2009 to 53.2% in September 2010. This is a 5.1% increase over the last 12 months and the volume share as grown up from 45.4% to 49.1%, which is a 3.7% increase. This is very healthy and as we have mentioned during the road shows and various interactions that we have had with investors that our primary target over the next three to four years reach a market share of 65%, which would then make an unassailable in this category. In the meantime what we have done since the IPO is that we have increased the number of our stockers (ph) from 4381 to 5335. We have also opened 954 new stock points and extra manpower has been added and our sales force has increased from 279 to 323.

In terms of the quarter numbers the company has achieved a growth of about 19% in sales, which has increased to 81.24 Crores and PAT has increased to PAT before extraordinary items have increased to by about 8%. Now what we have done in the numbers, which we have sent to the stock exchange, which I want to clearly rephrase, is that fact being consistent with our accounting practices like we do not amortize our ad expenses but wipe it off in the year of incurrence. The same treatment has been mated out to the IPO issue expenses, which amounted to around 18.95 Crores and one-third of that has been charged to the revenue account as an extraordinary item. So if one were to look at the numbers one should as analysts and investor be looking at it prior to this extraordinary item because this is consistent with our accounting practice and we have not knocked it off from the shared premium like many companies have done.

Now the topline growth also includes a volume growth of 10.71% and for our business the first half is actually about 42% of the full year and the second half is about 58%. We are slightly lagging the first quarter numbers primarily because of couple of states; one is Kashmir, where we all know that there is the problem and there has also been a problem in the Eastern states wherein there has been a blockage by the army because of the insurgence and some quantity of our material has not reached those markets. Another state which has been a bit off a lag out where we taken corporate action in terms of strengthening the distribution and the people manning those markets is the state of Gujarat. We are reasonably confident that in the coming two quarters we should be able to make up the kind of run rate that we had earlier indicated. So we do not see this

as continuing or slowdown that is mounting, it is temporary but we think that we should be able to make up at least about 90% to 95% of the targets that we had set for ourselves at the beginning of this year.

Now if one were to look at our EBITDA analysis one of the key things and the key risk factor which we have doing repeatedly rephrasing to all investors is the price of likely food paraffin, so the likely food paraffin in the quarter has increased by around almost 45% and that has had an impact EBITDA margin and total profitability of the company; however, to some extent we were able to mitigate this cost push, because we had taken a Rs. 2 price increase sales of our Almond drop and that has cushioned the impact. We think that the LLP prices will continue to remain firm for the next two quarters and that incremental cost will have an impact on the overall profitability. So what we had envisaged that the increased profitability that we would get due to the Rs. 2 price increase might now just about mitigate the cost-push.

Apart from that we would like to inform the investors that the money that we have raised in the IPO amounting to Rs. 297 Crores has been invested in debt and money market instruments and has earned a little bit of interest in the quarter, which we think will increase over the next six months but we have not accounted for the entire accrued interest because some of them are mutual fund instruments and the accounting standards says that we accrue it only on maturity. So there is a bit of conservatism in the profits that we have reported for the current quarter as well. As our working capitals continues to be well under control and negative and there has been some amount of additions to fixed assets, which has been the capitalization of the Dehradun and the Ponta Sahib plants in this quarter.

With is I will now hand you over to Sumit and throw the floor for open for any questions as you may have and we would be more than happy to answer those. Over to Sumit.

**Sumit Malhotra:** This is Sumit here. I handle the sales and marketing of this division. I am a Director on the board here. Like Narayan said that the second quarter shows a 19% growth in turnover and around 11% growth in volume, but the good thing is that the market share has gone up consistently every month-by-month, it has

moved up and currently in September it is at 53. 2% by value and around 49% by volume. What has also happened is that the competitors had launched new brands in the Almond area specifically Marico has launched a brand called Nihar Almond and Vasmol, which is hygienic research has launched a brand called Rootz. Both of them have not yet been able to give a market share in any part of the country. We continue to gain market share from the second largest player, which is Keo Karpin. Like Narayan again said that we are still looking at achieving between 90% and 95% of our topline and the bottomline numbers that we had projected at the beginning of the year. (indiscernible) 10. 33 was like we said during the road show one was the LLP prices, which have been rising consistently, those are firm now, if that could change over the next two quarters. The second thing is that there is a slight slowdown in the total hair oil market growth. It is still growing. It is still in line with the Indian FMCG growth, but the first six months last year the hair oil grew at around 9% by volume. This year they are growing at 6% so there is a slowdown there, but as the same slowdown is in the light hair oil, but we continue to gain market share within the light hair oil. I would like now to throw open the thing for questions if any.

- Moderator:** Thank you, very much, Sir. We will now begin the question and answer session. The first question is from Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah:** I just wanted to know the first half volume growth?
- Narayan Raman:** Like I said the volume growth was 11% in the first half. 11% is volume growth and 17% is turnover growth for the first half. Second quarter was 19% and 11%.
- Grishma Shah:** With regards to the outlook on the raw material prices outlook?
- Narayan Raman:** Raw material prices in first half had went up from 39% to 41%
- Grishma Shah:** Correct and we expect it to be these levels or are we planning take price hike beyond a particular point?

- Narayan Raman:** It depends. We do not expect any significant rise in the LLP prices any further, so we have to **retain 12:52**, because we have taken a price increase May 2010, taking any price increase now is really not advisable. Based on the reports if there is a change in the LLP prices it will be sometime in Q4, not in Q3.
- Sumit Malhotra:** Also the fact that our view and what we have gathered from oil industry watchers is that crude is likely to remain steady, which then means that LLP prices from the current levels we do not see much amount of upward push.
- Grishma Shah:** The other expenses during the quarter are higher sequentially also?
- Sumit Malhotra:** Some rental I think charges are being I think debited in this. That is why the other expenses have gone up because we are adding some of the furnaces, which were owned by our holding company. Then too we did not provide any rent, now we are entering to the rent agreements into the holding company that is why other expenses have gone up.
- Grishma Shah:** We would continue with the 6 Crores debt every quarter?
- Sumit Malhotra:** For the next three quarters.
- V. C. Nagori:** Madam, it is only a book entry. See what happens is since we are under MAT, let me again reclarify, MAT is paid on book profit and by doing this accounting treatment, which is considered more prudent, it also enables us to have a tax saving, which would roughly amount to around Rs. 4 Crores. So it has got no impact of the networth, it is just a representation of the actual numbers. We could have taken it out of the share premium itself, but we chose to write it down from the revenue account because it has tax beneficial implication.
- Grishma Shah:** We would continue with the 5.5 Crores kind of purchase of traded goods every quarter or would that disappear from the next quarter onwards?
- Sumit Malhotra:** See 18.95 Crores in the total issue expend. One-third of that we have written down this quarter and one-third and one-third we will write down in the next quarter and the quarter after that.

- Grishma Shah:** I am talking about purchases of traded goods. I am saying you have 5.5 Crores as an expense, I was given to understand that since your new facility has started you will not have purchases of traded goods?
- Sumit Malhotra:** Yes that is true, but still there are some of the sizes, which are not feasible to produce in-house, so that is why some of the sizes are being outsourced to our franchise.
- Grishma Shah:** So this kind of the number will continue?
- Sumit Malhotra:** Yes. It will continue. I do not think it will increase, but the company gets advantage, that is why it is being continued.
- Grishma Shah:** Thank you.
- Moderator:** Thank you. The next question is from Ruchita Maheshwari from Nirmal Bang Securities. Please go ahead.
- R. Maheshwari:** What is the cash position as of now?
- Sumit Malhotra:** The cash position if you look at the statement of assets and liabilities, which we have sent to the stock exchange we have got 182 Crores in liquid investments and cash and bank balances, which largely comprise fixed deposit etc., which we have kept in bank amount to about **152 16:25** Crores. 182 is liquid investment.
- R. Maheshwari:** What is your CapEx plan for FY'11?
- Sumit Malhotra:** There is no CapEx plan for FY 11 at all.
- R. Maheshwari:** So what is the topline guidance for FY'11 and FY'12?
- Sumit Malhotra:** We do not give topline guidance for FY'12 but for FY'11 we have said anywhere between 20% to 25% topline growth, and a similar kind of bottomline growth, which is a combination of both volume and price increases should be sustainable for us.
- R. Maheshwari:** 25% volume growth?

- Sumit Malhotra:** Total topline growth. It will be up in the next two quarters but all our efforts are to reach that target.
- R. Maheshwari:** Festive season is coming do you have any promotion plans as such?
- Sumit Malhotra:** For hair oils there is only one state that gets upswing in terms of sales of hair oil, which is Maharashtra because of the peculiarity of (indiscernible) 17. 34 otherwise in the rest of the country hair oil does not see upswing, unlike other cosmetic items.
- R. Maheshwari:** What are your advertisement expenses?
- Sumit Malhotra:** Our advertisement expenses for the quarter in the popular city was 11 Crores
- R. Maheshwari:** And for the Q1?
- Sumit Malhotra:** Half yearly is 8. 2 Crores that is for advertisement and if I take schemes and sales promotion it is another 9 Crores so totally 17 Crores.
- R. Maheshwari:** H1 is 17 Crores and for Q2 was?
- Sumit Malhotra:** Q2 the advertisement was 4. 33 Crores and schemes and sales promotion 5. 57 Crores.
- R Maheshwari:** So going forward are you going to continue with the same type of advertisement expenses or would there be some decrease in sale?
- Sumit Malhotra:** See any decrease whatsoever if at all there will be an increase
- R. Maheshwari:** That is it from my side.
- Moderator:** Thank you the next question is from Aniruddha Joshi from Anand Rathi. Please go ahead.
- Aniruddha Joshi:** Can you update us about the cooling oil launch we are expected to do?
- Narayan Raman:** There is nothing that is going to be launched for the next 12 months and let me make it very clear to everybody who is on the call, for the next 12 to 18 months I do not think you can launch products in such a short period. Yes, work is

going on, so I am categorically saying that at least for the next 12 months, there will be no new product launches.

**Sumit Malhotra:** Aniruddha, this is Sumit here. When you messaged me I said exactly the same thing that there are no products that we can specify we are going to launch. So I think it is unfair of you to ask him when is the cooling oil going to be launched. Top estimate and I specifically said that I am not selling any new products at that point in time. I hope you remember Aniruddha.

**Aniruddha Joshi:** Yes, and regarding geographical expansion, can you explain the retail stores that we would have added in this quarter?

**Sumit Malhotra:** If you look at the first quarter end we were at around 15.6 20:06 lakh stores. We are currently at 17.1 lakh stores, also I told you that the major thing is we are adding stockists, stock points all over the country. Beginning of the year, we were at around 4381 stock points and it has gone up to 5335 stock points all over the country, to give you a benchmark, Godrej would have around 5000 stock points and Lever would have 6000 plus.

**Aniruddha Joshi:** Thank you

**Moderator:** The next question is from Aditya Mathur from Citi Bank. Please go ahead.

**Aditya Mathur:** I wanted your split between rural and urban, your sales between the two and are we really seeing any slowdown in the rural areas?

**Sumit Malhotra:** Slowdown in the rural area, no there is absolutely no slowdown in the rural areas, in fact if you see Nielsen and also our own data we are seeing that the rural areas is growing at around 10% faster than the urban area but there is no slowdown, we are at around 63% urban, 37% rural currently, but I estimate by the end of this year we will be around 60:40.

**Narayan Raman:** Just to add to that it is because you know of our trust in our sachet and as we had indicated to people who have been talking to us is that we have a unique positioning in the sachet is that its gross margin is also similar to the other SKU which is a great advantage unlike many other FMCG products, the 1 rupee sachet has the least amount of gross margin, not so in our case because what we

lose out in terms of the price of oil in relation to the selling price, we more than make it up by the reduction in the packaging cost, because that is the only thing that does not go in bottle, so therefore the one rupee sachet also has a very healthy 50% plus gross margins.

**Aditya Mathur:** Sure and how big sachets would be as a percentage of the overall mix.

**Narayan Raman:** Last year it was 8%; this year is currently around 10%.

**Moderator:** The next question is from Vicky Punjabi from JM Financial. Please go ahead.

**Richard:** You mentioned about 3% point volume share gain and 5% point value share gain but despite that we have seen a volume growth of just around 11% for the quarter, so what is the industry growing at, I think you mentioned about the overall hair oil industry but what about the LHO industry, how is that doing and specifically almond category.

**Sumit Malhotra:** The LHO industry is growing by around 9% by value and around 6% by volume and since we are growing at 11% by volume we are gaining market share.

**Richard:** One has also seen in terms of the kind of growth that was there last year, the one that corresponds to 6% right now, how much was the growth last year in FY 2010 for the industry?

**Sumit Malhotra:** For the industry it was 7.9%.

**Richard:** Okay, but despite that on a full year basis you actually landed up with a volume growth of 30% plus last year.

**Sumit Malhotra:** That was the turnover growth, not the volume growth.

**Richard:** Yes, but out of that how much would have been the volume growth?

**Sumit Malhotra:** Could have been volume around 23 odd percent.

**Richard:** So, 23 compared to 7 odd for the industry, but right now that gap seems to be narrowing between let us say the primary sales and the tertiary sales, what would that be due to?

**Sumit Malhotra:** As you know once you have more than 50% market share the incremental gain in market share becomes that much more difficult.

**Richard:** No, true, I am not talking about market share gain, what I am saying is that the industry grew you said by around 7%.

**Sumit Malhotra:** I had not completed it, so therefore until the industry or we as the market leader can grow the industry faster we cannot grow faster and I think the aim at this point of time is to keep pushing the industry growth at a much higher level. There are two ways you do that, one is to take it down in to the rural area because that is only 37% of my volumes currently and if you look at India as it is 70% is in the rural, the second is you take share from coconut, what you see here is only a portion of the light hair oil and you can actually have a 53% market share but grow at 20% if I can grow the market by 20%, how can you grow the market, by making it more rural and getting convergence of consumers from coconut in to your thing and that is what we are trying to do at this point in time.

**Richard:** I take your point, thanks for that, but my question was a little different. You said that the industry in FY 2010 actually grew by volume by around 8% versus at 8% of industry volume growth, you actually grew 23% you said by volumes in FY 2010, now this year the industry is growing 6% by volume and you are growing just 11% by volumes, so the delta between the two....

**Narayan Raman:** Yes, it has come down, it is a fact.

**Richard:** I mean, but that is quite a sharp deceleration.

**Sumit Malhotra:** I was trying to tell you, how does the delta increases? This delta increases only if you take market share from the other competitors, once you go past that 50% market share it is bound to go down, for example if you look at the last five years average every year we are gaining around 4 to 5% market share, this is going to go down, you cannot expect that after that 54% of 55%, you can

continue to gain that 4 or 5% every year, so up till now if you heard what Narayan said we have gained 5.1% market share in value terms and 3.7 in volume terms.

**Narayan Raman:** There has been the explosive growth that we had in the LHO market over the last two years not only us but the hair oil industry as a whole and the FMCG industry as a whole has seen some slowdown and from that growth rate we would have dropped from 9% to 6% and within that drop we have grown more it only says that we have been able to withstand that slowdown and we have been able to take market share from others. The previous year (ph) percentage is not going to be achievable, it is never sustainable once you have reached 50% market share.

**Richard:** The point that I am trying to make is that you had a 5% point market share gain September 2010 versus September 2009, if I would have to look at the Nielsen number that was there in your RHP, you gained a market share from 46% to 50% between CY 2008 and CY 2009, so to that extent the acceleration in market share is not very different in this quarter than it was...?

**Narayan Raman:** The market growth itself has slowed down right.

**Richard:** But does that amount to such a sharp deceleration in your volume growth?

**Narayan Raman:** Yes, it will, because if the whole market has not grown at 19% which was a whole year CAGR but it has grown only at 6%, so 19 to 6 is 66% drop in the growth rate of the market as a whole, so obviously it will impact us and it will impact us more because we have 52% market in any case.

**Sumit Malhotra:** We are growing at double the speed of the market.

**Richard:** I appreciate that, if one would look at 11% volume growth that you have done, in that context how do you think you will achieve that 20-25% top line growth by value for the year?

**Narayan Raman:** 11% volume growth and with the price increases it is a 19% turnover, 20% is the value growth totally. Like I said this quarter we are lower in the run rate, in the next two quarters because the festive season has just about started we will

be able to accelerate and get to that level and if LMP behaves the way it is, we might seriously think about the MRP prices, may be not in the coming quarter but in the quarter after that which would then combine with the volume increase that we will see because this is 42 and we are 58% of the revenues coming in the second half, we should be able to meet that top line.

**Richard:** Okay. Thank you.

**Moderator:** The next question is from Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, my first question is on pricing, you said you have taken around 8% price increase, how has the competition reacted to this, have they also taken a similar price hike?

**Narayan Raman:** No, we have taken only 2 rupees on 40 rupees, it is 5%.

**Sumit Malhotra:** We have taken a 5% increase in January 2010 and another 5% in May 2010, but in the current fiscal our price increase has only been 5%.

**Abneesh Roy:** But year-on-year what is the price increase, because if I break up the 19% sales growth...?

**Sumit Malhotra:** You are saying because of price increase it is around 8%.

**Narayan Raman:** Yes Navratan has also increased the prices.

**Sumit Malhotra:** Navratan has increased the prices, Hair & Care with Marico has increased the prices, and Dabur Amla has increased the prices so has Parachute.

**Abneesh Roy:** Keo Karpin?

**Sumit Malhotra:** Keo Karpin has reduced the prices but they have not been able to sustain it, they have taken a price increase last month, it is back to 33.

**Abneesh Roy:** Is that the reason we are slightly guarded in taking further price hike, you said in Q4 you might consider?

**Narayan Raman:** In FMCG even if I do take a price increase this quarter and if I am confident that I will be able to sustain the impact of that comes only two months down

the line because there is pipeline stocks as well and it is not viewed kindly and is not industry practice to keep on taking price increases every three months.

**Abneesh Roy:** If you see one-and-a-half year back Lever took price hike, the other guys did not take, so Lever lost market share majorly in soaps and other categories, so...?

**Narayan Raman:** Yes, but this is a slowing market, you will be all the more cautious in taking a price increase right, if the market has been growing at let us say 20% and if the LMP (ph) prices are behaving like this then oil prices like for example went to \$140, every Tom, Dick, and Harry took a price increase and all of us have had one round of price increases this year and everybody given the general slowdown are now being cautious and I do not think that at least for the next one quarter any price rise is being contemplated by us.

**Abneesh Roy:** You mentioned that in Gujarat also you are facing some kind of extra slowdown?

**Narayan Raman:** There has been a slight slow down in Gujarat because Gujarat did not perform as best as we thought it would, so there has been an incremental effort that is being concentrated in that market.

**Abneesh Roy:** Could you elaborate that part because there was no supply chain...?

**Narayan Raman:** I do not want to get in to those details right now.

**Abneesh Roy:** Is it competition related?

**Narayan Raman:** It is not competition related, not that somebody else has taken market share from me in Gujarat, the picture does not follow, market share has not fallen, and the growth that we had anticipated in Gujarat did not happen.

**Abneesh Roy:** Any further explanation on how you will utilize the cash, you have got 344 Crores.

**Narayan Raman:** The cash will remain for the next 12 to 24 months in the balance sheet, this I have repeated N number of times unless and until we find that there is an acquisition which fits in with our criterion which I have explained in detail to

all the analysts who have come and met with me one on one, so I do not think I want to reiterate what we are going to do and it is just a waste of time, so it will remain in the balance sheet, it will remain invested in debt and zero risk security till such time we find an acquisition which fits in with our criterion that we have set for ourselves and Kotak and us are jointly working at it.

**Abneesh Roy:** What is the risk from Nihar Almond and Vasmol, which you said from a median to long-term perspective, till now you have not seen any impact, but medium to long-term what is the sense that you are getting?

**Narayan Raman:** We have to explain to the market the risk is that if they are successful and explain it to the consumer how their product which is also almond is better than Bajaj Almond and at a price that is half of mine...

**Abneesh Roy:** Price is half of yours?

**Sumit Malhotra:** It is 27 rupees versus 42 of ours.

**Narayan Raman:** I am unable to explain why my shikakai, Amla Shikakai which has the same kind of a problem is better than Dabur Amla, if somebody is able to succeed well then that is a risk and then we know what our competitive response can also be because Bajaj Almond Drops is even today with the introduction of the new almond oils in the market is still the only oil which retains the premium position because of the glass and we have again gone on to PET which I think is a mistake if you are going to position it as a premium product.

**Abneesh Roy:** Sir, what is the price of Vasmol?

**Sumit Malhotra:** Vasmol is also at 27.

**Abneesh Roy:** Okay. Thank you. That is all from my side.

**Moderator:** The next question is from Vinay Pahadia from Religare Mutual Fund. Please go ahead.

**Vinay Pahadia:** I have a question on the advertisement and sales promotion. During the call you had explained that in the first half you had spent about 17 Crores on both combined advertisement and sales promotion which is about 10% of total sales,

last year I think from the balance sheet it appeared that you have done almost 15%.

**Narayan Raman:** Because there was some capitalization of the IPO expenses which happened, the ad expenses for the IPO which got capitalized which is now reflecting as an additional line below the normal expenses, right, so we had a lot of product ads which also went along with the IPO ad and those initially being taken as a part of the issue expense plus we are writing it off one-third, one-third, one-third.

**Vinay Pahadia:** So the normalized level of ASP should be 15% plus?

**Narayan Raman:** 14 to 15%, you are right.

**Vinay Pahadia:** Thank you.

**Moderator:** The next question is from Anshul Mishra from ING Mutual Fund. Please go ahead.

**Anshul Mishra:** Which was the last plant that became operational and when was it?

**Narayan Raman:** Paonta Sahib in March of this year.

**Anshul Mishra:** So, just to understand since that plant has now become operational and incrementally for this year vis-à-vis last year some of your production would shift from your franchisee to your own operational facility?

**Sumit Malhotra:** No, it does not work that way Anshul because the franchisees only make smaller sizes of the less saleable items because in an ongoing automatic plant since the cycle is much more difficult it's easier to shift the small SKU to the franchisees where you can switch must faster.

**Anshul Mishra:** So what you are saying is right now most of the franchisees are working on smaller SKU?

**Sumit Malhotra:** Only one franchisee who is working on two sizes of almond and other smaller Amla.

- Narayan Raman:** See progressively what will happen is as your volumes grow up, your franchisees volume will not grow in the same proportion because the most popular SKU are 100 and 200 ml, so as a percentage of the total volumes it will progressively keep coming down but it is not that it will become zero.
- Anshul Mishra:** What I wanted to understand there could be two scenarios one either your purchase of traded goods as a percentage would start falling down gradually or the absolute amount will also start falling down or your current whatever the new plant that has come up that would not be operating as of now to its full potential and gradually as and when your sales increase it would start working towards full potential.
- Narayan Raman:** See, in absolute terms it may not come down because if the market grows the franchisees also grow and I have taken price increases means his thing will also go up.
- Anshul Mishra:** What kind of a volume growth do you foresee moving ahead since the volume growth has been a bit volatile, I just want your estimate of what it could be in say FY 2011 overall and in FY 2012 what do you foresee?
- Sumit Malhotra:** FY 2012 like Narayan said we do not give guidance, FY 2011 we said 25% approximately of our value and around 15 to 17% volume growth.
- Anshul Mishra:** So probably in the second half the volume growth will be much higher as compared to the first half?
- Narayan Raman:** Normally is because of the festive season, it is 42:58, but we will have to work a little bit harder because our first quarter was slightly off the target that we had set for ourselves, so we might have to pull ourselves up a bit more, but it is not an alarming thing, let me put it that way.
- Anshul Mishra:** Now one more question I had this was regarding the cash and investments that you have in your future expansion, I am sorry I have to come to this question because your estimated expenditure you have mentioned in FY 2011

to be 60 Crores for promotion of future products, just wanted to have an idea will this be more of a sales force and stockist expansion or would this also be part of some new product that you would probably be launching, test marketing something of that sort, some flavor on that?

**Narayan Raman:** Some amount of test marketing etc., may happen because we have not even started test marketing, test marketing is the third or the fourth step, first we would start with blind marketing, no table, nothing, it will be for about three months and if I do it in one stage then get feedback and then you know go back to the drawing board and then again do the second round and once the second round is done then we will do a pricing and then once the pricing is done, then enabling the packaging etc. , it is a very long drawn out process, it does not happen overnight.

**Anshul Mishra:** Perfectly fine. So what you mean to say is that whatever schedule that you have given in terms of expenditure on future products that schedule is right and probably it will happen that way only?

**Narayan Raman:** It may even get deferred.

**Anshul Mishra:** As of now what do you foresee it getting deferred or it actually happening in the next six months?

**Narayan Raman:** I foresee it getting deferred.

**Anshul Mishra:** So, probably 60 Crores might not be the expenditure for FY 2011.

**Narayan Raman:** No.

**Anshul Mishra:** Okay. Thank you.

**Moderator:** The next question is from Saurabh Pant from SBI Mutual Fund. Please go ahead.

- Saurabh Pant:** One question on the volume growth, what growth rate from your volumes has been knocked off due to a disruption in J&K and North East?
- Narayan Raman:** Not only my volumes, the overall market volume has also come down, I think J&K and North East put together would account for about 9 to 10% of our total volume.
- Saurabh Pant:** They have de-grown by what?
- Narayan Raman:** The material is not reaching there.
- Saurabh Pant:** So, there are no sales.
- Sumit Malhotra:** It is half the volume of last year. To put it differently there are four states, which we have degrown which Narayan pointed out. If they had grown by 10% our volume growth moved up from 11 to around 16.
- Saurabh Pant:** So, these four states, the J&K and the North East?
- Sumit Malhotra:** J&K, North East and Gujarat like Narayan said.
- Narayan Raman:** It is not even so much on J&K and North East, I think all our managerial effort is now to look at Gujarat and put our full force behind it.
- Saurabh Pant:** What is the issue in Gujarat?
- Narayan Raman:** What has happened is there has been a bit of a lower off take than what we had estimated, therefore we have strengthened the manpower there, we have strengthened the distribution there, and we have strengthened the monitoring there.
- Saurabh Pant:** So Gujarat there is no problem with the Industry, it is basically that we are not growing.

- Narayan Raman:** The whole industry has come down in any case but what we had anticipated despite the industry coming down in Gujarat even to that we were at about let us say 90% of the target, so therefore I think we needed to have an extra concentration of our efforts in Gujarat.
- Saurabh Pant:** So 400 bps is what is being knocked off because of these issues?
- Sumit Malhotra:** Because of regional disruption.
- Saurabh Pant:** Assuming that you would have grown at 14%, not 10. 1, when you say second half, we can grow something like 15 odd, considering the fact that the industry there is softness and incremental market share is going to be tough for us as you mentioned why do we feel so comfortable that we can grow at that rate? What makes us feel we can grow at that rate?
- Sumit Malhotra:** There are two views; one is obviously because we are now moving into the season, what happens in the second half is that the coconut drops.
- Saurabh Pant:** But that is anyway taken care of the year-on-year growth that would be there in the base two.
- Sumit Malhotra:** The drop in coconut is much more than the normal, because if you see the whole industry itself is growing by 6%; actually coconut has been growing this year, so the conversion from coconut to us will not happen much during the winter season this year.
- Saurabh Pant:** So, that conversion has increased just because the spread between the prices is different or is it because even you have taken price increases right?
- Sumit Malhotra:** That is the same because they have taken it up from 20 to 21, we have taken up from 40 to 42 and it is the same.
- Saurabh Pant:** Why people are moving so fast from coconut this year compared to last year?
- Saurabh Pant:** There could be three reasons, one is obviously the price hike because the one rupee on that level makes a lot of business because the consumer is of the lower

SKC cadre, the second is also decreased in advertising by Marico specifically with Parachute and third is maybe because the younger crowd and you know 50% or less than 30 years of age do not prefer coconut over other hair oils available in the market.

**Saurabh Pant:** Okay, just on the realization growth, you would be less than sub 10% this year-on-year for the quarter but as per my calculation actually it comes to more than 10% because assuming that you were at 100, the base was 100 for September 2010 and then you took a price increase I think from 38 to 40 somewhere in January and then 40 to 42 in May your index would have been somewhere close to about 110.5 now, so that is actually a price increase of about 10.5%.

**Sumit Malhotra:** But then your volumes do not take weighted average volumes. Also remember if I took a price hike of 5% in May the impact of that comes one-and-a-half months down the road. It is not that I take a price increase today and from tomorrow my realizations drop.

**Saurabh Pant:** What is the YOY increase in ad spends?

**Narayan Raman:** If I take H1 my ad in 2009-2010 was 10.67 Crores and my sales and promotion etc., were about 8 Crores as against that my advertisement in this first half is 8.2 and my schemes and promotions are 9.8 but the 8.2 is not representative because we have capitalized some of the IPO expenses, which is now getting reflected as a separate line in the revenue statement.

**Saurabh Pant:** Can you share the absolute EBITDA number and the base quarter Q2 FY 2010?

**Narayan Raman:** EBITDA numbers should be there in the result.

**Saurabh Pant:** It is there with me sorry. Thanks a lot.

**Moderator:** The next question is from Shirish Pardeshi from Anand Rathi. Please go ahead.

**Shirish Pardeshi:** Just a quick question. You did mention that you have added about 1000 distributors and about 45 sales persons, just wanted to check what kind of direct or each coverage growth you are looking for this year?

- Sumit Malhotra:** Like I also mentioned that we were at around 15.66 lakh outlets as per Nielsen and currently we are at around 17.1, that is our reach, as you would know it is direct plus indirect, with direct you need to look at the number of people multiplied by around 400 outlets each gives you the direct reach.
- Shirish Pardeshi:** The next question is that obviously you are putting lot of manpower on the ground and then you would have seen the reflection in terms of your expansion in market share, what is the target?
- Narayan Raman:** Let me answer that question if we start setting ourselves manpower targets and market share targets on a quarter-on-a-quarter basis it does not work, what we have to do is like we have said within three to four years time we have to reach a market share of 65% in a growing market and what we need to do in terms of adding manpower or extending our distribution reach, we will do it, may be in the next two quarters we might not add anybody, so let us not look at manpower addition on a quarter-to-a-quarter basis or a reach edition on quarter-to-a-quarter basis, it is meaningless. It is too short a period, because even if I had a man he will take one month to understand the product and may be another one month to understand the market.
- Shirish Pardeshi:** My whole point is, why do you think that addition of a distributor is required at this point of time because you yourself mentioned that your product is premium to the entire liquid hair oil segment.
- Narayan Raman:** I think what we have done right now in terms of adding the people under this thing should be able to take care of the current year for the next two quarters at least, so we will review this at the end of this year because this is actually slightly higher than the budget for the current year but we are willing to make that investment.
- Shirish Pardeshi:** If you can help us to understand what is the growth that we have seen in the UP and MP market and maybe Maharashtra?
- Narayan Raman:** I do not have the figures right now and I do not think Sumit has it either, let me just check.

- Shirish Pardeshi:** Why I am asking this question is that the entire North and even including UP we had a flood situation, so is there any impact which will not be there?
- Narayan Raman:** I do not think so, but I can get the numbers and give it to you later, I do not have the state wise breakup as yet because **with the quarter and then we have already had 50:12.**
- Shirish Pardeshi:** We have seen a 500 basis point increase in the market share, which are the states which are driving this growth in this market share?
- Sumit Malhotra:** UP is the leader.
- Shirish Pardeshi:** UP, then I am sure you would have gone up a little higher?
- Sumit Malhotra:** No, we have not gone up little higher, UP controls around **20 50:39** odd percent of the light hair oil industry.
- Narayan Raman:** No, but the market itself has grown at only 6%.
- Shirish Pardeshi:** But UP would have grown faster than that.
- Sumit Malhotra:** In terms of total volume or market share?
- Shirish Pardeshi:** No my question was this 500 basis point increase in market share, what kind of volume growth we have seen in UP, MP, and Maharashtra and what is the reflection of that growth in volume as reflected in the increase in market share?
- Sumit Malhotra:** The largest increase in market share comes from the East that is West Bengal, but there the market share was much lower than the rest of India, for example if we are 63% nationally, east was around 22 to 23% points and we have currently gained around between 7 and 8 percentage points in West Bengal alone. If you look at Bihar that is the second biggest jump in terms of percentage points, the third is Maharashtra and fourth is UP.
- Shirish Pardeshi:** The next question is for Narayan, you sounded very confident because you have very strong point of the glass bottle, what kind of growth would you see over the over next two to three years in sachet in terms of the sachet contribution now moved to 11%.

- Narayan Raman:** I think sachets will start getting shares. If the market is growing at X% and the rural market is growing is X+20 percentage points more I think over the next three years time sachets should contribute about 16 to 17% of my total sales.
- Sumit Malhotra:** Let me give you a number, it has grown 11% by volume in almond drops, sachet has grown at currently at 52%. That is the kind of drive to the volume.
- Narayan Raman:** That number ossically (ph) sounds very huge because the base the very, very small, but I think in terms of the overall sales over the next two to three year times sachets should be about 16-17% of my total volumes because our entire thrust is now to go one level deeper and one level lower in the rural areas.
- Shirish Pardeshi:** Thank you.
- Moderator:** Last question is from Vinay Pahadia from Religare Mutual Fund. Please go ahead.
- Vinay Pahadia:** Just a clarification, I think during the call you mentioned about the other expenses line items increasing because of certain rental, which you started charging. What is that amount which you are charging?
- Narayan Raman:** The office access is an access, which is held in the books of BCCL, which is the holding company. As long as Bajaj Corp was unlisted there was no point and it was 100% subsidiary, it did not make any difference, now that it is an listed entity and then as a matter of corporate governance we have to have hands-off relationships which is why there is a rental agreement that have been entered in to for the properties which is being used by Bajaj Corp and it is owned by Bajaj Consumer Care which is the parent company and the rentals are being paid.
- Vinay Pahadia:** How much is the total rental on a quarterly run-rate basis?
- Narayan Raman:** It is about **60 54:12** lakhs on a yearly basis.
- Vinay Pahadia:** Because the amount of increase in other expenses are pretty substantial on a quarter-on-quarter basis or is it wrong to look it on a quarter-on-quarter basis?
- Narayan Raman:** Do not look at quarter-on-quarter basis please.

**Vinay Pahadia:** Thank you.

**Narayan Raman:** Thank you very much. Thank you Kotak for organizing the call and thanks all the participants. We are here and all of you all have my coordinator as well as Sumit's. We will be more than happy to answer any further queries that you may have. Thank you very much.

**Moderator:** Thank you very much Sir. On behalf of Kotak Institutional Equities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.