



“Bajaj Corp Q3 FY 2017 Conference Call”

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MODERATOR: **MR. ANAND SHAH – KOTAK SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bajaj Corp 3Q FY 2017 Conference Call, hosted by Kotak Securities Limited. As a reminder, all participant lines will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Kotak Securities Limited. Thank you and over to you, sir.

Anand Shah: Thanks, Rayomand. Good afternoon, everyone. On behalf of Kotak Institutional Equities I welcome you all to Bajaj Corp's 3Q FY17 Earnings Conference Call. We have with us Senior Management of the Company represented by Mr. Sumit Malhotra – Managing Director, Mr. V.C. Nagori – Chief Financial Officer, Mr. Dilip Maloo – Vice President (Finance) and Mr. Kushal Maheshwari – Head (Treasury). I would now like to hand over the call to Mr. Sumit for opening remarks. Thanks and over to you, sir.

Sumit Malhotra: Thanks, Anand. Good afternoon to all and welcome to the conference call for declaration of the third quarter results for the financial year 2016 - 2017. With me are Mr. V.C. Nagori – CFO and President Finance, Mr. Dilip Maloo – Vice President Finance and Mr. Kushal Maheshwari – Head Treasury who also is now looking after the Investor Relations.

The Company closed the third quarter of financial year 2017 with a turnover of Rs. 186.4 crores, which translates to a decline in turnover of around 4.75% over the same quarter in the preceding financial year. The EBITDA for the quarter was Rs. 62.32 crores, it is 33.44% of sales, but is lower by 9.44% over the same quarter in the previous year. The PBT and the PAT were Rs. 73.47 crores and Rs. 57.79 crores. The PAT for the year has grown by 17.2% over the same quarter in the previous year.

Keeping in mind the profits earned during the year, the board has recommended an interim dividend of Rs. 11.5 per share. This quarter has been an exceptional one due to the sudden announcement of demonetization by the Government of India. This sudden sucking out of cash from the system has led to many changes in the way we do business. At Bajaj Corp we have gone to the process of trying to ease the effect of demonetization on our channel partners. The main course of action that we did was we have announced a temporary incentive and also easing of the stock norms at our distributor level. As a result of this there has been a considerable down stocking at the distributor end. Among the various channels general trade and canteen stores have been the worst affected. During this quarter the canteen store orders were reduced by 13.5%. Within the general trade the retail trade is already back to normal by the end of December but the main hit has happened in the wholesale, it has shown a drop of around 30% during this quarter.

Nielsen figures of December 2016 are out but these do not show any major slowdown in uptake. What this means basically is that the consumer uptakes are back to normal, however turnovers in our kind of industry have shown a decline because of destocking. Rewarding

growth of light hair-oil in the period April to December is 2.1% whereas the total hair oil has grown by 1.5%. There is a minor change in the proportion of sales of Bajaj Almond Drops coming from the rural areas. In the third quarter we got 42.5% of our off-take from the rural areas whereas in the previous quarter this figure was 43.6%. This actually shows that post demonetization urban off-takes have recovered faster, the rural off-takes are still not back to the normal levels. Despite the adverse external scenario the ASP stand has gone up to Rs. 24.85 crores which is 13.33% of sales, this is against Rs. 23.03 crores that was spent on ASP during the same quarter in the last year, last year the spend was 11.77% of sales.

We have started a new campaign which we are calling '*Load Mat Lo*' which highlights the light non-sticky nature of Baja Almond Drops. The celebrity for the new campaign is Parineeti Chopra and the message of '*Load Mat Lo*' is now running in all media campaigns that are on air for this brand. The key message that we are trying to highlight is that light hair oil can also be high on nutrition because of the high vitamin A content.

On the cost front the environment remains benign. Crude prices have started rising and therefore the price of LLP also has risen. However, we have sufficient stock of LLP with us and hence the rise of LLP has not yet affected us. Against an average price of Rs. 54.7 per kg in the first quarter of the last financial year the LLP price in this quarter was Rs. 46.37 per kg. The price of refined mustard oil has also weakened to Rs. 83.97 a kg as against Rs. 93.67 a kg last year in the same quarter.

The acquired brand No Marks closed the quarter with a turnover of Rs. 5.3 crores as per the new accounting standards which offsets the extra discounts that are given on a particular invoice. We are testing out the new strategy of focusing on No Marks Cream in one state at a time. Once the result of this project is out we will roll this strategy across India.

On the international business front the outlook has been very encouraging with business growing at 72% in this quarter. The international business now contributes over 5% of our total turnover. The plans to enter larger markets like Russia, Indonesia and Egypt are well under way and we should see the rollout in the next couple of quarters.

Our Baja Almond Drop campaign has started in UAE, Nepal and Bangladesh whereas advertising of No Marks is on in Myanmar, Sri Lanka and Malaysia. As a result of this we should touch a turnover of Rs. 70 crores in this year with sales in the international business vertical.

The demonetization has actually hit the canteen stores channel drastically. Most companies will have seen a steep cut in orders from CSD in the month of December. Even though the off takes in CSD has not shown a decline, Ministry of Defense have consciously reduced stocks at the depot as well, which is why canteen stores have shown a decline of 13.5% in the third quarter. On the other hand, modern trade has seen an encouraging uptake in the third quarter. All retail chains have shown an impressive rise in sales during the months of November and

December. During this quarter, modern trade has shown a 27% rise in volumes, this is a highest ever growth in any quarter over the past three years.

Keeping in line is our attempt to improve efficiency through IT and automation, we have now been able to link the top 600 of our distributors to ERP. This enables us to view data on a real time basis and also react to changes in the retail market on a daily basis if necessary. We have also connected 775 of our sales members to our ERP system. This project is called Bajaj Sathi and was launched in September 2016. These team members now use the handheld device for order booking, measuring productivity as well as tracking competitive intensity. By the end of January our complete sales force of approximately 1,100 sales reps will be live on handhelds.

We are now entering the final quarter of this financial year, apart from the challenges on the volume growth this quarter also poses additional challenge of implementing GST. While our preparedness is almost complete there are still issues that need to be sorted out by the government before we are able to be completely ready for GST implementation.

We are now open for questions.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Just only one question on the revenue part. If you could talk about the trajectory during the quarter, October was a normal month before the event hit us on November, so how was October, how was largely November and how was December? And also in conjunction with if you could talk about the down-stocking and up-stocking, particularly in the wholesale channel, how much the normalization has actually happened let's say week on week or month on month as of December?

Sumit Malhotra: If you look at the first half of this year it was fairly bad, but as expected October there was a significant improvement in both urban and rural consumption and therefore October showed a good growth in volumes. November, before demonetization was continuing on the October front, please remember we do not have any significant impact of Diwali on our sales, so this October uptake was not because of Diwali but it was more because of the rural and the urban areas coming back into the fold. Post demonetization for the next two weeks it was a mayhem because it we were down nearly around 30% versus our normal daily sales. Post that, the last week of November had started picking up and the uptick continued in December. If I were to do a slice and dice, I think retail trade in the general mom & pop stores has come back to normal, it is the wholesale that is still an issue. And wholesale out of that is three, in my parlance there are three types of wholesalers, one is what we call the sub-wholesalers who basically travel to retail outlets and sell, they are back to normal. The second is the feeder wholesale who actually supplies to the semi-urban and the rural areas, they are still below October numbers. And the biggest is the third guy who are basically brokers or traders, those are being the worst affected. Like I said in my opening comments we estimate wholesale down

by around 30% and the rest of the business is back to normal. That is answer to your question number one. Question number two was?

Manoj Menon: No, I think you largely addressed this, thank you. Actually the one clarification if I may, so I was just trying to dissect this (-5%) revenue for the quarter, so basically the question essentially was that which means the wholesale is not back to normal, the up-stocking benefit should happen sometime in the future, assuming they want to up-stock, I leave GST out for the time being.

Sumit Malhotra: I may or may not agree with you Manoj. My hypothesis is the way we do business will change. So the focus or the type of wholesale or the kind of discounts being offered by the wholesale and even the construct or a wholesaler will change, one, because of the cash crunch or the focus on removing of the black economy. And second, once the GST comes in the documentation itself will force this section of our infrastructure to change the way they do business. So I am not too sure it will be back to normal in another two or three months, you could probably see change in the way the business is done in the FMCG.

Manoj Menon: But Sumit, if I go by this stress on wholesale does it actually mean that lets say the indirect coverage would have actually dropped for the industry, including you?

Sumit Malhotra: Yes, if you look at the numbers in our investor presentation we are actually down by approximately 1 lakh outlets in this quarter versus last quarter. Actually more than that is indirect coverage drop and yes there is a lot of small outlets that used to depend on wholesale and since they did not have the cash to turn the stock around they would have reduced stocking of some items there.

Manoj Menon: So, I am sorry I maybe pushing it just a little further, so then why do you say that the up-stockings will not happen?

Sumit Malhotra: Because I am saying the way the wholesale guys operate may change because you realize that among the three the third which is a fair big business which are the brokers and traders will just not have enough margins to do business like they used to. So they might just go back to either being sub-wholesalers or go forward and become distributors rather than trading wholesalers there. By trading wholesalers I actually mean a person who actually does a kind of a brokerage in which he gets a demand from a particular part of India and supplies bulk rather than five pieces, ten pieces, 20 pieces of any product.

Manoj Menon: Got it, the truck-in and truck-out guys basically?

Sumit Malhotra: Yes.

Manoj Menon: So that actually leads me to my second question on how the trade margins particularly for the wholesalers are, what is actually happening now and what is your outlook on this? Because I have seen instances on the ground wherein some companies actually increase the trade margins

or have got plans to increase trade margins essentially to support "wholesale" for their added taxation cost what they had to undergo today.

Sumit Malhotra: See, like I said we have increased the incentives to the trade, basically we improved incentives to retail and wholesale apart from the distributors getting a bigger incentive this quarter, that we have done. But the problem I face, especially in the north this is quite big in the north and the Hindi belt. Despite this extra incentive wholesale is yet not back and that has lead me to believe that, I mean there are a lot of wholesalers who are saying that we want stock but let us try and figure out what we need to do. And there the margin of 1% or 2% extra really does not incite them to come back into business.

Manoj Menon: Is it an industry practice... Okay, two parts to this margin thing. So the way you see it it is a cyclical incentive in your mind which you have or is it going to be more structural in nature?

Sumit Malhotra: Currently it is more of a short-term incentive, but like I am saying we are looking at it very closely and the current thought process is try and push direct distribution more because you are not 100% sure what is going to happen to the indirect route.

Manoj Menon: But your prognosis is that, so basically that means these margins could be reversed sometime in the future at an industry level?

Sumit Malhotra: It has already started but it will happen, yes.

Manoj Menon: The second question was on the input cost and also earlier if I remember correctly you had covers till March, is that same or do you have...?

Sumit Malhotra: Yes, now because of slight decrease in volumes it will go beyond March.

Manoj Menon: But it is not that you have added to the inventory, it is more like it is just a per dime consumption reducing and so you get some little bit of extra or so?

Sumit Malhotra: Yes, so we have not added because currently the prices have gone up.

Manoj Menon: And one last thing, on the tax rates for FY18 - 19 what should be the model?

Sumit Malhotra: Provided GST does not come in MAT remains.

V.C. Nagori: Yes, we will remain under MAT.

Manoj Menon: And sir one last request, if you could upload the presentation in the exchanges along with the results that will be...

Sumit Malhotra: Yes, Manoj we have always been doing it, unfortunately we reviled the Nielsen data only late last night, so rather than put November data yesterday and put December data today we were trying to get it done over night and we were able to post it today morning. Nielsen comes

around 2016-2017, for us they were able to do it but the guys really worked over night to put the presentation back into shape.

Moderator: Thank you. We have the next question from the line of Kartik Chellappa from Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: A few questions. So, if we look at the demonetization and the governments focus on bringing more transparency in transactions, digital payments etc and GST, what does all this mean for us in the medium-term from the point of view of our market share? Does this mean that we can actually accelerate some of our market share gains because some of the weaker brands or brands which are in few states may have to exit? So what does this mean for our market share?

Number two, what does it also mean in terms of our ability to introduce new products, do you think there will be willingness in the chain to invest or back new products or do you think the existing brands will continue to improve on their footprint?

Sumit Malhotra: By medium-term I am taking it as next six months. In hair oil and especially value added perfumed hair oil you do not have very many of these marginal players. So in terms of them going out of business and you getting their share I do not think there is a big possibility of that. Also remember, market share means off take and all these initiatives by the government are actually aimed at doing business properly and not increasing or decreasing off takes. So answer to your first question, in hair oils and specifically value added perfumed hair oils I do not think there will be much change in market share because of this. The second thing you asked was?

Karthik Chellappa: In terms of the new products sir.

Sumit Malhotra: New products, I do not think the GST will affect because actually what will happen when GST really comes into play the first thing again will be destocking, because they need to clean up their books before the GST comes in, so there will be destocking. In such an environment I doubt whether the retailer itself will first take on new products with that kind of enthusiasm. So answer to both your questions is, I do not see any major possibility in ability to suddenly raise market share or new products entering the market.

Karthik Chellappa: And in terms of the competitive intensity, because the last few quarters we have been talking about Keo Karpin being aggressive in a few states, what is the update on that in terms of the level of competitive intensity?

Sumit Malhotra: In the last two months they have decreased, more or less November was out but we were also not advertising in November. December we are back they are not back as yet.

Karthik Chellappa: So does this mean in the medium-term again on a six month's framework there is scope for us to gain some market share?

- Sumit Malhotra:** See, because we have the new campaign and we are over spending in the next three or four months we are hopeful of gaining market share because we will be approximately four or five times the amount of money spent by Keo Karpin on the TV.
- Karthik Chellappa:** And sir lastly, in terms of our own new product development or new SKU introduction within some of our brands, what is the kind of timeline you are thinking and has that changed post demonetization and GST being clubbed in let's say a six month window?
- Sumit Malhotra:** No, it has not changed, we are still on track. In fact we are testing out one of the products in the next month or so and the next product would come in the first quarter of the next financial year.
- Karthik Chellappa:** First quarter of next financial year?
- Sumit Malhotra:** Second quarter.
- Moderator:** Thank you. We have the next question from the line of Sameer Gupta of India Infoline. Please go ahead.
- Sameer Gupta:** Sir, a couple of questions. First on the demonetization impact, you said that Nielsen is saying that as of December end the retail off-takes are back to pre-demonetization levels. So is that something that you also intuitively feel based on your experience on the ground, etc, so there is such a V-shaped recovery or do you think there is some amount of residual demonetization impact which will stay with us for the next few months be it in terms of lower SKU size or even lower demand growth, as in there will be growth but at a lower level or any other form of fashion?
- Sumit Malhotra:** See, number one, it did not go down as per Nielsen. If you look at October, November and December... just remember when I talk about December Nielsen I am actually talking of off-takes during November because data is collected mid-December which is actually the period before that period what has been the off-take. So as per Nielsen October, November, December there has been no V shaped off-take kind of a thing. This is surprising because we did notice at least immediately after demonetization off-take also going down in retail outlets, but Nielsen has not sort of concurred with our on the ground feel on this.
- Sameer Gupta:** Secondly, just wanted to understand again this rebalancing between this direct and indirect distribution. I am sure even though you put in your efforts it is not going to happen overnight, so it is a continuous project that many companies probably including you have undertaken and will continue to undertake, of course the trajectory will increase. So let's say if today you are at 40% or 45% wholesale dependence that might in a year come down by 5% or 10% points. So is that first of all understanding correct before I move on to my questions?
- Sumit Malhotra:** We can debate about the percentage but yes the proportion will shift towards retail.

Sameer Gupta: So, considering that it is going to be a shift and not a complete replacement wholesale is not going to go out of the window, so just wanted to understand that the total days in the pipeline be it distributor, wholesaler, etc, etc the entire pipeline, the current days are lower than what they used to be and in response to Manoj's question you said they may not come back so quickly. Then are we to understand that the earlier number of days itself was sort of a bloated number of days for the industry as a whole, not for Bajaj Corp or anything, I am just saying the industry used to work on a number of days which could anyways have been shrunk down and this has been the trigger for that to happen.

Sumit Malhotra: I think you have misunderstood, what Manoj was talking about was stock in the wholesale and not the industry stock. And what I was saying is the way we do business or the proportion of wholesale may come down. Now wholesale is let's say you take 40% in wholesale, this 40% goes down then the stock in wholesale will go down, the total stock in the system will remain more or less the same over period.

Sameer Gupta: So you are saying basically the stock in the wholesale will go down solely because...

Sumit Malhotra: Because the wholesalers will stop stocking your product or stop doing business as a whole. So if you go to the big mandis like Sadar Bazaar and Khari Baoli you will realize that they have lot of wholesalers who have actually stopped keeping a lot of stock, so they are now actually doing the range because they do not want to go out of business but they do not know how to do the business in the new concept because they cannot do digital payments, they cannot do things like credit cards or cheques because they used to make their money out of saving taxes.

Sameer Gupta: Understood. So one is the wholesale stock and the second is the total trade pipeline stock, so I am talking about the total trade pipeline stock that has shrunk because the wholesale component has shrunk and it will remain at this level is what you are saying, it will not come back to the pre-demonetization levels, is that understanding correct?

V.C. Nagori: Slightly let me add, one is the wholesale has shrunk and second is I said in my discussion with Manoj that around 100,000 outlets have stopped stocking Almond Drops, so that stock would have gone out. And third is even in retail the number of days stock was reduced during the period of November, it is coming back to normal now.

Sameer Gupta: So all in all if I have to just take a conclusion of the entire demonetization impact, would I be correct in assuming that the sales for Q4 would be more or less in line with the sales growth you saw for the month of October, the growth percentages for October would it replicate in the Jan to March quarter?

V.C. Nagori: No.

Sameer Gupta: And the reason for that being?

V.C. Nagori: Wholesale not coming back.

- Sameer Gupta:** And sir, my last question is on input cost inflation and margins. Supposing for a minute if I assume that crude stabilizes at around \$60 - \$65 and once your inventory benefit runs through what kind of a price increase would be required for you to maintain the current level of margins?
- Sumit Malhotra:** See, current level of margins to maintain, I do not think we have done the working because it depends on LLP also, we are looking at containing cost and various other factors. So that work will happen in Jan, Feb normally, that is the time we decide the price hike. But if it keeps at \$60 - \$65 a barrel you will probably see a price hike this year in April.
- Sameer Gupta:** Or if I were to put it another way, if you take your normal 3% to 4% price hike at a \$60 - \$65 crude, will that result in EBITDA margin contraction or you still think you will be able to maintain current margins?
- Sumit Malhotra:** I do not know where you got that figure of 3% to 4% because CAGR over the last 12 years I have been here is actually 5% or 6%. So I do not know from where you have got 3% or 4% but again I would not like to answer this concretely to this because there are many other factors apart from LLP that will hit us in terms of gross margin and that calculation has to be done. And I cannot give you a affirmative answer to this at this point of time.
- Moderator:** Thank you. We have the next question from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.
- Ritesh Vaidya:** Sir, two questions from my end. One is, as you were saying that the secondary sale off-take or the retail level off-take that has not changed but the wholesale is not coming up yet. Does it mean that at any point going ahead we will start seeing stock outs where retailers actually do not have the product as per the demand?
- Sumit Malhotra:** See, this should happen only in the marginal outlets who actually buy only through wholesale. There are a lot of people who buy through the wholesale because their per month off-take of that particular brand is so very low. Suppose a guy sells three bottles it will be unlikely that he goes to the distributor and makes a bill of Rs. 100 and goes back. So those guys essentially go through wholesale. In the medium-term they could be out of stock and that is why like I said the number of outlets stocking Almond Drops has come down marginally. But in the long run I think once there is demand they will find a place where they can get stocked.
- Ritesh Vaidya:** And also the other thing that you said that the wholesalers they are narrowing the range of brand that they are keeping. So is it fair to understand that during demonetization the wholesalers, the part of the capital which was the black money component if that has now gone away for at least some point of time. The weaker brands over here will no more find a place on their balance sheet right now and that would mean market share gain for leading brands over the others.

- Sumit Malhotra:** This question was asked before and if you remember I said no I don't think that will happen. See, it is not only stocking it is also demand. There is a reason why these weak guys sell, one is availability and the second is price, both of that has not changed at this point of time because if availability was to disappear only because of wholesale stocking then a lot of your retail outlets would see stock outs, that will not happen, they will find a alternative way of doing it. I do not think this is a game changer in hair oils where you do not have to have unbranded or very small brands, you have larger brands in hair oils. Smaller things maybe it will happen.
- Ritesh Vaidya:** And you are saying that if the wholesale does not supply then the retailer finds another way, but then this substitution is not that easy, I mean for you also to reach these outlets directly is not feasible?
- Sumit Malhotra:** Yes, it is not easy, it is a pain stacking job.
- Ritesh Vaidya:** So ideally even if the demand is there for you to recover to the same sales level is not only a function of two months it could take much longer, some two three quarters?
- Sumit Malhotra:** I am sorry, you have a (-4.5%) decline in turnover, if it was so easy I could have gone back to normal.
- Ritesh Vaidya:** And also the scenario of taking a price hike, so given the situation right now the demand is slightly weaker and the off-take is also not happening that much and the stock is everywhere. Do you think this will be a good time to also take up price hike even if you take a decision in April - May or will you try to postpone it?
- Sumit Malhotra:** I would not like to comment on this, it is something which is a much bigger strategic decision rather than only gross margins and volumes, there is much more too attached to that which means what is happening to competition, what are we trying to do in terms of other brands and so on and so forth.
- Moderator:** Thank you. We have the next question from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.
- Rahul Maheshwari:** I have three questions. First of all, can you give the breakup of what is the primary sales growth and the secondary sales growth?
- And second question is that whether during the quarter after the demonetization what is the effect, whether there has been a down trading and who and how much which player has got that and in your Baja Corp say where the shift has taken place, whether the sachet packaging has taken a good growth in that terms?
- And third question is regarding that, as we are finding the FMCG companies are now moving towards the direct reach because the wholesale channel has hit a lot and you are also telling that going forward there would be shift from wholesale to retail. So what is the cost being

incurred for a direct distribution towards the direct retailer? So going forward we may find that the operating cost also to be increased in that terms?

Sumit Malhotra: Let me tell you secondary is actually low during this period and the remainder secondary you do not get for the company but only general trade because in modern trade normally your primaries are equal to secondary. So if modern trade has grown by 24%, secondary in modern trade has also grown by 24%, international business secondary trend does not really matter. In terms of general trade the growth is higher than the primary growth and the difference is basically because of the destocking. That is number one.

The second is the cost of distribution, direct distribution? Currently if you look at our cost we have a much lower cost model basically because we have contract sales people, rather sales people are not under our direct hold but under the distributor's hold. And therefore the cost of increasing direct distribution there will be not as much as that would be for other companies because we use indirect model of employing people.

Rahul Maheshwari: Any rough estimate numbers that for thousand outlets towards the retail what is the cost being incurred for you?

Sumit Malhotra: No, I cannot give you that.

Rahul Maheshwari: And third, whether you have seen any down trading happening in the overall hair oil segment as a category?

Sumit Malhotra: It was happening even prior to demonetization.

Rahul Maheshwari: No, whether it has been increased post demonetization?

Sumit Malhotra: We do not have figures because off-takes do not show that because as I said in Nielsen the market shares and sort of growth, yes the fastest growing segment is still the Amla because the cheapest hair oil today is Amla hair oil which is even cheaper than coconut. And in our terms the sachet continues to grow, we know upsurge in growth of sachets in the whole thing. So yes, down trading is still there but it has not really gone up or gone down after demonetization.

Rahul Maheshwari: So whether it was Brahmi Amla or just the normal Amla which is more at a downer level of pyramid in terms of volume?

Sumit Malhotra: First Amla.

Moderator: Thank you. We have the next question from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Just a quick one. Your overall turnover has gone down by 5%, I think you mentioned that the international business is up good 70%, of course from a low base. If you could just call out what is the domestic turnover decline.

- Sumit Malhotra:** Out of the 4.7 what is the domestic turnover?
- Amit Kumar:** Yes, I am saying that what is the trend in the domestic turnover specifically, so the decline clearly seems to be a bit more than 5%.
- Sumit Malhotra:** Because this 5% of your turnover is international business which has grown by 72%, so the remaining will be much more than 4.75% that is there. To keep in mind, I also said that CSD is down 13.5%, modern trade is up 24%, you can actually calculate what kind of growth has happened in the general trade, this is around (-12%).
- Amit Kumar:** My next point, just continuing on that wholesaler point, given the fact that as you are saying that some of the wholesalers have clearly stocked down, they are not doing as much business, it is still not clear what do they plan to do going forward. So do you have sort of a plan in place to replace some of those wholesalers with ramping up your direct distribution, what can you do basically to replace the wholesalers which have either gone out or reduced their business significantly, what is the plan of action?
- Sumit Malhotra:** The answer in short is to increase direct distribution, but unfortunately it does not happen overnight, it takes time. The second thing is, I have also said that the way it is going to pan out I do not think anybody knows as yet, whether they will come back and do this thing or some other model will be evolved to supply to the smaller retailers or the rural market. So in terms of doing direct intervention I do not think it is in my hand, we normally would try and keep incentivizing them so that they buy what is actually required by the retailers rather than getting them to stock backup, because I do not think they are ready to keep access stock at this point of time.
- Moderator:** Thank you. We have the next question from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.
- Ashish Kacholia:** I had a more strategic question. Basically lot of the multi-product and multi-brand consumer companies trade at much higher valuations compared to our company and we have in the past acquired the No Marks brands. So do you have any thoughts on say sacrificing 400 - 500 basis points of EBITDA margin and making a really determined push to grow our No Marks franchise?
- Sumit Malhotra:** Yes, that is the whole idea, but Ashish do remember that before you can do that you have to be 100% sure about your strategy. We did tend heavily on No Marks when we moved from cream to facewash focus and if you remember at that point of time you said that maybe going marks is the way we should be doing because that way you are playing in a much larger market. But that strategy did not really pan out and therefore now we are not going all out and testing out our new strategy, we are looking at it in one state itself let me try and see whether the new strategy is right. And the new strategy is basically how do we try and get maximum out of a cream. And therefore in a product that has high margin, less competition can I invest larger

disproportionate amounts and grow it disproportionately, that is the project that is on at this point in time.

Ashish Kacholia: And when do you see the results of this experiment or this initial trial marketing being available to the customer?

Sumit Malhotra: So it is already coming there but I think conclusive proofs will come sometime in the next two months time.

Moderator: Thank you. We have the next question from the line of Jinal Sheth from Multi-Act Equity. Please go ahead.

Jinal Sheth: Mr. Sumit, on your comments on the market share that you mentioned and I also noticed that the relative market share has gone up this quarter, so first question is have we lost any share this quarter?

Sumit Malhotra: Jinal, this is a very tricky question and I can answer this both ways. If you look at those numbers you will see that volume market shares have gone down and the question somebody asked about down-trading is directly reflected in your value market share not going down and volume market share going down, which means that you are maintaining the value of goods being sold. But volume is coming down because we are actually getting a down trade between the SKUs that we sell. So yes and no, market share actually in value terms in longer period I do not think we have lost any market share, volumes we have lost because your SKUs are now getting down traded.

Jinal Sheth: So down traded but would that mean that would be to within light hair oil...

Sumit Malhotra: Within almond itself.

Jinal Sheth: And so you believe is that if you start getting the uptrading then you can gain that back?

Sumit Malhotra: Yes, and that is the whole idea. And the idea of the new campaign if you, I don't know whether you have had the chance to look at the new campaign which is the Parineeti Chopra 'Load Mat Lo', the whole idea is to get the conversion from the coconut hair oils to light hair oils back again.

Moderator: Thank you. We have the next question from the line of Ruchi Mital from CD Equisearch Private Limited. Please go ahead.

Ruchi Mital: Sir, you gave us an idea about the affect of demonetization on sales, I would like to know what was the affect of demonetization on your raw material procurement?

V.C. Nagori: Actually reduced production and therefore purchase of raw material came down, that is all. Prices did not change because of demonetization.

- Ruchi Mital:** And sir, in your last con-call you mentioned about this focus on Amla hair oil, so any update on that front?
- Sumit Malhotra:** We are still on it but unfortunately the media campaign was supposed to start in mid-November, because of this uncertainty we have actually pushed it backward and we have not yet started. So you would appreciate that until you really have a media backing on a brand that brand cannot grow beyond the normal level that it is growing at this point of time.
- Ruchi Mital:** So that is why your advertisement cost has come down?
- Sumit Malhotra:** No, Amla would be a very small part of it, the advertising cost actually came down because we had this new campaign which was supposed to be launched on the 15th of November. Because of demonetization it got launched on 18th of December and not 15th of November. So that one month of whatever we would have spent was not spent, that is why it has come down.
- Ruchi Mital:** And sir, there has been an increase in employee expenses by 37% increase YoY so any reasons?
- Sumit Malhotra:** Obviously you see the graph you will find the reason because we are getting high quality people at the head of each department. And like I explained in my last concall and my last investor presentation also had the sheet, the last but one sheet and as we have explained why we need better quality more number of people to head departments. So that is a investment that you need to make for growth, which means basically you need to have more stronger people and larger second line or better second line talent in your system.
- Moderator:** Thank you. We have the next question from the line of Rajeev Anand from Narnolia Securities. Please go ahead.
- Rajiv Anand:** Sir, I just want to know do we have any plans for acquisition in near-term?
- Sumit Malhotra:** Yes, we do have. We have been looking at acquisition targets, it is only we do not have a clear cut answer when it will happen because it obviously depends on the targets that are available and the speed at which you can complete the due diligence and the negotiation on the price.
- Rajiv Anand:** Could you just give **(unclear) 0:48:30.0** or the margins, what type of margins you are expecting from the new acquisitions?
- Sumit Malhotra:** Since I do not know the new acquisitions I cannot tell you the margins. Like as I said just two seconds ago was that you really do not know how long it will take in indentifying a target, negotiating and doing the due diligence.
- Rajiv Anand:** And my second question is, I just want to know the contribution of modern trade in this quarter's revenue?
- Sumit Malhotra:** It is around 5.2% this quarter.

Moderator: Thank you. We have the next question from the line of Chitragnda Kapoor from Sameeksha Capital. Please go ahead.

Chitragnda Kapoor: Most of my questions are answered. Not particularly related to the results but I was just noticing your shareholding pattern and there has been increase in the pledge of the promoters from September to December reported. Is there a specific reason for it because we are free cash flow generating company and we are debt free?

Sumit Malhotra: That is the promoters and basically the money has not increased, the share price has dropped, the amount of shares pledged go up and vice versa. So if the share prices actually go up then the number of shares pledged will come down. And over the last quarter it has I think gone down by around 8% if I remember correctly. So the number of shares pledged will go up by that amount because the total amount of money taken against the pledged shares remains the same.

Chitragnda Kapoor: But why were the shares pledged, would you have the data?

Sumit Malhotra: I think it is the promoters, nothing to do with the company, that is his share. So whether he needs the money for something else he obviously takes that call, the company does not take a call on pledging the promoters' shares.

Moderator: Thank you. We have the next question from the line of Kartik Chellappa from Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Just two follow-up questions. You mentioned that the contribution of rural this quarter was about 42.5% and pre-demonetization it was about 43.6%. Now given that we are hearing that the cash crunch is more acute in the rural areas the drop in shares seems to be quite small, how would you explain this?

Sumit Malhotra: Again, Karthik this is a perception you have, a drop in share of 1% over 1.5 months because demonetization happened only on the 8th of November and this data is till 31st of December, if the share of rural drops by 1.5% in 45 days that is a big one. So I do not think it is a small one, it is a big one. And the news on the ground is there are still smaller towns and villages that do not have sufficient cash, so either barter or credit or postponement of purchase is happening in those places. So I disagree with you that it is a small drop, it appears a small drop because it is around 150 basis points but keeping the time frame in mind it is a very steep drop. Just remember it took us two quarters to grow the contribution of rural versus urban by 1.5%. So it took us six months to grow and it took one and a half months for it to drop.

Karthik Chellappa: And sir, earlier you mentioned that as far as No Marks is concerned there is a test marketing which is being done, a test strategy which is being done in one state, the results of which will be known in a couple of month's time. So does that mean that if the results turn out to be positive sometime in the first quarter of next year we will see this being rolled out in more states so we can actually expand the footprint of the strategy?

Sumit Malhotra: Yes, you are right. We will move into eight states if this is successful. Why eight states? Because eight states take up around 80% of the anti-marks category, the states we are testing out in contributes around 40% to 43% of the total anti-marks category. So if we succeed in 42% of the category we would rather like to go into states that look at 80%.

Karthik Chellappa: And when you mentioned earlier that there might be some new product pipeline as well sometime in the first quarter of next year, that is excluding this No Marks rollout, isn't it?

Sumit Malhotra: It has got nothing to do with No Marks.

Moderator: Thank you. We have the next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: I have two questions. The first is, overall strategy of the company. Now I understand that you are trying to build No Marks and steal the business and resurrect it. At the same time are we foreseeing any enemy targets as well or do you want to concentrate on No Marks as of now? That is number one.

Number two is on our capital allocation strategy, so we maintained the dividend as of last year which we paid, so we maintained that was good. But considering the stock price which was stating at good valuations, could we have gone for a buyback instead of dividend? That is the second question which I have.

Sumit Malhotra: See, one thing on the first part of it, strategy, yes acquisition is a major part of our growth strategy. But before acquisition happens you need to have a target, also you need to have internal self confidence to see that the new acquisition will do much better. And therefore we are working towards both of it, we are not close to acquisition, we are looking at acquisition. In the mean time we are trying to gain this confidence and manage the bandwidth within the company to be able to do a good job with the new acquisition. Now in terms of dividend versus buyback, I am not sure whether you are aware, buyback can only be 25% of our total net-worth. And therefore that would be maximum around Rs. 100 crores - Rs. 120 crores, that is not significant enough to change any structure of this company. So yes, buyback is always an option but by law it is actually restricted to a certain amount. So maybe for larger companies it makes much better sense, but for the smaller companies like ours it is good to have, it is a good message to give but I do not think it is a game changer. To give you an example, Rs. 11.5 means around Rs. 210 crores outflow. And buyback maximum would be Rs. 120 crores out of which Rs. 67 crores - Rs. 68 crores would be the promoters part of that, so actually public will get only 33% of Rs. 120 crores.

Moderator: Thank you. We have the next question from the line of Sandeep Patel from Hornbill Capital. Please go ahead.

Sandeep Patel: Probably you have addressed this earlier but I missed it, I just wanted to know about LLP prices and I know that earlier we had forward booked inventory, just wanted to get a status update on that.

V.C. Nagori: Still we have forward book and we have forward book till March, but since growth or the volumes are a little less than what we expected in terms of sales we are probably going to April with the stock that we bought. In terms of LLP prices if you see the investor presentation we paid an average of Rs. 46 a kg during this quarter, the current prices that we want to go and buy is around Rs. 54 a kg for LLP already.

Sandeep Patel: So do you expect this to result in some sort of margin compression going into next year, sir?

Sumit Malhotra: If it remains at that and we do not take a price hike, yes there will be.

Sandeep Patel: But is the demand strong enough to absorb a hike?

Sumit Malhotra: See, we have not taken a price hike for two years, so I do not think if you are not greedy and you take a price hike just to absorb this it could go through, yes.

Moderator: Thank you very much. That was the last question, Ladies and Gentlemen. I would now like to hand the conference back to the management for any closing comments.

Sumit Malhotra: Thanks a lot for logging in. And like we have been doing over the last two years we have been the first to announce results and I guess all of you have been a little curious about what is happening. I still maintain that not too many people now what is happening because figures from all over the place are totally skewed, if you look at off-take versus actual secondary we do not match, within secondary if you look at the region they do not match. So I would expect you guys to be a little more patient, I think in the coming few months there will be much more clarity in the way the demonetization will hit us. Unless of course GST gets implemented in April and therefore the whole demand scenario will get skewed all over again. But thanks a lot to join this con-call and wish you all the best. A Happy New Year to all of you.

Moderator: Thank you very much. On behalf of Kotak Securities, that concludes this conference. Thank you for joining us, Ladies and Gentlemen. You may now disconnect your lines.