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“Bajaj Corp Q4 FY12 Earnings Conference Call”

April 25, 2012

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**MODERATORS: MR. SUMIT MALHOTRA – DIRECTOR, SALES & MARKETING BAJAJ CORP LTD.
MR. V. C. NAGORI – CHIEF FINANCIAL OFFICER
MR. DILIP MALOO – CFO & VICE PRESIDENT,
FINANCE BAJAJ CORP LTD.
MS. AMRITA BASU – KOTAK INSTITUTIONAL EQUITIES**

Moderator

Ladies and gentlemen, good afternoon and welcome to the 4Q FY12 an year ended March 31st, 2012 Bajaj Corp Earnings Conference Call hosted by Kotak Institutional Equity. As a reminder all participant 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. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Amrita Basu. Thank you and over to you madam.

Amrita Basu

Hi everyone and thanks Inba on behalf of Kotak Institutional Equities I welcome all of you to this Bajaj Corp Q4 FY12 and year ended March 31st, 2012 earnings conference call. I would like to welcome the Bajaj Corp Team, Mr. Sumit Malhotra, Managing Director, Mr. V. C. 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 afternoon to all and welcome to the conference call for declaration of the Quarter 4 and annual FY12 earnings for Bajaj Corp. With me are Mr. Nagori, the CFO and President Finance and Mr. D. K. Maloo, the Vice President, Finance. The company has closed the fourth quarter with a sales of 146.59 crores and a PAT of 34.05 crores. This translates into a year on year growth of in turnover of 33.45% and growth impact of 26.64%. If you look at it for the financial year the turnover has grown by 31.66% and the volume growth of our business has been 21.24%. On the EBITDA front the EBITDA for the fourth quarter is 23.17 and for the year 24.70. Our lead brand Bajaj Almond Drop Hair Oil continues to show a very strong performance. This is the fifth consecutive quarter wherein the brand has helped the company turnover to grow by over 30% and volume to grow by more than 20%. In doing so the brand has gained a 1.75% volume market share during the year. For the fourth quarter as I said before the company had registered an EBITDA of 33.97 crores which is 23.17% of the turnover and the growth vis-à-vis quarter 4 of last year is 9.42%. EBITDA to sales ratios has dropped from 28.26% in quarter 4 of last year to 23.17 in this quarter. During the fourth quarter the cost of goods sold has more or less been flat at approximately 47% of sales. So 509 basis points drop in EBITDA that you see is mainly on account of increased advertising and sales promotion spend. To divide this increase please note that the ASP spending on our new brand which is Kailash Parbat accounts for 281 basis points increase whereas for Bajaj Almond Drops the remaining increase a cause for drop in EBITDA. On the financial year basis, on a year to year basis EBITDA has gone down by 567 basis points. Out of this 330 basis points are on account of material cost and 242 basis points on increase on account of increase in ASP spends. All of the increase in ASP can be accounted for by the increased advertising on the new brand Bajaj Kailash Parbat Cooling Oil. Nielsen figures for the financial year 2011 and 2012 shows that a total branded hair oil market has slowed down in volume terms. So volume growth is just 1.2%. However as a result of all the major brands taking a price increase the value growth of the total hair oil is 22%. Within the total hair oil the light hair oil, of which Bajaj Almond Drop is a part of continues to be the fastest growing segment both in volume and value terms. For the statistical mileage LHO, light hair oil grew

by 17.1% in volume terms and 27.1% in value terms during the year April 2011 to March 2012. As you may be aware three items which are light liquid paraffin, glass bottles and vegetable oil form a major part of the cost of goods sold. Of these LLP has remained fairly stable during this quarter, though vegetable oil and glass bottles have shown an increase of 13.4% and 12% respectively. On an annualized basis LLP has risen by 25.6%, vegetable oil by 25% and glass bottles by 12%. Though we have held the market MRP of the brand during the year, the outlook does not look very encouraging. Hence to protect gross margin we are being forced to take an increase in MRP of Bajaj Almond Drops by an average of 8.6% towards the end of March. Regarding the launch of our new brand Bajaj Kailash Parbat we would have experienced the delayed onset of summers this year. They are parts of where cooling oil season has not yet started. As a result of this the volume growth in cooling oil market has slowed down to just 12.1%. Despite this Kailash Parbat has achieved a 1.7% market share. If you compare it to the other cooling oils that were launched during the last year, our brand has got off to a good start. In post days Kailash Parbat has already notched up more than 5% market share and is the largest cooling hair oil brand in these post days. I believe this is a good start and a good stepping stone to building a successful brand. During the last 4 years the company has been trying to build its distribution. The primary objective has been to improve our direct distribution reach and also reach lower down into the semi-urban and rural towns. As a constant effort of increasing distribution we now see that 36.1% of our lead brand which is Bajaj Almond Drop sales comes from the rural areas. In comparison to this in financial year 2007 only 28.8% of the sale of this brand came from the rural areas. As you may have seen from the investor presentation the market share of the brand is higher in the rural area which is 53.9% by volume as against the all India volume market share of 50.9%. On our merger and acquisition initiatives are as efforts intensified over the last 6 months and results should be visible soon. You will appreciate that inking deal is only partially in our hands and hence it would be improper to estimate when we will be in a position to share such news with you. Finally our efforts to grow the light hair oil market are also bearing fruit. As per Nielsen the size of the light hair oil market is now 150 crores larger than that of the heavy amla market. With your good wishes and hard work we would not aim to make Bajaj Almond Drops the second largest hair oil brand in the country. Before we start the Q&A session there have been some queries on the change in format of the limited review posted on the exchange site. You must all be aware that disclosure of financial results as per Clause 41 of Listing Agreement and disclosures under Schedule 6 of Companies Act have been revised and therefore we are have prepared and presented the results in the revised format. We are now open to questions.

Moderator

Thank you very much sir. Participants who wish to ask a question you may press * and 1 on your touchtone telephone. Participants, if your questions have been already answered and if you wish to withdraw yourself from the question queue, you may press * and 2. Participants are also requested to use only handsets while asking a question. Anyone who has a question at this time may press * and 1. We have our first question from the line of Avneesh Roy of Edelweiss, please go ahead.

Avneesh Roy

Sir thanks for the opportunity. My first question is on the A&P. spends which has gone up in this quarter. You said the new product Kailash Parbat is the main reason, while in Almond

also we have seen in an increase in the ad spend. So want to understand in FY13 how do you see these two sub-segments contribute further in terms of advertising. Will there be an increase in terms of percentage of sales or because summer has been a bit soft, you would like to cut down on Kailash Parbat?

Sumit Malhotra

Avneesh I believe that if you take ASP as the percentage of sale during financial year 2013, the percentage should not go up substantially, and I am talking about advertising and sales promotion. What might happen is that the proportion between sales promotion to advertising might change. In terms of advertising on Kailash Parbat we are committed behind the brand. We have already seen traction behind the brand and therefore we do not envisage cutting down on advertising, even if it means losing out on a brand basis this year also.

Avneesh Roy

And could you give a split of the sales promotion versus advertising, how much is the split and how much was it last year?

Sumit Malhotra

Thanks to this change in presenting the revised results. You can do it yourself, but I will do it for you. If you notice that in the limited review we are now showing advertising separately and in the investor presentation is advertising and sales promotion. Anybody who wants to look at it can look at it this way but if you were to look at it out of the 16.8% in quarter 4 which is our advertising and sales promotion as a percentage of sales 8% came through advertising. This is media advertising and 7.7% in terms of sales promotion, which is more or less equal. During the year, however, advertising was around 1.5 times higher than the sales promotion. So for the year we have spent much more on advertising, than on sales promotion.

Avneesh Roy

Sir coming to Almond again, we have seen an increase there also. So could you tell us how the new competitor is doing and can we see some slackening in advertising spends in FY13 now that the launch period of the new competitor is behind us?

Sumit Malhotra

Avneesh I would not like to talk about the competitors specifically but I can talk about the category and what we are doing to build the brand. I believe one reason why Almond Drops has really done well over the years is because we are advertised and distributed. I think on both these turns we do not see any slackening. Yes, we did increase advertising in quarter 4 basically to build barriers to entry for any other almond oil brand that might be coming in. And strategically we could be doing it in the next two quarters also.

Avneesh Roy

Coming to margins could you tell us last year pricing increase has been on the higher side, and this year most companies are saying that pricing will be far more muted. How are you seeing in the month of April for the full year based on current raw material?

Sumit Malhotra

See, like I said we have three major items. One is LLP, the second is vegetable oil and third is glass bottles. The biggest increase we have seen is in vegetable oil and like I said surprisingly this year during the year versus last year the vegetable oil prices have gone up by nearly 26%. The second big difference this year has happened is on account of glass bottles. Normally on a CAGR basis we give a 6% to 7% hike in the cost of glass bottles to our supplier. This year we

have had to give a 12% increase in cost because this raw material and energy costs have gone up tremendously. On the LLP last year we were slightly lucky in terms of the increase. The increase was 25% but it was more or less stable throughout the year. But the trends now that we see is that it started going up again. So what was let us say around Rs. 80 per kg in quarter 4 of last year is already close to 88 in this month.

Avneesh Roy So are you planning some price hike in the near term?

Sumit Malhotra I think you missed my opening address. We have already increased the price by 8.6% towards the end of March so it will come into effect sometime during April.

Avneesh Roy Sir my next question is on sachet and the 500 ml pack. So if you could give us the percentage contribution from that.

Sumit Malhotra sachet last year was around a little under 10%. It is now risen to 12% by volume and 500 ml has really surprised us and it has given us 6.8% of our volumes this year.

Avneesh Roy And sir lastly there are some states in which our market share is on the lower side, basically 2-3 states in the South India and Orissa, so what is the game plan there in these market share to normal national rate?

Sumit Malhotra At least in terms of marketing efforts you will not only see the market share but you also look at the saliency or the volume of sales that that state provides. To give you an outlier example, if you look at Kerala even though we might have a very low market share the saliency itself is very-very low. So in terms of efforts in such a state we would basically be doing distribution extension exercises. The other states where you see a low market share and a low saliency is Orissa. So there would not be any major inputs in terms of promotions there. But on the flip side if you look at West Bengal we have a low market share of around 30-odd percent but that space is of high saliency. So in terms of our efforts, most of our efforts would go behind such states.

Avneesh Roy So that will be in terms of distribution and promotion both, right.

Sumit Malhotra In low saliency it would be mainly distribution. In high saliency and low market states it would be both distribution and advertising.

Avneesh Roy Okay sir thanks. I will come back if I have more questions. All the best.

Moderator Thank you very much. Our next question is from the line of Percy Panthaki of Daiwa Capital Markets, please go ahead.

Percy Panthaki Hi sir. My question is on your EBITDA margins, at the time of your IPO if I recall correctly your EBITDA margins were close to about 35% and they have now fallen by about 10 percentage points. So I just wanted to understand from your point of view what are the stable state margins that you are comfortable with in the future?

Sumit Malhotra I think you need to be an astrologer to really pinpoint that but I will answer your question by saying what do we aim to keep the EBIDTA of margin at.

Percy Panthaki That is exactly what I was asking.

Sumit Malhotra Because you will realize that the only way you can increase your EBITDA is by sort of increasing your MRP and hoping your raw and packaging material remain the same. But in FMCG increasing the MRP very frequently is not a given fact. The moment you do that you open yourself up to slowing down of volumes. So we internally worked at a margin of around 23-odd percent. If our margins start dropping below that, EBITDA margins start dropping below 23% we start acting on working at possible MRP increases. The other big cost that people play around with is ASP and I have been saying since the time we went on the road-show for IPO, we would like to maintain our ASP on our lead brand which is Bajaj Almond Drop that is around 11% to 12%.

Percy Panthaki And sir this 23% that you talk about how has this figure been derived? Is there any sort of science to it or it is just some kind of benchmark that you have?

Sumit Malhotra It is some kind of a benchmark. There is no science and it is not something that is constant. 4 years ago when we started really pushing this brand we had a benchmark of 30. Then we realized that look if we keep it at 30 the different price systems between us and the competition widens significantly and therefore to ensure that we do not widen that price gap and also keep EBITDA under check we continuously keep working on our EBITDA.

Percy Panthaki So sir that is my question or concern that today 23% is what you are comfortable with, but is it possible that 2 years down the line you are comfortable with may be an 18? So from an investor's point of view what would be relevant is that, is there any kind of sort of solace that EBITDA margins would not fall further?

Sumit Malhotra See the only solace I can offer you is that over the last 5 times that we have increased MRP, the volumes have not slowed down and therefore yes, in Economics you never say that there is anything called inelastic, demand and the price is always elastic but in this case that we have been managed, we have been able to sort of maintain this increase in price and EBITDA margin play. So if you were to ask me I would say 2 years, I do not think it should drop below 20 years off.

Percy Panthaki Okay. And sir my next question is on the net current assets that you have here on I think page 17 of your presentation in FY11 from (-41.65) FY12 23.79, can you explain the reason for this shift?

Sumit Malhotra Can I bounce this with Mr. Maloo? Mr. Maloo please go ahead.

Dilip Maloo Sir the net current assets actually this includes ICD given to our subsidiary company Uptown Leasing. This subsidiary acquired in the middle of the year and this was ICT given to the

subsidies therefore the figure is coming positive which was in negative last time. It was amounting to Rs. 50 crore.

Percy Panthaki

Okay. And does this have any kind of tenor or something like that?

Dilip Maloo

No, no such tenor. It was part of the total consideration which we paid to acquire this company.

Percy Panthaki

Okay sir, that is all from me. Thanks a lot.

Moderator:

Thank you very much. Our next question is from the line of Sanjeev Sahu of B&K Securities, please go ahead.

Sanjeev Sahu

Good afternoon sir.

Sumit Malhotra

Good afternoon Sanjeev.

Sanjeev Sahu

Sir, slightly deviating from the quarterly results, one of the developments that happened during the quarter, otherwise this intimation that you gave to the stock exchangers about asking for the shareholder approval for bank guarantees that you give to Lalitpur Power. Sir may I know just it's not our core business, so we do not even have a stake in that, the reason for giving such a bank guarantee.

Sumit Malhotra

The working behind this was that this is a sister-concern who wanted a bridge loan. So he wanted a loan for a short time but when he went to the bank the bank said that they needed corporate guarantees from the sister-concern, which was Bajaj Hindustan and Bajaj Corp. And since he knew it was a bridge loan and it would be wiped out very fast, we gave that guarantee and as you know as we intimated the stock exchange the loan has been repaid and therefore the guarantee has been given back to us.

Sanjeev Sahu

Okay, so it is no more outstanding?

Sumit Malhotra

It is and as per law, you have a period of one year in which to seek the shareholder's approval. We did it earliest because anyways the guarantee was null and void.

Sanjeev Sahu

So it means that you do not have to go to the shareholders again to get their approval?

Sumit Malhotra

No, it is specific to that particular guarantee. So if we give a guarantee again, if god forbid, then we would have to go back again for that particular guarantee. This guarantee is no longer in existence.

Sanjeev Sahu

Fine sir. Sir, I need a little bit of clarity on this one. The volume growth that you mentioned about Almond Drop Hair Oil was 21% something, but those numbers are based on A. C. Nielsen's survey but if I go by the cases that were reported towards the back of the

presentation it works out to something like 19.9. So that is the more reliable number, right because the number is that of yours.

Sumit Malhotra Yeah always the sales number is more reliable but if you see Page 21 Sanjeev of presentation you will see that those value growths of the volume growth is 21.24. This is the number of cases sold. This is not Nielsen figure.

Sanjeev Sahu Okay. Because based on the cases it is coming up to something about 19.5%.

Sumit Malhotra 21.24% for the year.

Sanjeev Sahu Okay sir. That is it from my side. If I have any more questions, I will come back. Thank you.

Moderator Thank you very much. Our next question is from Mayur Ghathani of OHM Group, please go ahead.

Mayur Ghathani I have one question on the Lalitpur Power Plant and the QIP that we are contemplating which was intimated to the shareholders through a postal ballot. Just want to know there are two options for the promoters, either to sell your stake and bring it to 75% and whatever the money they have in the individual capacity that can be invested into Lalitpur. Alternatively what we are seeking is doing a QIP, getting the money into Bajaj Corp and then channelizing that possibly into a minority investment or a loan to Lalitpur. Is it?

Sumit Malhotra I do not know where you get this investment into Lalitpur because Lalitpur is a separate company which will require 12000 crores in terms of investment. It is all tied up with a consortium of 15 banks in India. So even if we liquidate 10% we would get around 200-odd crores, that would be just a drop in the ocean. So I think I need to correct that misconception that you have, but coming back to your question of dilution and whether it will be primary or secondary I think the stance at this point of time is that we are not yet contemplating dilution. We have gone to the shareholders because this process normally takes about 1.5 to 2 months. So as and when we go with the size on dilution we do not have to go to the shareholders at that point of time. Once we take the approval we have a basket of around a year in which I need to do it. If I do not do the dilution within a year, we have to go back to the shareholders. So I am dissociating both Lalitpur, we are a very small company in front of what Lalitpur will do and I do not think we can participate in that in terms of financial terms. So that different question which you will have to most probably talk to people in Lalitpur. But in terms of dilution of Bajaj Corp I would say that we are not yet contemplating it but we should seek the approval of the shareholders so that we can turn the dilution around much faster as and when we decide.

Mayur Ghathani Okay, yeah thanks.

Sumit Malhotra Thank you.

Moderator Thank you very much. Our next question is from the line of Amar Maurya of India Nivesh Securities, please go ahead.

- Amar Maurya** Thanks for the opportunity. My first question is primarily related to this other expenditure. Other expenditures have gone up significantly in this quarter. Any specific reason? Probably I missed your commentary because I joined late.
- Sumit Malhotra** No, I did not talk about other expenditures. Mr. Maloo can you take that question please?
- Dilip Maloo** Other expenditures for the quarter increased by almost 6 crores and mainly that is on account of the schemes and the sales promotion expenses which forms a part of the other expenditure. And rest of the 2 crores is on account of various other things like freight, traveling, royalty, sales and distribution, administrative overhead, all put together will amount to Rs. 2 crore. So there is an increase of Rs. 6 crores which is the breakup of that I have informed.
- Sumit Malhotra** At the beginning of this conference call I had explained that as per Clause #41 and Schedule 6 we had to recast the reports that we sent to you. Earlier on we used to have a line item saying advertising and sales promotion. Now we have had to split that. So sales promotion has actually gone into other expenditure. So any increase in sales promotion is actually been now reflected in other expenditures. But if you go to our investor presentation we show ASP as separate from all of the expenditure.
- Amar Maurya** Okay sir. Second question is primarily related to balance sheet. Sir in balance sheet there is a goodwill item for 43,000 crores, I believe this is coming because of the acquisition. Just wanted to have some clarity on that sir.
- Sumit Malhotra** 43 crore is on account of the goodwill for the subsidiary which we acquired during the year. So the losses of that subsidiary and our investment in the share purchase for that subsidiary both put together will amount to 43 crore which on consolidation will form a part of goodwill.
- Amar Maurya** Okay. So this includes the consideration, I mean this is what is the mismatch of the consideration which we have paid and the assets which we had acquired, right.
- Sumit Malhotra** Yes.
- Amar Maurya** Okay. So like sir total consideration amount was 75 crores, right.
- Sumit Malhotra** 75 crores, out of that the share purchase agreement was for 27 crores and the loss is carried forward in the books of the company which we acquired was around 16 crores, so our share purchase agreement 27 crore to 16 crores, both put together on consolidation will become the goodwill for the company. Once the company is merged with the holding company this goodwill will not appear in the books.
- Amar Maurya** Okay sir. Thank you.
- Moderator:** Thank you very much. Our next question is from the line of Aruna Bharti of Pari Washington, please go ahead.

- Aruna Bharti** Sumit just one question on the balance sheet. Why is there a huge difference in inventory between your standalone and the consolidated numbers?
- Sumit Malhotra** Mr. Maloo the different between inventory, you can explain the raw material that they have been stocking up.
- Dilip Maloo** We want him to understand the consolidated figure or the standalone?
- Aruna Bharti** I am asking why are they different because standalone is 28 crores whereas in consolidated it is showing something like 62 crores. I just want to know the difference. Where is the difference coming in from and why is that actually?
- Dilip Maloo** It is on account of their subsidiary which was acquired during the year and the land and building which was part of the address of that company is that since the company which was acquired was the real estate company, so the land and buildings of that company was in stocking trade in that company. So as long as it remains as a stocking trade it will be part of the current assets inventory. Once the company is merged with this company, after it will form part of the fixed assets.
- Aruna Bharti** Okay that is fine. And when do you plan a little bit of merger?
- Sumit Malhotra** It is yet to be done, not yet decided.
- Aruna Bharti** Okay sir. Thank you.
- Moderator:** Thank you very much. Our next question is from the line of Arpit Kapoor of UTI Mutual Funds, please go ahead.
- Arpit Kapoor** Thanks sir for taking my question. Just wanted your views on the trend of changing consumers from coconut hair oil to light hair oil in context of the volume growth for us was 1% so if you can just throw some light on that.
- Sumit Malhotra** See Arpit the volume growth for the total hair oil is 1%. So the conversion from unbranded hair oil to branded has closed down. Now within the branded hair oil for which the major parts are coconut, Heavy Amla, light hair oil, cooling oil, value added coconut oil and others. In this the fastest growing segment is light hair oil which if you view as you are saying that the number of new consumers getting into hair oil or branded hair oil is flowing down. So the number of customers moving from other hair oils to light hair oils is becoming faster.
- Arpit Kapoor** Okay. So would it be possible for you to decipher whether the conversion is happening from Amla or from coconut? Which category of consumers are converting more towards light?
- Sumit Malhotra** See the way it is done Arpit in marketing terms is you do a household panel, basically there is a company called IMRD – Indian Market Research Bureau which does consumption details. What they basically do is go to your house on a sample size and check what you consume.

What they report on a monthly basis is that you were using coconut, you had started using light hair oil, therefore you are a new user in light hair oil, though you were an ex user of coconut. So if you see that report you will see where you are getting your new consumers from. Now if I quote IMRD, the largest source of gain or source of new users is coconut oil. The second largest is Amla, third is surprisingly unbranded hair oil. And fourth is other light hair oil. This is a syndicated research. It is available for any person who wants to buy this kind of a thing.

Arpit Kapoor

Right. Thanks a lot sir.

Sumit Malhotra

Thanks Arpit.

Moderator

Thank you very much. Our next question is from the line of Yogesh Bhatt of ICICI Prudential, please go ahead.

Yogesh Bhatt

Hi Sumit good evening. See we have been talking about acquisitions for so long now. Can you give us some guidelines or some thought process and since that cash pile is a little higher, would you be still considering increasing the dividend payouts or what would be the purpose on that?

Sumit Malhotra

See let me first answer the easier part which is dividend payout. If we do not use the cash pile that we have, the dividend payout should increase. But it does not seem likely that we will not be able to do our acquisition this year. We hope to be able to conclude at least one acquisition this year. We have been very close to one where we lost out. We are close to another which I obviously cannot talk about and therefore at this point of time I am reasonably confident that some things could happen this year.

Yogesh Bhatt

And if I recollect properly, earlier we were talking of the size will be slightly if not very big in the initial first one, would you be still sticking to the same strategy or will it be the bigger one now?

Sumit Malhotra

No, yes sir. We have said that the outer limit will be sort of guaranteed by the amount of cash we have so we will do at-most 1:1 cash-debt deal. So currently let us say we have 340. Currently if we were to do a deal we would not go beyond 680. Having said that we would be more comfortable with the smaller acquisition because we realized that this is the first one that we would be doing and therefore there would be a lot of learning in this profit. Rather than make a mistake on a large acquisition it is better to first do a small acquisition, turn it around, gain confidence and then go ahead.

Yogesh Bhatt

Shall we conclude Sumit that at least this first half of this year will have some news on this front?

Sumit Malhotra

You cannot unfortunately, I would have said that we would have completed last year itself. Something happened that we lost out by a few crores there. So like I said in the opening Yogesh, it is basically not only in my hands. The only thing in my hand is basically the terms

and conditions. This includes the tax that I am willing to pay. On that front we are not over exerted, we are not desperate because we realize that if we become desperate we might make a mistake and harm this company which is not yet that huge company like the other FMCGs in this one.

- Yogesh Bhatt** Okay thanks Sumit and all the best.
- Sumit Malhotra** Thanks Yogesh.
- Moderator:** Thank you very much. Our next question is from the line of Kaustubh Pawaskar of Sharekhan Limited, please go ahead.
- Kaustubh Pawaskar** Good evening sir. Congrats for a strong volume growth. I have a couple of questions. Sir, you just mentioned that going ahead your ad spends would be substantially on a higher side.
- Sumit Malhotra** Let me correct you. What I said was that going ahead we will not try and reduce the advertising on our core brand which is Bajaj Almond Drops. We will like to keep it at 11-12%. Any further increase will be on our account of the new brand that we have launched or any other brands that we might be launching.
- Kaustubh Pawaskar** Right, that is Kailash Parbat. So little ad spends would be on Kailash Parbat or other brands you would be launching.
- Sumit Malhotra** Yeah.
- Kaustubh Pawaskar** So is it fair enough to assume that your earlier trend of ad spend that is between 11-12% will go up to around 13-14% in the coming years?
- Sumit Malhotra** It could happen that it goes up but it all depends on the competition in the cooling oil segment then. If the cooling oil players up their spend on advertising could go beyond that 13% that we are currently looking at.
- Kaustubh Pawaskar** Sir my second question is on the growth of both urban and rural India. Last quarter we have seen a strong growth in rural India. So just wanted to understand whether that has sustained in this particular quarter as well?
- Sumit Malhotra** Yes, it has.
- Kaustubh Pawaskar** And what is kind of the difference in growth rates in rural and urban?
- Sumit Malhotra** It is currently around 6.8-6.9% between urban and rural.
- Kaustubh Pawaskar** Okay thanks.
- Sumit Malhotra** Thank you.

Moderator Thank you very much. Our next question is from Richard Liu of JM Financial, please go ahead.

Richard Liu Hi thanks for taking my question.

Sumit Malhotra Hi Richard.

Richard Liu Just one question on the market share gain, I think your gain in value share needs to be much lower than the gain of volume share that you have had, FY12 versus FY11. Now considering that you are I thought the most premium player in the market, I mean it seems that somebody else has out-priced you in terms of price increase during the year. Is it true or is it just a Nielsen reporting number?

Sumit Malhotra It is a part of both, yes. You see we are the most premium pricing but we took an 8.5%[^] price increase last year, whereas our competitors have taken between 10% to 12% last year. So their price increase on their base has been much higher. So just on the basis of price increase differentials they would have gained a few points in terms of market share, even though the volume would not have changed.

Richard Liu I got it. So the competitors actually took a higher price.

Sumit Malhotra See normally in the light hair oil market we are the first guys to take a price increase. Then depending on what the plans of the competitors are they either take a price increase which is larger than ours or is lower than ours. Normally it is lower is lower because they believe that they want to increase the gap between the MRP but this year they have done a reverse and taken a higher price increase.

Richard Liu What would have prompted them to do that? I mean which competitors did by the way?

Sumit Malhotra Basically one is Hair N' Care from Marico. The second is Keo Karpin on Dey's Medical and the third obviously is a new competitor who is priced at exactly my pricing.

Richard Liu Second question is more mathematical. On your EBITDA margin of 23%, would it be possible for you to tell us how much actually is the EBITDA margin of Bajaj Almond Drops including Kailash Parbat?

Sumit Malhotra At this point of time I may not be able to, let me try with, Mr. Maloo would you have that figure? Richard, can I deflect that question and get back to you?

Richard Liu Yeah sure definitely, I will follow up with you later. Thanks and all the best.

Sumit Malhotra Thank you.

Moderator: Thank you very much. Our next question is from Ashish Kacholia of Ashish Securities, please go ahead.

Ashish Kacholia Yeah good evening sir. My question pertains to the EBITDA margins that you see in the year going forward, I mean do we see a substantial further drop in the EBITDA margins from where we are currently?

Sumit Malhotra As we stand now I do not feel so because if we look at EBITDA margins in terms of the previous quarters you will realize that in quarter one of last financial year and quarter two of last financial year, these were big and therefore the gap between the EBITDA of this year first quarter versus last year first quarter and similarly for quarter 2 this year versus quarter 2 last year was last. The second thing to look at lowering of EBITDA is the increase in amount of advertising on your new brand that will remain healthy because we have incurred a lot on that brand this year and we are budgeting to incur a loss next year also. That could possibly look at our 100 basis points or so reduction. Hopefully, since we have taken a price increase in Almond Drops we should be able to sustain.

Ashish Kacholia Okay, so after the recent increase in price of Almond Drops, how does our pricing compare with that of Dabur?

Sumit Malhotra Dabur has not yet taken. Like I just said when Richard was speaking to me normally we take a price hike and then the other light hair oil brands follow. You are talking of Dabur Almonds, right, he has not yet taken the price increase.

Ashish Kacholia Okay. And over a period of time what is the kind of competitive structure do you see in Almond Hair Oil segment specifically? I mean do we see ourselves retaining 80-75-60? How do we see the market share game playing out in this particular segment?

Sumit Malhotra How we would like it to be I can talk about it. I would like our market share to go up till around 65-67%.

Ashish Kacholia In the almond hair oil segment?

Sumit Malhotra In the light hair oil segment. There is nothing like almond hair oil but if you were to look at almond hair oil you would be 95% of the market.

Ashish Kacholia Right, exactly. So in that segment I was just wondering how much erosion of market share are you willing to tolerate?

Sumit Malhotra In almond oil in total or in light hair oil?

Ashish Kacholia In almond specifically.

Sumit Malhotra See if you look at my key result area I would say nothing. I do not want any erosion but typically a brand having 95% in any segment they tend to lose market share anyways. So when would I start panicking? I would start panicking if it dropped below 80-odd percent in Almond. My market share in total light hair oil continues to grow.

- Ashish Kacholia** Right, but at any point of time if we were to reach 80% market share in the almond segment we would kind of probably draw.....
- Sumit Malhotra** Not Almond segment Ashish, it is basically light hair oil segment. Almond was created by us. Competitors are trying to get into light hair oil segment with an offering of Almond. So what will happen is the Almond sub-segment of the light hair oils will continue to grow and non-almond light hair oils will continue to fall.
- Ashish Kacholia** Right, okay. I get it sir. Thanks a lot. And one more question, did we take a look at the Set Wet and the other brands that were sold by Reckitt? Did we take a look at the deal and your thoughts on.....
- Sumit Malhotra** Sorry I cannot speak about that because as you know any M&A has a NDA, non-disclosure agreement. I definitely cannot speak about this.
- Ashish Kacholia** Sure sir, all the very best. Thank you very much.
- Moderator** Thank you very much. Our next question is from Hemang Kapasi of Canara Robeco Asset Management, please go ahead.
- Hemang Kapasi** Sir, you have seen a good volume growth and value growth last year. What makes you or keep you confident of the same type of growth going forward or what are the initiatives you would be taking to keep the volume growth sustained?
- Sumit Malhotra** See, FMCG is a very simple marketing effort. What you have to do is you have to keep getting more consumers and ensuring your brand is available in more and more outlets. This basically translates into the amount I am going to spend on advertising and sales promotion and the kind of increase and distribution that will happen. Now in terms of advertising you would have just listened that we have increased our ASP spends in this quarter, though in the year it is more or less same on Almond Drops. In terms of distribution we have gained around 3.5 lakh outlets during this year in terms of distribution. I think both of these are indicators that this growth should continue at least in the short and medium term.
- Hemang Kapasi** Okay sir. You foresee around 20% growth for the next year as well?
- Sumit Malhotra** We normally do not give guidance but it all depends on how fast it keeps growing in the light hair oil market and keeps gaining market because these are the sources of growth. One is if I stop investing in the light hair oil market it slows down. Let us say the growth slows down to 10% and I gain a 2% market share then my growth would go down to 14-15%.
- Hemang Kapasi** Sir what has been the 3 or 4 years volume growth CAGR for our company?
- Sumit Malhotra** It is there on in the presentation itself, you can have a look at it because in terms of volume growth it would be around 17.5%. In this year itself it will all go around 27.4% volume growth. And this year the volume growth was 21-odd percent.

Hemang Kapasi Which slide it is?

Sumit Malhotra Slide #4 on the investor presentation.

Hemang Kapasi But this an industry data or a company data?

Sumit Malhotra This is industry data but for us Nielsen is more or less okay because if you look at Nielsen data it shows 21% volume growth during this year and if you look at our volume data which is there in Slide #21, it is also 21%.

Hemang Kapasi Okay sir. Thank you.

Moderator: Thank you very much. Our next question is from Nikhil Upadhyay of Equirus Securities, please go ahead.

Nikhil Upadhyay Yeah good evening sir. Thanks for giving me the opportunity. Sir just wanted to understand that we have launched this Kailash Parbat in cooling oil segment where we were not present and then we mentioned that we might launch a few more brands, but as I understand we already have a brand in the Amla category and we have a brand in the light hair oil and the cooling hair oil category. So what new category we would be looking at or would we be looking at developing something new category?

Sumit Malhotra No, we would be looking at category outside the hair oil segment.

Nikhil Upadhyay Okay, and secondly like in this Amla category, since we already have a brand present, so what is the guideline over that, like how do we plan to take it forward because on volume side and value side if we see we have been de-growing year-on-year for last two years. So what is the plan over that going forward?

Sumit Malhotra See basically if you need to grow any brand, whether it be Bajaj Almond Drops or Bajaj Brahmi Amla or any other brands you need to invest in advertising and distribution. Now specifically distribution you do not invest in terms of brand wise for the company. So the person who goes to sell one brand can sell another. So major difference in Brahmi Amla is that we have not been investing in advertising for the last 3-4 years. The reason is that we do not have a plausible reason to buy there. How can we tell a consumer that we are different from let us say the leader? Until we can do that it is going to be very difficult. It is exactly the same thing in reverse if you go to the Almond category. If you go to the almond category, any new entrant will have to tell the consumer why he is better than Bajaj Almond Drops in almond. That in size is not yet there with us and we have lost it somewhere along our journey to become a large company.

Nikhil Upadhyay But sir as I understand may be I could be wrong. I think this in Brahmi Amla category we have been present for quite sometime, it is not like recent launch types. I think we would be present in this category for a decade almost.

Sumit Malhotra 75 years.

Nikhil Upadhyay So since we already were present, we already had a brand presence in this segment -

Sumit Malhotra I think you missed it. I said we have lost this reason to buy somewhere along the way. We were leaders till around 15 years ago and we were the #1 Amla. Then Dabur Amla came and started advertising. At that moment we were smaller, we did not advertise and therefore the competitive intensity that we had was much lower than what was required. If you fall back to Almond Drop you will go back to the reason why I say we will not reduce the ASP because that is the barrier to entry for any other brand. In our case we did not realize that we did not have the money at that point of time and therefore we lost that barrier to entry.

Nikhil Upadhyay So just now going forward what do we see like we will continue with this volume de-growth or how do we try to arrest this volume on value de-growth?

Sumit Malhotra **(Inaudible) 53.33.** This is the hierarchical brand of company. I have to find a way of reviving that and we are working on it. We could possibly see a revival of this brand in the future.

Nikhil Upadhyay Okay. That is all from me sir. Thanks a lot.

Sumit Malhotra Thank you.

Moderator Thank you very much. We have a follow-up question from the line of Aruna Bharti of Pari Washington, please go ahead.

Aruna Bharti Sumit, I just want to get you across on one thing, in Tamil Nadu we are already seeing competition from this Parachute cooling oil which typically sells with sandalwood extracts and so on and so forth. What do you think that you are actually giving up the first mover advantage specially on this cooling oil segment especially in the southern states at least wherein you are not actively promoting the product?

Sumit Malhotra It could be but it is basically a question of where do you want to put your basket in. Cooling oil in the south is still small if you remove Andhra Pradesh. So would I first go in for low-hanging fruits or go into an area where I would have to build a cooling oil thing? Yes, we are very conscious of it, in fact we have upped our efforts in Andhra Pradesh and Karnataka of cooling oil. Sandalwood is a good platform to sell a product in the south but Tamil Nadu being too small and we having much bigger battles to fight elsewhere in the country with Kailash Parbat, consciously we have taken aback. And I think Parachute has seen that and gone ahead with it.

Aruna Bharti Yeah Sumit then my follow-up question on this is then you can roll-out the same sandalwood base cooling oil product proposition in the other states as well, right, in the northern states as well or in the central states where you are trying to gain share, right, isn't it?

- Sumit Malhotra** That is the platform for our business. What we are saying is that sandalwood is the differentiator between our cooling oil versus other cooling oil. And that is the basis. If you see a Hindi commercial or if you see a point of a sales material, sandalwood is the hero and that is why we have not even taken a celebrity in the advertising because we want sandalwood to be the hero of the story, not the celebrity.
- Aruna Bharti** So I think now we have two products actually using the same sandalwood for position to capture the imagination of the consumer, isn't it?
- Sumit Malhotra** How do we have 2 products?
- Aruna Bharti** No, I think Parachute also has a cooling oil which basically says with sandalwood extracts.
- Sumit Malhotra** This is sandal only in Tamil Nadu currently, he is testing it out. Rest of the places he talks about coconut cooling. To put this into perspective we have done around 1.5x the sales in Kailash Parbat versus Parachute coconut cooling during last year. For example, let us say Parachute Cooling has done 100 crores worth of business last year. We have done 150 crores of business. We are 1.5 times bigger brand than Parachute Coconut in Kailash Parbat already.
- Aruna Bharti** Okay, that is helpful for me. Thanks.
- Moderator** Thank you very much. As there are no further questions from the participants, I would now like to hand the conference back to Amrita Basu for closing comments. Thank you and over to you madam.
- Amrita Basu** Thanks Inba. I would like to thank the Bajaj Corp team for taking the time through this conference call. Sumit, any closing remarks?
- Sumit Malhotra** No thanks. My voice is gone.
- Amrita Basu** Okay, thanks a lot.
- Sumit Malhotra** Thank you Amrita.
- Moderator** Thank you very much. On behalf of Kotak Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.