



## “Bajaj Corp Limited Conference Call”

February 08, 2012



**MODERATORS: MS. AMRITA BASU  
MR. SUMIT MALHOTRA**

**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY'12 Bajaj Corp Earnings Conference Call hosted by Kotak Institutional Equities. 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 call please signal an operator by pressing "\*" and then "0" on your touchtone phone. 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. On behalf of Kotak Institutional Equities I welcome all of you to this Bajaj Corp Q3 FY'12 Earnings Conference Call. I would like to welcome the Bajaj Corp team Mr. Sumit Malhotra, Managing Director, Mr. Narayan Raman, President, Corporate and Investor Relations, Mr. VC Nagori, Chief Financial Officer and Mr. Dilip Maloo, Vice President, Finance. I will now hand over the call to Mr. Sumit Malhotra to discuss the recently announced earnings. Thank you and over to you sir.

**Sumit Malhotra:** Thanks Amrita. Good evening to all and welcome to the conference call. With me are Mr. Narayan Ramam who is the President Corporate Investor Relations, Mr. VC Nagori who is the CFO and President Finance and Mr. Maloo who is the Vice President Finance.

The company has closed the third quarter with the sales of Rs. 112.30 Crores and a PAT of Rs. 28.87 Crores. This translates into a year-on-year growth in turnover of 30.75% and a growth of PAT of 48.8%. For people who are interested in the volume growth- the volume growth in the third quarter is 20.45% and the EBITDA has grown 10.11% on a year-to-year basis.

What is significant is this is the fourth consecutive quarter where the company has shown the turnover growth of more than 30% and a volume growth of more than 20% this clearly shows the strength of the lead brand, which is Bajaj Almond Drops. To give you some more statistics the third quarter EBITDA is Rs. 28.64 Crores, which is 25.51% of the turnover and a growth like I said earlier of 10.11%.

The EBITDA to sales ratio for quarter three in the last financial year was 30.29%. This is a 478 BPS drop in EBITDA this is mainly on account of increase in cost of raw materials by around 197 BPS and ASP increases which is around 167 BPS.

For the nine-months ending December 31 EBITDA was Rs. 82.67 Crores which is 25.39% of turnover and it is a 6.14% growth over the similar period last year. Keeping in mind this strong performance the board of directors has approved a disbursement of an interim dividend of Rs.4 per share, which translates into 400% of the share capital.

Nielsen figures for the last quarter shows that the light hair oil market continuous to grow well with the year-on-year volume growth of around 13.7% and a value growth of 25.1%. However there seems to be a slowdown in the overall hair oil market, which is especially in the coconut oil market.

The value added perfumed hair oil segment which composes of light hair oil, heavy Amla, cooling and value added coconut oil all of them continue to grow both in value and volume terms. The market share of our lead brand, which is Bajaj Almond Drops, has been stagnant or more or less equal to the same in the last quarter.

For people who are interested in the raw material front there was a slight respite in the prices of light liquid paraffin, as against the average purchase price of Rs.85.66 per kg in the second quarter of financial year 12. The prices corrected a bit to Rs. 82.86 per kg in the last quarter versus quarter three. However if you compare this to the last year prices that are the average price of LLP in quarter three last year there was an increase of around 25%.

The gross margins on a quarter-to-quarter basis have dropped just marginally by around 58 BPS. Any gains that we should have got on account of slight softening in LLP prices was negated by the vegetable oil prices increase, which rose from Rs.67.5 per kg in quarter two of last year to Rs.70.29 per kg this quarter. The company continues to focus on distribution of its brand and you would be happy to know that as of December 2011 we have more than 6000 distributors distributing our lead brand across 2.2 million retail outlets over all across India. In the last year our retail distribution itself has gone up by 17% for a brand like Almond Drops it is a big achievement.

We are now going deeper into the rural areas and as the result of our distribution extension exercise. We now get 36% of our sales from a rural area. We will continue to drive distribution because we believe that this is the reason why our lead brand continues to gain market share and also because this increase in distribution will pave the way for future brands being launched in the near future.

The launch of our new brand, which is Kailash Parbat Cooling Oil, continues, as you would recall Kailash Parbat is cooling oil, which sell mainly in the summer season. Over the last six-month which were technically off-season for cooling oil we have managed to build distribution. Currently the brand is available in approximately to 2 lakh outlets all over the country. The main season for cooling oil will start in March and we should see much more activity behind this brand.

In terms of the cooling oil market in the calendar year 2011-12, it has grown by around 12% by volumes and it is now Rs. 765 Crores category. Again on the other initiative, which is mergers and acquisition, we have move forward and we now have quite a few targets, which we have been seriously evaluating. We are at different stages of the transaction process of various M&A opportunities. You will appreciate that on conditions of confidentiality we cannot specifically talk about any of our initiatives or targets.

Finally I think it gives me pleasure to tell you that during the calendar year 2011 light hair oil has become the second biggest hair oil segment in the Indian Hair Oil industry. It has over taken the heavy Amla category and it is currently valued at Rs. 1000 Crores for the calendar year 2011 and growing at around 13% by volume and around 25% by value. I think our efforts of growing that

category as well as getting market share from the other competitors in the light hair oil is yielding results and we sincerely hope that it will continue in the future. This is a short opening address now we are open for questions please.

**Moderator:** Thank you very much. We have the first question from the line of Mr. Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir congrats on the strong volume growth. My first question is if you could give some color on what were the differential growth rates between the rural and urban and what was the kind of growth rate in terms of state. Slowest growing state and the fastest growing state that is the first question sir?

**Sumit Malhotra:** See, the rural markets of for us that is Bajaj Almond Drop do at around 6.4% point faster than the urban market. The fastest growing state remains to be Bihar and the slowest growing state for us that is Bajaj Almond Drops is currently Punjab.

**Abneesh Roy:** What is the reason for Bihar being fastest, Punjab being slowest is it Bihar is it because of Nitish factor largely or is it also because of the distribution?

**Sumit Malhotra:** I think it is a combination of distribution and the wealth in the rural areas that has growing up in Bihar, Punjab could possibly be because of the increased competition there but we are gaining market share in Punjab and therefore the total light hair oil category it is not really growing very fast in Punjab.

**Abneesh Roy:** Sir this differential 6% which you have said rural, urban what was it say 1.5 years back?

**Sumit Malhotra:** Offhand I do not have it, around 1.5 years ago in fact the time we have doing the IPO rural was growing at around 10% point faster than the urban overall.

**Abneesh Roy:** Sir structurally if you see this year most hair oil companies have seen significant margin pressure and in your case almost 400 bits margin comparison is there also in this segment we are now seen a very large player enter as the Almond and he is also playing slightly aggressive on pricing. So in terms of structurally margin should improve or you expect that a 25% kind of margins is the study state margins?

**Sumit Malhotra:** Abneesh you see the way we price our product is we try to maintain the EBITDA margin at around 25% so if there are further increases in raw materials we would obviously pass on those raw material prices increases to the consumer. The last price increase we took, as you would recall is in April 2011. That is on the margin front. On the competitor in that have been telling people that I am quite happy that there is competition because you would realize competition actually grows the category and I believe that with our major competitor coming in with the Almond I think it will grow the Almond category much faster and hence the light hair oil market will grow much faster. In terms of aggression on pricing I do not agree with you Abneesh. See it is actually given the same MRP as ours.

- Abneesh Roy:** No, but promotion is there know.
- Sumit Malhotra:** He has launched with the consumer offer basis the volume plus which in a month or two it should go back to our volume. So we would be at the same MRP and same volume after the launch of that brand is completed.
- Abneesh Roy:** Sir based on raw material scenario will FY'13 be an almost our adenine price increase scenario?
- Sumit Malhotra:** I do not think I can get that as you were know the major thing is LLP . Glass bottles we have already factored in the price increase we are factored in into our margins this year. So I do not think glass was affected. Vegetable oil is playing a joker in the pack but off let it seems to have corrected so I think like as we have been falling our company for the last two years. We realize that the determinant is basically like liquid paraffin or LLP, which I would not like to hazard a guess what will happen will it grow up or down and in next year.
- Abneesh Roy:** But, sir Q2 versus Q3 and now Jan you said what is the fast trend in LLP?
- Sumit Malhotra:** I gave you those figures the Q2 was on the price of LLP was 85.66 per kg it went down to 82.86 per kg in quarter three this quarter it is more or less around that track and it is comedown a little in terms of few paise that is all.
- Abneesh Roy:** Q3 did we get a complete benefit of Rs.3 lower or inventory?
- Sumit Malhotra:** Yes, this is the average price. This is not least or max. I am quoting average prices for quarter two versus average prices for quarter three and quarter four because they have actually bought upfront so we are covered till March.
- Abneesh Roy:** How much is the import component in this?
- Sumit Malhotra:** Nothing we do not import.
- Abneesh Roy:** Okay, Sir coming to next question 500 mil pet bottle how is it doing up?
- Sumit Malhotra:** Excellently. If you remember last time it was at around 5.8% sale NC of my total volumes it has gone up in quarter three to 6.5% so it is doing well albeit a little at the cost of 300 ml but that serves was well because once the volumes come in it will we will get the much better gross margins on 500 then we would have got on 300.
- Abneesh Roy:** Sir last follow up routine question is on the debt and cash level post that dividend how much was the debt and cash?
- Sumit Malhotra:** Debt.
- Abneesh Roy:** Sorry net cash?

- Sumit Malhotra:** Net cash pre-dividend is around 340 Crores and the dividend payout plus including that sales will be about 65 Crores to 66 Crores.
- Abneesh Roy:** Sir just one question in the initial remarks you have said coconut is slightly growing lesser compare to the entire category but if you see the number one coconut company they have reported one of their better volume growths in the past many quarters that is one remark. Second is all hair oil companies have kind of seen acceleration in volume growth so how can all companies see acceleration, who is loosing or so maybe the unbranded are loosing so what is your thought process on that?
- Sumit Malhotra:** Obviously yes, unbranded and the smaller brands are loosing in each segment if you see you will see that there is a fall out on the smaller brands. For example in our sector that is the light hair oil smaller brands like Eleen or even Keo Karpin to that effect is actually continuously loose market share. Cavin Care and Marico has done well and we have done obviously well also.
- Abneesh Roy:** Okay, sir thanks and all the best.
- Moderator:** Thank you. We have the next question from the line of Mr. Kaustubh Pawaskar from Share Khan. Please go ahead.
- Kaustubh Pawaskar:** Congrats sir for the good set of numbers. I just joined late so I just want to know what was the overall volume growth for this quarter?
- Sumit Malhotra:** Volume growth is 20.45%.
- Kaustubh Pawaskar:** What is for Bajaj Almond?
- Sumit Malhotra:** Bajaj Almond will be slightly higher only slightly a few points of a percentage if you want the exact number it is 20.5%.
- Kaustubh Pawaskar:** Sir what was the advertisement cost for this quarter is it around 12% of sales?
- Sumit Malhotra:** A little over 12% the increase in advertising is 1.67% vis-à-vis I am talking of advertising and sales formation the quarter three of last year. Year-on-year increase in advertising is 1.67%.
- Kaustubh Pawaskar:** Sir my next question is on the volume growth momentum for past four consecutive quarters we have been seen above 20% volume growth in Bajaj Almond Drop. So what is really driving the growth because I can understand that the leadership of consumers from coconut hair oil to light hair oil also the improvement in penetration in rural India is also helping you but the 20% kind of growth something special is there?
- Sumit Malhotra:** See, what I believe basically cause of this is that in a brand's life cycle you have point of inflexion after which your volumes really start growing I think we went past that point around 1.5 years ago and basically now people do not debate whether Bajaj Almond Drops is a good brand or not.

It is only the price which is important and availability because when he goes to buy it should be available and third how much noise we make in the market all three we continue to push our brand and that is why this volume growth key from moving back.

**Kaustubh Pawaskar:** So, you are going to say increase in distribution plus the media spends what you had doing in the market is do you think you to achieve this kind of volume growth?

**Sumit Malhotra:** We are the second highest advertised brand in the hair oil market.

**Kaustubh Pawaskar:** Okay, now the competition is coming up in this particular category. So any change in strategy you are looking out for or period is an early stage?

**Sumit Malhotra:** First of it is definitely early but again from and you will realize that I am a marketing guy so looking at marketing part of it you normally do not change your strategy because of a competitor you basically do whatever you think you are doing well a little more vigorously. So what may happen is we might have to keep on increasing our advertising spend that is media spends to fight the competitor. But I do not think the strategy on a whole will change.

**Kaustubh Pawaskar:** Okay, and just another question in terms of new product launch. There is kind of filling in that we are kind of in lag in comparison to other FMCG companies in terms of new product launches because we have seen that in last one year there are lot of new launches by most of the FMCG companies into various categories. So I do not understand why we are a kind of very slow in terms of new launches in the market especially in the hair care category, which is getting good growth momentum?

**Sumit Malhotra:** See, name of the game is not launching a product, if you look at the lot of companies they launch let us say 10 to 12 products a year and only one survives at the end of the year. The game they play is that they drive volumes by launching new products. The game we would like to play is build brands and you would realize that if you want to build brands you need to support it with advertising and sales. Now the moment I launch too many brands I will have to start reducing the spends on my core brands which is Bajaj Almond Drops which as a part of our strategy we will not do until we reach a market share of 65% to 70% in the light hair oils. Because we believe that the moment I have stop supporting my lead brand because I have too many other mouths to feed the growth will slowdown, which we are not comfortable with, that is the strategy.

**Kaustubh Pawaskar:** Okay, and sir can you throw some light on the glass prices, because LLP refined oil you have covered on the glass prices how the movement has been because it is one of the key input for this.

**Sumit Malhotra:** Glass went up by around 7% in April of this year simply there is the pressure on glass and he is asking for increase in his prices which we have not yet agreed to but I guess you get another the CAGR of glass price increase over the last seven, eight years it is between 5% to 7% and I would **wager** to say that you would ultimately get 7% odd increase in price towards the end of this year.

- Kaustubh Pawaskar:** Okay, thanks a lot sir anything else I will come back to you. Thanks.
- Moderator:** Thank you. We have the next question from the line of Mr. Anirudh Doshi from Anand Rathi. Please go ahead.
- Anirudh Doshi:** Sir I just wanted to check have you formulated any dividend policy or what is the rationale for this Rs.4 interim dividend?
- Narayan Raman:** See, if you look at the volume growth that we have consistently achieved since the time of the IPO it speaks great amount of strength and the faith that we have in our brand and the ability for us to continue showing good growth and considering the fact that the raw material prices are fairly stable we see a much better clarity on these margins over the next two quarters and the dividend that we have paid out is substantiating the fact that we are confident of the profitability of the business over the next two quarters at least. That is the reason why we said that yes let us share this and I will send a strong signal through our investors and to the market that we are extremely confident of the volume growth that we have continuously been achieving and the margins that we have been protecting.
- Anirudh Doshi:** Okay, and do we have policy that probably we will pay out 50% or 75% of profit as dividend ahead as well?
- Narayan Raman:** That will depend on two things one the continued visibility of earnings and second it will also depend on how close we are to an acquisition if we do an acquisition obviously it will not have these kind of margins because then we will end-up paying too much for it. If that happens then we will have to take a relook at the high dividend payout issue because we will need to conserve cash to support the acquired business as well.
- Anirudh Doshi:** In terms of revenue mix you said volume growth was almost 20.5%. So have we taken any round of price hike in last quarter? I guess we have taken one round of price hike 8% in April?
- Sumit Malhotra:** 8.5% in April.
- Anirudh Doshi:** So post that have we taken any price hike?
- Sumit Malhotra:** Not in Bajaj Almond.
- Anirudh Doshi:** Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Sanjeev Sahu from B&K Securities. Please go ahead.
- Sanjeev Sahu:** Good afternoon Sir and congratulations for the good set of numbers. My question is when I look at your Almond Hair Oil volume numbers as well as the volume numbers vis-à-vis the light hair oil as shared that has been consistently coming down in the last three quarters because in Q1 you



had about 50.4% in volume terms and value terms we had about 54.4 and consistently it has been coming down and now in volume terms is 49.4 and value terms it is 42.7?

**Sumit Malhotra:** Thank you Sanjeev. I think you are seeing the monthly numbers and not MAT number?

**Sanjeev Sahu:** Looking at the MAT number?

**Sumit Malhotra:** Please look at MAT number. There is just 0.1% difference in volume, which has gone down and 0.1% in value, which has gone up.

**Sanjeev Sahu:** So this declining trend I would not said this is very kind of cause of concern or something like that?

**Sumit Malhotra:** Let me stop you here. I just told you that the market is growing by 13.7% in volume. We are growing at 20.5% by volume. Does not it feel odd that market share is stable even after growing at 7% base point faster than the market? I think the answer is with Nielsen and if you speak to Nielsen I think you will get a better answer for that. I do not have an answer for it, because I am growing much faster than the market quarter-by-quarter for the last six quarters and for the last two quarters my market seems to be stable. I cannot vouch for those numbers.

**Sanjeev Sahu:** Okay fine Sir, but almond hair oil growth is driving the light hair oil I am right Sir?

**Sumit Malhotra:** It is predominantly but yes the other brands also which are doing well in the last two quarters.

**Sanjeev Sahu:** Coming to my next question Sir you have about EBITDA margins of 25%. If the margins happen to improve from this levels, where will that come from or what impact will help us the margin apart from because that secondly you said the LLP taxes is correcting significantly. So where does the main gains come will there be purely from pricing increases or some other things in the next two quarters?

**Sumit Malhotra:** It will be only on account of cost of goods sold coming down and predominantly light liquid paraffin prices coming down. As a policy like I said a few minutes ago we will raise prices only when there is a raw material pricing pressure. So we do not want to expand EBITDA on the back of price increases.

**Sanjeev Sahu:** Coming to my last question so the rate at least you are expanding and said YOY it was up 17%. So any particular rate you have about increasing the distribution network and the Kailash Parbat oil that you have it is only 2% of the total distribution network. How much you target for it to be in the like sort of this network will it be available in the next two quarter?

**Sumit Malhotra:** Again number 1 we do not normally have a target for distribution growth. What target you normally get is increasing in number of stock points that is distributors because that is the first step in increase in distribution. You will realize that distribution is direct, indirect. You control only direct. Indirect distribution you do not control and therefore you cannot fix a target that way,

you have an ambition, you have an objective that apart. If you are asking me what is our objective say by the end of next day we should 3 million outlet that is answer for question number 1. Number 2 I think you miss heard me. I said Kailash Parbat is 200,000 outlets.

**Sanjeev Sahu:** 2 million total outlet that is 20 lakhs as of now right Sir. 2 million outlets you reached as of now?

**Sumit Malhotra:** 2 million is 20 lakh and Kailash Parbat is in 2,00,000 outlets, which is 10%. Yes it does take time to build distribution because it is not only placing your product, which is important but also the offtake and you will appreciate that we had not even one year from a season product to really fly off the shelf. So yes, this is the place where we have to increase our directory, which we are trying to build, and once the brands really takes up and we get sizable market shares the indirect distribution will also increase.

**Sanjeev Sahu:** One last question Sir what is the cost advantage that you have in the 500 ml PET bottle per ml price benefits coming when it comes to packaging, PET versus gases?

**Sumit Malhotra:** Currently we do not have anything because we do not have the economies of scale yet on 500 ml, but when it filled there will be approximately 20% odd reduction in packaging material cost. That is one third of you total cost.

**Sanjeev Sahu:** One third of you total cost. Thank you Sir.

**Moderator:** Thank you. We have the next question from the line of Nagabrahma GV. He is the Private Investor. Please go ahead.

**Nagabrahma GV:** Good afternoon Sir. Congratulations on good set of numbers. Small queries on the presentation, which you have posted on your website that is on the third slide where you have given the industry size and structure. The hair care where you have given the perfume oil plus coconut base oil both put together value wise it comes to 6664 Crores whereas in the next slide were you take the hair oil market in India overall hair oil market value wise if you see that 2010-11 value wise figure it is around 5862 Crores. I just wanted to know why is this difference?

**Sumit Malhotra:** Please note that if you see the 5205 Crores you see that is for nine months and if you see the first slide just for the calender year 2000 it should not be 2010 it should be 2011. You are comparing 12 months with nine months.

**Nagabrahma GV:** No sir you are not getting my point I am not comparing 5862 with 5205. If you go to the previous slide, there the hair oil the perfumed oil plus coconut based oil, which is basically the hair oil market. You have given Rs.3460 Crores for perfumed oil and coconut based oil is 3204 Crores. So if I added in your business?

**Sumit Malhotra:** Which period is this?

**Nagabrahma GV:** That I do not know, because that is what the figure what you have given?

- Sumit Malhotra:** If you move eyes downwards it says only for branded products they talk of calender year 2010. It is actually should read 2011, you are comparing 12 months that is 6600 versus nine months with this 5200.
- Nagabrahma GV:** No I was not comparing 5200 I am comparing with 5862.
- Sumit Malhotra:** That is also one year.
- Nagabrahma GV:** That is why I am saying if that is one year also why there is a difference?
- Sumit Malhotra:** This calender period is different. Market, which is growing at 13%-14% the financial year versus calender year, will be different.
- Nagabrahma GV:** I got it now. Because I just miss took that its a calender year and the second question is about the sixth slide where you have given the market share spend both the urban plus the rural this is for which segment it is for the almond segments in the light hair oil category?
- Sumit Malhotra:** The six says related market share is that the slide we are looking at?
- Nagabrahma GV:** Market share trend all India urban plus rural slide number six?
- Sumit Malhotra:** Volume market shares in light hair oil category again if you see the bottom of the slide it will say market share in the light hair oil category.
- Nagabrahma GV:** So you are giving bottom, what is numerator, is it almonds share you are giving me?
- Sumit Malhotra:** This is light hair oil is Bajaj Almond Drops.
- Nagabrahma GV:** This is Bajaj Almond Hair Oil in general with respect to the light oil?
- Sumit Malhotra:** Yes.
- Nagabrahma GV:** That is what I just wanted know. In the eight slide you have given compared to the competitor Bajaj Almond has all over India it is around it is around 3.3% relative market share? So that means if we are holding let us say 53.3% and if I divide by 3.3 my nearest competitor would be 16.15% is that right?
- Sumit Malhotra:** Right.
- Nagabrahma GV:** Who is this competitor is it Marico?
- Sumit Malhotra:** No it is not. It is Keo Karpin.
- Nagabrahma GV:** Who is the next nearest competitor sir?

- Sumit Malhotra:** After Keo Karpin?
- Nagabrahma GV:** Yes.
- Sumit Malhotra:** Is Hair and Care Marico.
- Nagabrahma GV:** How much is share?
- Sumit Malhotra:** It is around 15.8%, it is marginally may be next time we talk it will become bigger than this Keo Karpin.
- Nagabrahma GV:** Okay fine and the last one is about your number of outlets of Kailash Parbat, if you compare that is your slide number 11 in the December month the number of distribution and number of outlets have come down a bit?
- Sumit Malhotra:** Please remember where this comes from these comes from Nielsen, this is of estimate. Please do not read too much into the specific number, look at trends. You will see for the last four months, which were not summer, which were winter months in most of the parts of India our distribution stabilizes it does not increase because no new consumer will buy your product in winter because this is the cooling oil.
- Nagabrahma GV:** I could not log in because there was no response just wanted to know almond oil is growing at more space both volume wise and value wise during FY'12 for whatever the period that is nine months. Is it purely from the unbranded segment this share is coming or is there anything you have any information about that?
- Sumit Malhotra:** Growth comes from number one the other competitor in light hair oil, which causes increase in market share. It also comes from other hair oil users trying Bajaj Almond Drop, which could be Amla, which could be coconut or it could be unbranded. If you want to know exact details unbranded is the second largest source of new users of Bajaj Almond Drop.
- Nagabrahma GV:** Thanks a lot. All the best sir.
- Moderator:** Thank you. We have the next question from the line of Prakash Kapadia from Alpha. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. If you could share some consumer insight specifically in Indian even the younger generation we have over the next few years what potential do we see of newer categories like gels, creams, hair spray evolving as part of the industry and any plan for us in entering those segments?
- Sumit Malhotra:** I cannot talk about the plans because it would be our strategy I would not like to reveal at this point of time, but I think you should realize in India because 92% penetration of hair oils are there and therefore growth in the number of users of hair oils will not happen, but the growth of

users within the hair oil segment will change so that is about hair oil. But your specific question on things like creams, gels, these are very, and very strong market at the current stage. To give you an example a hair cream market in India would be around 120 Crores vis-à-vis around 6000-8000 Crores which would be hair oil market. The growths are also not very exciting not like they are doubling every, it basically means that even though the metro centric youngsters tend to east or west there is still an emotional quotient that adds to this all, which stops them from moving end mask to these both “modern products.”

**Prakash Kapadia:** So we are far way in terms of these categories being large for the industry in general, essential there is a market but its not as exciting currently may be in the near future these could now to be if you know retail?

**Sumit Malhotra:** Of course definition of near is for the marketing guy two or three years. In the next two or three years you would not see it becoming a very big category.

**Prakash Kapadia:** So sir is it fair to then assume our volume growth essentially would mean you know experimenting as you said earlier during the call which say conversion from unbranded or you know some of the conversion from say a coconut or Amla Hair oil user is that the only we can grow?

**Sumit Malhotra:** Yes, that is one of the ways the second way is converting from other lighter oil brands to our brands.

**Prakash Kapadia:** So essentially market share gain also which?

**Sumit Malhotra:** Yes it is.

**Prakash Kapadia:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Ms. Anita Wilson from SKS Capital. Please go ahead.

**Anita Wilson:** My questions have mostly been answered, if I can just have a quick follow up. I heard you answer regarding the dividends so just wanted to get a sense of sustainability of this dividend in the future and whether you know some sort of management thought on whether this interim dividend could give the final dividend for the year also there is a true lot of possibility of final dividend or given the quantum that you have given now or is there still possibility that there might be final dividend at the end of the year?

**Sumit Malhotra:** See I think I will take the second part of your question first. I do not think we can comment on whether this is final or what could be the quantum of the final that I think the Board and results over the last Q4 will decide. But all I can say is the company believes that we should give a handsome dividend. When we gave a 33% dividend last year we made a point and said that the Board's direction was let us give a dividend which we can improve on as we go forward

provided the performance goes on improving. So that is the current position the Board takes, which is that we should try an increase the dividend, provided the performance is good.

**Anita Wilson:** I appreciate that. So there is one-time nature or exceptional limit for this dividend?

**Sumit Malhotra:** No I do not think so.

**Anita Wilson:** That is first one just a quick related question pertaining to your answer to one of the earlier questions. You mentioned something about potential acquisitions if you can give us some insight as to what type of opportunities are available for and you also made a comment about or point about how much you will pay for it. Why would you over pay for any acquisition?

**Sumit Malhotra:** Not overpay. I think you missed that it is not over pay how much you will pay. In terms of the acquisitions unfortunately each target that you identify you sign an NDA non-disclosure clause, which leads us not to talk about the segment I am going to be looking at, the amount or multiples unfortunately I cannot give more insight into this.

**Anita Wilson:** No, I am just wanting very general idea about opportunity in terms of what the size our potential size what range say we are looking to buy commodity you looking a spend what is the budget we have say potentially what is there a segment domestically or internationally some flavour of what is our mindset what are we looking?

**Sumit Malhotra:** Because unfortunately I cannot give you flavour in segments because that will lead to sort of indirectly telling you what kind of companies we are looking at but since you are asking let me tell you they are looking at personal care companies inside India and outside. We are looking at a size, which will not stretch our finances more than 1:1, cash versus debt. We also believe that the first acquisition should not be a very large acquisition, which will be difficult to absorb because we believe not acquiring a company but actually turning it around and making it profitable is or more profitable is what the whole game about is. This is we call assimilating the company basically.

**Anita Wilson:** Sorry sir just to clarify what you said 1:1 cash to debt you basically said that you want to use the available cash you do not want to acquire debt?

**Sumit Malhotra:** No is said 1:1 so I am saying the maximum of 340+340 of debt.

**Anita Wilson:** Okay so not 1:1 debt equity overall circumstance in the overall network but in terms of the net cash that you have you can leverage that one. Okay that is it. Thank you.

**Moderator:** Thank you. We have the next question from the line of Vicky Punjabi from JM Financial. Please go ahead.

**Vicky Punjabi:** Thanks for taking my question. My question was on your ad spends basically sir like in this quarter it is not a cooling oil season so I thought the actions will be lower, but we have

maintained the rate of ad spends this year 12% going forward as this cooling oil season starts do you think that this rate will go up further?

**Sumit Malhotra:** It may go up but your turnover would also go up. For example your Ad spend to sales could go up by a percentage or two.

**Vicky Punjabi:** But then wouldn't that impact on a margin?

**Sumit Malhotra:** Of course.

**Vicky Punjabi:** Okay and sir on the second question is on the overheads part because even if I reduce the Ad spends I see the overheads have also grown by around 30% could you just give an idea of as to what is driving such stronger in overheads?

**Sumit Malhotra:** Overheads have gone up by 30% mainly on account of the employee cost.

**Vicky Punjabi:** Okay there is no further no other aspect to be overheads?

**Sumit Malhotra:** No.

**Vicky Punjabi:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Ms. Esha Shah from Anvil Stock Broking. Please go ahead.

**Esha Shah:** Hello congratulations on good set of numbers. Sir my most of the questions are answered but I was just asking how was the rate on the property is it start to use?

**Sumit Malhotra:** No, like I said last time we do not need the property immediately. It was a more of a long term proposition that we had because currently all our departments are spread over all over India and you will appreciate that closing down a department in Delhi and bringing everyone to Bombay overnight will not happen the situation at this moment is that we are seeking permission from the Bombay Municipal Authorities and the other various authorities and we are looking at the plans in terms of this financial year that is financial year 2012 I don't see any expenses on this account. The work will start sometime next year and in financial year 2014 will be the time we will be ready to move into that.

**Esha Shah:** Okay and sir on the like why is the employee cost is same as the percentage as increase over last year and same with the other expense?

**Sumit Malhotra:** See basically you will appreciate that if I am trying to move forward I have to build the second line, because the strength of the company also depends on the strength of the management bandwidth. For example merger and acquisition up till now I understand. But you will realize that our bandwidth was not strong enough to be able to do justice to this very important part of

our growth objective. So we brought in Mr. Jimmy Anklesaria here and his team, which is an extra expense as it looks if you want to call it that but we look at it as investment for future.

- Esha Shah:** Other expenses just it is that advertisement?
- Sumit Malhotra:** No other expenses will not be mainly advertising.
- Esha Shah:** Thank you sir that's it from my side.
- Moderator:** Thank you. We have the next question from the line of Aruna Bharathi from Pari Washington. Please go ahead.
- Aruna Bharathi:** Good evening sir I just have a quick question who is currently the brand Ambassador for Bajaj Almond?
- Sumit Malhotra:** Kangana Ranaut.
- Aruna Bharathi:** I apologize I am not familiar with her, is she has a would you call her as tier I actress or tier II actresses?
- Sumit Malhotra:** No she is one of top five.
- Aruna Bharathi:** Any idea who is a Dabur reviewing to promote their products?
- Sumit Malhotra:** There is a celebrity by a name of Minisha Lamba.
- Aruna Bharathi:** Minisha Lamba they are using her basically. Okay thanks Sumit that's it.
- Moderator:** Thank you. We have the next question from the line of Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.
- Rahul Bhangadia:** Sir wanted to know you say the couple of competitors have been doing well in the last two quarters so who are these players?
- Sumit Malhotra:** One is Hair & Care and you would know that till the last quarter Dabur Almond was not there at all so he has picked up a percentage points market sales in the last quarter.
- Rahul Bhangadia:** One percent in the lite Hair Oil is it and are they going very aggressive in this category?
- Sumit Malhotra:** Let they goes that a big company. I bet they would since they have launched up that I am told that in the concall they specifically mentioned this brand. So I think they are looking at this seriously.
- Rahul Bhangadia:** So you think they can get up to Keo Karpin and Hair and Care in the like next three four, five year kind?



- Sumit Malhotra:** I do not think so, time will tell but fortunately and unfortunately we do not pick up double digit market shares in three or four years.
- Rahul Bhangadia:** Okay sir my second question was the celebrity who we take to endorse our brand is that key part of the marketing mix now?
- Sumit Malhotra:** I don't get you. You saying is it a significant part of our total ASP?
- Rahul Bhangadia:** No I am not saying in terms of cost but I mean did we are the marketing decision think of getting a much bigger celebrity and staff also?
- Sumit Malhotra:** Yes we did.
- Rahul Bhangadia:** But I mean it very difficult to get because they already booked by other brands is it?
- Sumit Malhotra:** Yes, right. Rahul yes, what unfortunately is happened is all these multinationals book celebrities for total Hair Care even they do not have Hair oils because there is no MNC they still block the other Hair oil users from using the key celebrity.
- Rahul Bhangadia:** So if we get a key celebrity at some point of time that we would certainly want to try that out is it?
- Sumit Malhotra:** Bajaj Almondz I would **Wager** to say yes.
- Rahul Bhangadia:** Okay and one more thing I wanted to know that new building once like two or three years whenever it is ready we will be able to occupy the full things?
- Sumit Malhotra:** It doesn't seem like it because we are trying to get permission if permissions, but if we get for extra FSI I doubt whether we would occupy the whole thing.
- Rahul Bhangadia:** But the current 33000 square feet?
- Sumit Malhotra:** We should be able to.
- Rahul Bhangadia:** Okay and if we get extra FSI that would be another 50% of that 33000?
- Narayan Raman:** I cannot comment on this until permission comes. It is a whole process especially with the development control or regulations changing in the city of Mumbai it is in a very fluid state and very premature we have to submit the plans and there will be you know trade off between balcony premiums and a whole host of thing so it is only once we put in the plans elevation and go and start negotiating within at some point you might get extra FSI but the premium can be so high you might chose not to use it.

- Rahul Bhangadia:** And sir what is the rent, which we are currently paying, or we would be paying for all the rental premises of the company, which would shift into this office?
- Sumit Malhotra:** Little over One Crore currently. The way we are increasing our manpower and senior people we would be adding significant rental values also.
- Rahul Bhangadia:** I am asking this because L'Oreal picked up some 70,000 square feet and they will be paying Rs.18 Crores per year so far half the area if we would any way have paid Rs.7 to 9 Crores right?
- Sumit Malhotra:** I think this is pointless discussion at this point of time but the point you are trying to make is, is it better to move on rent?
- Rahul Bhangadia:** No actually I am saying the all the big issue, which was made of the real estate buy, was not the issue we would any way have paid Rs.8-9 Crores rent but I think that was not presented accordingly?
- Sumit Malhotra:** Thank you for seeing the point, Rahul and you airing your point on the concall.
- Rahul Bhangadia:** I am just going based on the L'Oreal rental deal, which has been announced?
- Sumit Malhotra:** Please remember that at this point of time if I want to sell that property I have already got an offer over Rs.140 Crores. I brought it at Rs.75 Crores or even if I get out it and I said forget that I need for something it is the meaningless discussion because we got the property at a very good it rate because it was a distress sell by the owner and we are not in the business of real estate buying and selling at least not in FMCG in this company. We should not be even be looking at what the acquisition has already given up as the business proposition. It is a corporate headquarters that we intend to build and shift so that logistically and long term it augurs well for the company.
- Rahul Bhangadia:** Right okay great thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi sir congratulations on good set of numbers. I just missed on few numbers what would be current share of in Almond Drop 550ml, 30ml, and 3ml sachet?
- Sumit Malhotra:** 500 ml is 6.5%, 3ml is close to 12% and there is no 30 ml.
- Tejas Shah:** Sorry 100 ml.
- Sumit Malhotra:** 100 ml would be around 29%.
- Tejas Shah:** And respective growth rate if you can share?

- Sumit Malhotra:** The fastest growing is sachet currently at around 50%+, 500ml there is no growth its infinity because last year it wasn't there and 100 ml would be around 12% all volume growth.
- Tejas Shah:** Sir another question related to previously asked question. Are we still continuing with our strategy to have two role model or two-brand ambassador for Almond drop one in North India and one in South India?
- Sumit Malhotra:** Yes currently not investing behind South India because we have realized that our infrastructure is not strong enough to be able to support the kind of pull that in terms of advertising generates, so for the last this year we have not done any specific advertising for south.
- Tejas Shah:** Okay and what would be game plan for Cooling Hair Oil it will be a single strategy?
- Sumit Malhotra:** It is a single because South currently is not a very big market for us and the advantage of distribution or the advantage that we would have vis-à-vis our competitors is actually negated in the South so South we don't have a separate strategy we are trying to push the brand and keep significant market shares first in the states that we are strong both in terms of distribution and also market share of Almond Drop.
- Tejas Shah:** Thanks a lot sir and all the best.
- Moderator:** Thank you. We have the last question from the line of Ms. Amrita Basu.
- Manoj:** Just one question would you want to give us the CapEx guidance for FY'13 and FY'14 excluding the M&A you know basically for the company for the building and for the you know capacity expansion which you may have in mind?
- Sumit Malhotra:** Building we don't have the plants yet ready Manoj but if you would ask me to where it would be around Rs.15-odd Crores not more than that, but the other thing what happens to GST because it GST does come in it would make a lot of sense bringing of a plant with closure to the point our where we get our LLP and glass, so currently what is happening is our transport cost are very high because we move every things from the West and Central area to the North if GST does come in and it has a significant impact of important cost you could see some expenditure on account of a new manufacturing facility. GST as you know it is still **under consideration**, mostly not in financial year 2013 may be in 2014.
- Manoj:** Thank you so much and all the best.
- Amrita Basu:** Thanks a lot to the entire Bajaj Corp team for joining.
- Moderator:** Thank you. On behalf of Kotak Institutional Equity that concludes this conference call. Thank you for joining us. You may now disconnect your lines.