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**“Bajaj Corp Limited Q1 FY13 Results Conference
Call”**

August 2, 2012

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MARKETING BAJAJ CORP LTD.
MR. NARAYAN RAMAN -- PRESIDENT, CORPORATE &
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**MODERATOR: MS. AMRITA BASU – ANALYST, KOTAK INSTITUTIONAL
EQUITIES**

Moderator

Ladies and gentlemen, good day and welcome to the Q1 FY13 Results Conference Call of Bajaj Corp. hosted by Kotak Institutional Equities. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Amrita Basu of Kotak.

Amrita Basu

On behalf of Kotak Institutional Equities I welcome all of you to this Bajaj Corp. 1Q FY13 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. V.C. Nagori -- Chief Financial Officer, and Mr. Dilip Maloo -- Vice President, Finance. I will now hand over the call to Mr. Sumit Malhotra to discuss the recently announced earnings. Thank you. And over to you sir.

Sumit Malhotra

The Company has closed the first quarter with the sales of Rs. 138.05 crores and a PAT of Rs. 37.62 crores. This translates on a year-on-year growth in turnover of 30% and a growth in PAT of 32.4%. There has been an expansion in the operating profit during the quarter. The EBITDA has moved from 25% in the first quarter of last financial year to 28.19% in the current quarter.

The new launch -- Bajaj Kailash Parbat Cooling Oil has shown a good performance and has a distribution of 3.22 lakh outlet and a market share of 2.1%. The consumer response to our product is very encouraging. And the first full season for the cooling oil brand has reaffirmed our belief that a good product under the Bajaj umbrella brand name will be recognized and accepted by the consumers.

Our lead brand, Bajaj Almond Drops Hair Oil continues to gain franchise. This is the six consecutive quarter, wherein the brand has helped the company turnover grow by over 30% and volume grow by more than 20%. The brand continues to propel the Light Hair Oil market to greater heights.

During this quarter, the Light Hair Oil category is once again the second largest segment in the Hair Oil state after coconut oil. In addition to this, Light Hair Oil is again the fastest growing segment in the Hair Oil industry. We believe our brand Bajaj Almond Drops will continue to play a lead role in the growth of this segment. The category volumes have grown by 15.6% on a year-on-year basis, in value terms the light hair category has grown by 26% during the quarter.

Before we move on I must address the concern aired by a few industry observers that is use of cash reserves available with Bajaj Corp Ltd. Let me categorically assure all the investors that the cash will be used to grow Bajaj Corp. and will not be used to fund any sister concern within the Bajaj Group. A part of the cash generated through operations will be used to pay dividends.

In the financial year '10-11 we disbursed one-third of our PAT as dividends, last year this ratio was raised, and 50% of our PAT was disbursed to our investors. We shall try and maintain a handsome dividend policy in future also.

In the recent past there has been another concern that is regarding the property that was purchased last year. I would like to put on record that Bajaj Corp is an FMCG company and not a real estate developer. This land was purchased and is being used for constructing our corporate head office.

For the first quarter in financial year '13 the EBIDTA was Rs. 38.92 crores, which is 28.27% of the turnover and growth of 46.3% over first quarter of last financial year. Thus the EBIDTA to sales ratio has risen from 25% last year first quarter to 28.19% in Q1 this year. This 323 basis points expansion in margin is mainly on account of reduction in material cost as a percentage of the total sales. There have also been 190 basis points reduction in selling and administrative overhead. The ASP to sales ratio has gone up by 75 basis points, mainly on account of sales promotion expenditure. As you would have seen from the limited review, the advertising spends are down 110 basis points.

Nielsen figures for Q1 Financial Year '13 shows that the total branded Hair Oil market has shown a growth in volumes. This growth is 4.7% vis-à-vis fourth-quarter of last financial year. The Light Hair Oil industry of which Bajaj Almond Drops is a part of, continues to be the fastest growing segment both in volume and value terms.

The MRP of our lead brand, Bajaj Almond Drops Hair Oil was increased by 8.6% in the end of March 2012. The consumers have accepted this price increase and the brand has grown by 24.4% by volume during this quarter. Our thrust on extending distribution continues and the reach of our lead brand has gone up to 23.85 lakh outlets, this is an increase of 88,000 outlets during one quarter.

The rural sales of this brand has been growing impressively over the last eight quarters as against 30% of our sales coming from the rural areas in 2008-09, now approximately 36% of the volume of the brand comes from the rural areas.

For people who are interested in growth, the growth of the brand in the rural area is 11.5% faster in volume terms than the growth in the urban areas. This differential in growth rates across urban and rural is a clear indicator that our efforts to expand rural distribution are yielding results.

On our merger and acquisition initiatives, our efforts have moved ahead. Though we have not been able to close any deal thus far, we are moving in the right direction. We are clear that we are not desperate to consummate an acquisition. The valuations in the Indian FMCG space have risen dramatically over the last two years and we are sure that acquiring a company or brands at high multiples may not be beneficial to the company at this juncture. Even though we continue to believe that the inorganic route to growth has attracted we will tread

cautiously along this path. We continue to assess opportunities for acquisition of personal household care brands in India and the emerging markets. We are now open for questions.

- Moderator** Thank you sir. Participants, we will begin the question-and-answer session. We have a first question from the line of Mr. Amar Maurya from India Nivesh Securities. Please go ahead.
- Amar Maurya** I just want to clarify more about the market share gain. Somehow I am getting that we had seen some sort of decline in the market share in this particular quarter if I compare sequentially. Just wanted to have your view on that?
- Sumit Malhotra** I do not know where you are getting this from...
- Amar Maurya** If I see the presentation and the Nielsen data which is shared in the presentation what I sense is that if industry has grown in terms of the volume terms 4.7% and the value terms 5.6%, right, whereas if I compare our volume and value growth that I am getting here is 1.1% and 2.6%.
- Sumit Malhotra** I do not know where you are getting such data from. I suggest you to log onto the site and see the investor presentation, the numbers are, volume growth for the total Hair Oil is 4.7%.
- Amar Maurya** That you are talking about the industry, right?
- Sumit Malhotra** Yes, that is industry, Light Hair Oil has grown by 15.6% And Almond Drops has grown by 19.2%, which means the difference between the Light Hair Oil volume growth and Almond Drops volume growth is around 3.6% is the additional market share.
- Amar Maurya** Meaning what was our volume and value growth in this particular...?
- Sumit Malhotra** Almond Drops is our brand, which is 19.2% is volume growth and 26% value growth if you look at Nielsen. If you look at our data we have grown by 24.4% in terms of volume and around 31% by value.
- Amar Maurya** But I believe that data is in the cases, right?
- Sumit Malhotra** No, both are in kilolitres.
- Amar Maurya** What was the inventory days stripping the uptown property because I believe in the last year there were some inventories which were including of the Uptown Properties?
- Sumit Malhotra** It is still there because the company is a subsidiary of that.
- Amar Maurya** Stripping that what was the inventory days in this particular?
- Sumit Malhotra** I do not think our inventory has ever crossed more than 13 days. Normally, our inventory is 13 days of finished goods.

- Moderator** Our next question from the line of Mr. Udaya Raj. Please go ahead.
- Udaya Raj** Employee cost on a sequential basis has gone up by 17%. Reason for the significant increase in a short period of time?
- Sumit Malhotra** If you are comparing last quarter to this quarter?
- Udaya Raj** March quarter to June quarter?
- Sumit Malhotra** This is mainly about the increments because we gave increments in the first quarter of the thing, that is one thing, and a marginal amount of 2 or 3% is the increase in cost of new employees.
- Udaya Raj** Material cost as a percentage of sales has gone up by 50% in Q1 '12 to 61% in Q1 '13, an increase of about 20% over the preceding year's percentage. What is the reason for the same?
- Sumit Malhotra** Material cost has gone up as a percentage, you are looking at the wrong data, because margins have gone up by 3.23%, so material cost could not have gone up by the percentage you are looking at.
- Udaya Raj** I am seeing for the percentage, 50.66% in Q1 '12, now it is 61.77% in Q1 '13. 20% increase?
- Sumit Malhotra** Which slide are you seeing? Can I have a look at that?
- Udaya Raj** Page number 19?
- Sumit Malhotra** The material cost is 44.74 as a percentage of sale in the first quarter of this year versus 47.53. You are looking at absolute numbers not percentages, 61.77 crores is the absolute material cost. Please look at the percentage which is below that.
- Udaya Raj** Then third question, sequentially net sales has come down by 6% as compared to Q4 '12. Is it the normal in case that the first quarter is less than the earlier quarter?
- Sumit Malhotra** Normally, the first quarter is one of the lowest quarters. If you have been analyzing our business around 21% of our sales during the year comes in the first quarter, and 30% comes in the last quarter. So, normally it drops, but this year, the drop has been very marginal if you look at rupee value it is just around 7.5 crores. So this first quarter has been exceptionally good for us.
- Moderator** Thank you sir. Our next question is from the line of Mr. Chintan Desai from Ventura Securities. Please go ahead.
- Chintan Desai** Firstly, for our newly launched brand KPCO, it has witnessed some muted volume growth though having increased its market share, this is a point of concern for us and given that we are

also increasing our distribution network for the product what would be our strategy to boost volume from this segment?

Sumit Malhotra

The figures you look at in the annual report or the P&L statement is actually what we call the 'primary sales,' that is what has been built to distributors. Now, that is a little bit of a **15:22** because a lot of that goes into stock. When you launch a product all of that is not offtake. So what you are seeing a muted growth is basically the stock that have gone into the distributor last time because it was a new launch versus off-take which has increased nearly two times, right. Nielsen gives you off take what you see on our P&L statement is the primary sales of how much stock goes into a distributor point. At the time of launch that is last year the distributor stock moved from zero to a month, month and a half. Am I making myself clear?

Chintan Desai

I did not completely get the point.

Sumit Malhotra

When you talk about market share you talk about off-take, this is what the consumer is taking. The figures you are seeing is what the distributor is taking. In the new product or a new launch, the distributor has zero stock, so you build up stock, this stock buildup is around 30 to 45 days which happened last year, this year there is no buildup of stock, so whatever has been sold has actually equal to the off-take.

Chintan Desai

In case of ad spends, if you see a QOQ it has decreased from 24.6 crore to 17.4 crores. So going ahead do we see the reduced ad spends or this was the quarter?

Sumit Malhotra

Consciously if you look at total A&P, that is advertising and sales promotion it has gone by 0.75%. What has happened is the mix between advertising and sales promotion has changed. Whenever you are trying to push volumes in the short run you spend more on sales promotion. This is what we try to do in the first quarter, especially with our new brand.

Moderator

Our next question is from the line of Mr. Apurva Doshi from HSBC. Please go ahead.

Apurva Doshi

Wanted to just an update on the property that you bought at Worli, I believe you paid 75 crores for that?

Sumit Malhotra

Yes.

Apurva Doshi

What is the schedule of commencement, how much more money needs to be pumped in over there for construction?

Sumit Malhotra

Like I have been telling everyone that this property has a building already there. We will have to pull down the building. As per rules of BMC you can only pull down the building after the rain subsides, so we will only pull it down first the monsoon this year and then the building will start coming up right from foundation upwards. So, we expect that it will take between 2 to 3 years to build and the total estimated cost, this is not the final cost, because we still do not

have the final quotations and the designs ready, will be around 15-odd crores over three years now.

- Apurva Doshi** And the entire building will be used by you or you will be leasing out to entity or someone?
- Sumit Malhotra** No leasing out.
- Apurva Doshi** Once in three years when you replace this with the other offices what is the leasing cost that you will save?
- Sumit Malhotra** Currently, our total rent would be in the tune of around a crore per annum.
- Apurva Doshi** Not for saving?
- Sumit Malhotra** That is not the reason why we are building the corporate office. The reason for building the corporate office, let me say this once again with you all is that currently all our departments are in different cities. Even though I sit in Mumbai, my finance accounts sits in Udaipur, and my HR and Sales Head sits in Noida, and my Secretary department sits in Nariman Point. Now as we keep growing, we have to centralize the important departments that I have just listed out. So this corporate office is basically to get everyone into a central location and be ready for the growth that we are going to envisage in the future.
- Apurva Doshi** May be at the cost of reputation but leasing option would be cheaper?
- Sumit Malhotra** That is your call versus our call. We believe the corporate offices is required for the future, not only because we have to get everyone together, but we have to project a certain image that is required there.
- Apurva Doshi** Apart from that for the cash of 400 crore and of course you will be building on cash every year, assuming even 50% dividend payout, certain strategies for acquisition what you said was about Personal Care or Home Care, any particular segments that you have identified or which look good to you?
- Narayan Raman:** I do not think we would like to comment on our acquisition strategies, because there are several NDAs that we have signed with prospective....
- Apurva Doshi** I am not asking for names, may be broad segment...?
- Narayan Raman:** Personal Care is the broader segment that we can tell you right now.
- Apurva Doshi** You had said that that focus areas will be in India and emerging markets?
- Sumit Malhotra** Emerging markets by that mean areas where the FMCG growth are still attractive double-digits and not stagnated like Europe and USA, right, and where there is a sizeable population that has yet to be converted into the branded products.

- Apurva Doshi** Is it fair to assume that you would go only into related categories and not completely unrelated categories, FMCG segment?
- Sumit Malhotra** Again, that is a very vague, what is related, what is unrelated. We would go into categories which are in Personal Care basically, even outside India.
- Moderator:** Thank you. Our next question is from the line of Mr. Arun Bharathi from Pari Washington. Please go ahead.
- Arun** Given the difference in price behavior between Light Liquid Paraffin and vegetable oil, how easy it is to actually vary the mix of LLP and vegetable oil products actually?
- Sumit Malhotra** It is very tempting, but this is the last thing that you do in FMCG. The moment I stop playing around with my products my consumer will sense the change in the product quality. Despite any changes in product cost we will not play with the product quality. The moment I increase vegetable oil and reduce Light Liquid Paraffin, right, what would happen is it will become thicker and vice versa if I increase light liquid paraffin because it is becoming cheaper and reduce vegetable oil it will become lighter. In FMCG I think everyone including big multinationals I have learnt that you do not play around with the product quality. Let me assure you we will not do that even if it means. We would rather increase the MRP to contain reduction in gross margin than play around with the ingredients.
- Arun** I just wanted to check, you have obviously taken a price increase, the competitor has not, how has that impacted your business? Clearly, your numbers this quarter have been good, but are you seeing anything in the field that you could share.
- Sumit Malhotra** I do not know which competitor you are looking at, because my second biggest competitor is Keo Karpin who has raised his price. My third biggest competitor is Hair & Care who has also raised the price.
- Arun:** I am referring to the new entrant in Almond Oil.
- Sumit Malhotra** Almond Oil has also raised. Dabur Almond has also raised the price, but unfortunately they have much more stock in the market, so you have not seen the new price stock. In certain markets you will find that the smaller price stock is with the new price and the larger size is with the old price. They will have to, because they too are looking at their margins on this product. In terms of what they are doing, they are obviously trying as they will. To give you an idea they have notched up 2.5% market share in June of this year, right, they are available at just 2.5 lakh outlets versus let us say a new product from our end which is Kailash Parbat which has been distributed after Nielsen in 3.22 lakh outlets.
- Arun** We have been offering this 25% extra, etc. which is they are not competing on the basis of price on the one hand, but on the other hand they are providing more volume at the same price. Any thoughts on that how long can that be sustainable?

- Sumit Malhotra** See the insight is that they have already the new Amol, which is the original 300 and 200. How long they will play this extra volume gain? I am not too sure. I think I am the wrong guy to answer that.
- Arun** Just if I could switch gears on the Kailash Parbat, you had mentioned that you have increased your distribution which is obviously good, but if I look at the cases that you have sold this quarter versus the same quarter last year it is roughly flattish. Now I understand that you run your business conservatively and you rather like to see a pull back drive product sales, is that what's going on?
- Sumit Malhotra** I tried explaining it to the first person who asked this question. If you look at last year first quarter that was the launch period, so we were actually building up stock. So more than half of the sales that you see is actually buildup of stock. You will appreciate that you build up stock only once in the product lifecycle, which was last year. So if you look at offtake, the offtake this quarter is actually two times the off-take of last year first quarter.
- Arun** On the ad spend, it looks like you rained in ad spend, even as you are trying to build a product. Could you comment a little bit about that?
- Sumit Malhotra** Not really. There are two things you have to look at. One is advertising split between Almond and Kailash Parbat and sales promotions split between Almond and Kailash Parbat. Last year what we did was we spent only on advertising in Kailash Parbat. This year we have spent both on advertising and trying to push consumer off-take which is also dependent on the sales promotion. Now what is sales promotion? Sales promotion is freebies, extra discounts, and below-the-line activities, which were not there last year, but they were this year. So out of a total of 11.5% ASP spends this quarter, around 2%-odd is on Kailash Parbat.
- Arun** I just want to applaud you for a couple of things that you said on the call. The first is that no pressure will drive you to make a heart attack position. So we certainly very supportive of that philosophy and I want to applaud that view. And the last piece was you had mentioned that your cash reserves will not be used to subsidize a sister organization. So I would like to applaud that view.
- Sumit Malhotra** If you read the investor presentation, the last but one page, I had actually put it in writing. If that is sticking the neck out so be it.
- Moderator** Thank you, sir. Our next question from the line of Mr. Vishal Gutka from India Infoline, please go ahead.
- Vishal Gutka** The Cooling Oil product. Is this a seasonal product or it's all around the product?
- Sumit Malhotra** It is a seasonal product as much as 70% is sold in the first quarter and the last quarter of the year.

- Vishal Gutka** Because a lot of consumer has started using this as a stress buster, cooling oil. What is your take on it?
- Sumit Malhotra** Normally it is used as a stress buster in the urban areas, and therefore if you look at our strategy, our strategy is to move it as per population strata and socioeconomic strata. Our pack by making it more likeable to a common consumer we are trying to capture that kind of a user. Where there's a very large user base, who are let's say farm labor, the rickshaw puller, the vegetable vendors who are moving around in the open sun and labor basically the people who do physical labor, those people switch off during the winter. It is still a very niche market, the stress buster kind of a thing.
- Vishal Gutka** Any replan to enter into categories like hair cream, hair gel and etc.?
- Sumit Malhotra** If you look at yourself 10-15 years down the line may be, but currently, these segments are very, very small. If you look at the total Hair Oil segment, it would be 8000 crores plus, right, and gels and creams would be 100-odd crores, so we have much because areas to enter than move into gels and creams.
- Moderator** Thank you. Our next question is from the line of Mr. Varun Lohchab from Religare Capital Markets, please go ahead.
- Varun Lohchab** My first question was on the overall Hair Oil market. Are you witnessing any regional trends, this applies to both Almond and Cooling, in terms of differential growth rates or between urban, rural?
- Sumit Malhotra** Urban, rural there is a difference. If you look at Light Hair Oil, rural growth is around 22.5% , and urban area has grown by around 11%. These are Light Hair Oil volume growth. So the rural area is actually growing faster which means that people who are currently using other Hair Oils like coconut or Amla are shifting to Light Hair Oil, and this trend has been witnessed not only in this quarter, but for the last two or three years, and that's why this category continues to be the fastest growing category. Like I said in my opening address we believe that our brand which is Bajaj Almond Drops Hair Oil has been pushing this growth. One, by continuous investment in advertising, and second by distribution rise, because we are actually taking this product down the rural areas much faster than any other brands available in the Hair Oil segment.
- Varun Lohchab** Now like given the state of monsoon and everything, do you see any risk or anything on the ground that is making you that rural growth would slow down?
- Sumit Malhotra** No. Basically, experience has shown us that the last thing to get affected are the FMCG sale. First, basically food goes, then personal care goes. We are yet not experiencing any kind of slow down. In fact if you look at Q4 of last year versus Q1 of this year, we have actually speeded up.
- Narayan Raman:** If I might interject if you look at the expense from Hair Oiling per se as a proportion of the monthly expenditure on consumables, etc. it is very miniscule, and therefore it doesn't pinch the

man all that much unlike several other staples, so discretionary expenditure and products are which are discretionary in nature could have taken ahead but not staples.

Varun Lohchab On Kailash Parbat in terms of from here on what sort of distribution expansion scope is there, and in terms of regions or states, are you Pan India now or like how should we think from here on what will drive the growth in Kailash Parbat?

Sumit Malhotra Distribution is an ocean out there, we are in 3.2 lakh outlets in Kailash Parbat and 23.85, nearly 24 lakh outlets in Almond Drops, you can imagine what kind of space is still available for growth in terms of distribution of Kailash Parbat. In terms of being national with the exception of three south states; Karnataka, Tamil Nadu and Kerala we are national, so I think that will in these areas it's going to be off-take that it is going to drive the brand and therefore advertising, sales promotion and distribution, these are the three pillars of driving market share.

Varun Lohchab Distribution expansion would still be quite sharp and..?

Sumit Malhotra It will continue for the next three years.

Moderator Thank you. Our next question is from the line of Tejas Shah from Spark Capital, please go ahead

Tejas Shah One question on LLP prices, it has come down from 86-odd levels where it hovered around for quite a while. Just wanted if you can throw some light on what's your view on it and it can pan out, I know it's a bit difficult, but just your sense on it?

Sumit Malhotra Currently the first quarter it was 80, even in the second quarter its holding at 80, and the signs are that it should remain at 80. The _____ **35:13** now is basically the rupee devaluation. If the rupee starts firming up, this 80 could drop right, but we have learned a lesson over the last few years and now we have actually buildup storage capacity, earlier on we used to store only about 10 days worth of LLP, now we have buildup close to around the month of storage capacity. This will also help us cushion any short-term ups in the prices of LLP.

Tejas Shah Is it safe to assume right now we are carrying one month inventory of LLP?

Sumit Malhotra We would be having around 26 days?

D K Maloo Its almost one month inventory.

Tejas Shah Since you are saying that right now current prices are in your favor and obviously we do not know how things will pan out going forward, but is it possible to increase your inventory days right now?

Sumit Malhotra Yes it can go up, but there is another way you can buy forward in terms of, you can contract for three months which we are doing.

- Tejas Shah** I believe last time you told us that your key supplier is not in favor of.....
- Sumit Malhotra** Now you come around, we have been able to do it.
- Moderator** Thank you. Our next question from the line of Chanchal Khandelwal from Birla Mutual Fund, please go ahead.
- C Khandelwal** Overall Hair Oil market volume which you have given in Page 3, in three months the growth is 4.7% vis-à-vis last year of 1.2%. Are we seeing a good growth in the overall market that means?
- Sumit Malhotra** I do not think it is a good growth, but what I can say is that the differentiator between last year and this year is coconut oil, right, because you will appreciate that 50% of the total Hair Oil is actually coconut. So last year coconut oil was under stress because copra prices were high and therefore MRPs were high. Copra prices have become softer and even the largest coconut oil producer Parachute have reduced the MRP. So I think this difference is not because of the value-added perfumed Hair Oil which continues to grow as nearly the same pace. The differential between last year and this year has a lot to do about coconut oil.
- C Khandelwal** Since coconut oil is at the lowest price point, if I see price point can I conclude the difference from unbranded to branded at a faster pace??
- Sumit Malhotra** Precisely. That is where coconut gains from. Where we gain from is also the unbranded, but mainly the coconut oil.
- C Khandelwal** Just one more thing on the board AGM you have taken approval for 1000 crore fund raising and promoter owns 84%. So just trying to understand that if at all, because the promoter needs to come down to 75%, so there are two ways this can happen, promoters can sell it or fund raising can happen at the company level?
- Narayan Raman:** You are right, but this is something that we do across the group because we cannot keep going back again and again to the shareholders for the 81(1A) approval. In the past we have done it and this will be a continuing feature in the future as well because this is just an enabling resolution.
- C Khandelwal** I agree with you. What I am trying to understand is if at all promoters stake has to come down to 75%, will you prefer a route as in raising money in the company itself for future acquisition, will that route be preferred, is that the stated objective by the promoter that we will not sell it in the market, whether will take it in the company?
- Narayan Raman:** We will have to wait and watch. Ideally, what we would like is to do a primary offering and get the money into the company, for which we will have to justify the use of proceed and obviously if we are able to dovetail an acquisition, that will be the most utopian thing to happen. If that does not happen for some reason or the other, then we will have to look at a secondary sale option.

- Sumit Malhotra** Just realize that June of next year is the stated deadline by the government. So even though we would like to bring in money into the company, but if we don't have a user proceeds we will be forced to go the secondary route.
- C Khandelwal** Lastly on the acquisition prospective, I mean since Hair Oil is a market which is growing and we are not present in coconut oil, there are a lot of local coconut oil players. Will that attract a level that is the one thing which we will look at or the idea is to look at the personal care will be skin care or oral care?
- Sumit Malhotra** Prima facie it is not attractive, because you make many in coconut by buying better. And we are marketers rather than buyer.
- Narayan Raman:** And also the fact that if I acquire a small coconut company, the volumes of coconut that I will buy will be so small that I will not have any purchasing power whatever and that is the key competitive advantage in a commodity like coconut.
- Sumit Malhotra** We prefer brands rather than commodity standard.
- C Khandelwal** But our oral care will also of interest, because I mean....
- Sumit Malhotra** It depends on the brand. It depends on how...
- C Khandelwal** Will it be a niche category where MNCs cannot enter... ?
- Sumit Malhotra** Not necessary, again that is utopian. You might want it, but it might not be available.
- Narayan Raman:** What we would like is a product or a brand which we can push through our distribution system which is our core competency. And what is our core competency? Mass distributed product we sell through grocery stores. So any product or item that can be sold largely through grocery store is what would interest us. So it could be oral care or it could be anything.
- Moderator** Thank you. Our next question from the line of Paras Adenwala from Capital Portfolio Advisors, please go ahead.
- Paras Adenwala** I just had a question on this fund raising clause that you had of 1000 crores. What I do realize that it's an enabling clause. Why a company with a turnover of just about 470 crores would want to have anything closer of about 1000 crores?
- Sumit Malhotra** It's an enabling thing. I cannot take a 100 crore approval and then hunt for 200, that you need around 200-250 crores at least if you dilute 10%. I don't think anywhere in the proposal do we say that we are actually going to raise 1000 crores. It's only an enabling resolution.
- Paras Adenwala** It is on your growth rates and the margins, I think you shown tremendous consistency in a way the company has grown in the last few quarters. But one, is this kind of trajectory maintainable?

And if yes, what are the drivers for this kind of growth? And second is on the margin front. I notice that the margins in this quarter have really moved up quite smartly as compared to the earlier three to four quarters. So are these margins maintainable?

Sumit Malhotra

Is the growth rate maintainable? I think a track record of six quarters quarter-on-quarter is testimony to the fact that it is maintainable provided we do the right things. Now, how do you maintain it? Like any FMCG the key growth drivers are advertising, sales promotions and distribution, because you don't play around with the product, all you do is you try and push your product by gaining consumer acceptance and pushing availability. We have been doing it successfully for the last four years and I don't think anything is going to change in the next few quarters that it will suddenly turn around. Lastly, about the gross margins, whenever we raise a price we have seen that the, if I am not to be very greedy, that is we try and not to raise the price extraordinary. What we normally try and do is we try and anticipate beside the raw and packaging materials are moving and then take a price hike which is a little more than what is required to maintain the gross margins. This time what happened was that LLP which is the major part of our cost close to 40% of our cost actually deflated. It went down from Rs. 86 to Rs. 80, and therefore we have seen inflection of margin. I think a margin of 25% is what we would like to aim for. I think 28% was the good thing to happen to us.

Paras Adenwala

Alright, in terms of ASP, you would be at about 7-8% of sales right now?

Sumit Malhotra

We are close to 12%.

Paras Adenwala

ASP of 12%, is it kind of a benchmark or do you think that can vary?

Sumit Malhotra

It will not vary to a major extent. It will be 1 or 2% here or there, up or down, not more than that. Because we realize that we still have a lot of growth potential on our main brand, which is Bajaj Almond Drops. And growth is equal to investments. So we would not like to reduce the investments on Bajaj Almond Drops. Over and above that is the investment in new brands, and currently we have one new brand, we would let that new brand stabilize and then launch another new brand. Therefore this kind of between 10-13% is I think a good number to bet on.

Paras Adenwala

Could you give us a sense of what the competitive intensities looking ahead?

Sumit Malhotra

Everybody looks at the same numbers that we put on our investor presentation. They have the same numbers through Nielsen. So what they realize is that the place where the growth are really coming from is the value added Perfumed Hair Oil segment and within the value added Perfumed Hair Oil, the fastest growing segment is Light Hair Oil, which means that every player in the Hair Oil segment is pushing for another brand in Light Hair Oil. The thing is unless there is a differentiation, you can't really make a huge brand in any FMCG product, let it be Hair Oil, let it be soap, so on and so forth, which up till now people have not really been able to crack. So, there is intensity starting from Levers to Dabur to Marico to Emami to Name, all of them are there in the segment. Its not that you don't have intensity, that you need a differentiator and conviction to basically have patience and push your brand.

- Moderator** Our next question from the line of Anshul Mishra from ING Mutual Fund, please go ahead.
- Anshul Mishra** I joined the call late so I might be repeating this, but Kailash Parbat oil, how much was the volume and value growth, if you can please tell us?
- Sumit Malhotra** Our volume growth is flat, value is obviously high, because the price has gone up. And what you missed was , the difference between last year versus this year is last year was the launch period, and therefore, what you see as a volume or value sales is basically more than half of it is because of the stock that was built up at distributor levels. So if you actually see off-take, the off-take of Kailash Parbat this quarter is more than 100% or twice the volume off-take of last year first quarter.
- Anshul Mishra** How much would be the value growth?
- Sumit Malhotra** The value growth in terms of primary would be around 8-9%.
- Anshul Mishra** How much will be....?
- Sumit Malhotra** The primary is ours.
- Anshul Mishra** What would be the overall volume growth figure for you in litres?
- Sumit Malhotra** 22.5%.
- Anshul Mishra** The stated figure in the presentation which is in cases is a similar figure, 22.5?
- Sumit Malhotra** Yes it is, but you have to be careful when you convert cases in to liters because each case has a different liter.
- Anshul Mishra** That is why I have asked. This is in volumes in liters that you are saying, 22.5?
- Sumit Malhotra** Yes. Because the figure I am talking of is on the basis of kilo liters, otherwise you cannot combine the apples and oranges.
- Anshul Mishra** Yes, you are right. On the Cooling Oil, just wanted to understand one thing, your reach last year similar quarter and if you compare that to this quarter is about you have improved it by about three times. I know that last year it was the beginning of the sales that happen and stocking happen. There still should have been some amount of growth that one would have seen in terms of volume because that is something that we see.....
- Sumit Malhotra** I just said that we grew by more than 100%, please realize that the figure that you are seeing are our sales to a distributor. When you launch a product, the distributor has zero stock. Now he has got a stock of around a month, month-and-a-half. We build a one and a half month of stock in three months. You realize how it works out.

- Anshul Mishra** Can you just tell us what would be the number of distributors where Kailash Parbat would be reaching in Q1FY12 as compared to Q1FY13?
- Sumit Malhotra** I don't have the figure off hand.
- Anshul Mishra** My understanding would be that normally we would be adding distributors in case of a new brand.
- Sumit Malhotra** Not distributors, we would be adding dealers. Distributors are your people, so on day one all distributors are supplied. I think you are confusing between a distributor and a retailer. We have 6200 distributors.
- Anshul Mishra** When we look at other companies who launch products and we compare it after one year, we don't see such kind of trend. So it kind of confusing for me when I saw that it was kind of flat for you. So that is why I asked this question. What would be a cooling category volume growth for the quarter? Presentation has for 6 months figure what would be for the quarter?
- Sumit Malhotra** 11%.
- Anshul Mishra** So for the quarter also is 11%.
- Sumit Malhotra** Yes.
- Moderator** Our next question from the line of Mr. Ankit Sancheti from Kotak, please go ahead
- Ankit Sancheti** Kailash Parbat, when was the last price hike taken by us?
- Sumit Malhotra** The last one was Feb of this year, just before the season.
- Ankit Sancheti** How much? 8%?
- Sumit Malhotra** No, we moved from 50-55. Equated price hike was 9.5%.
- Ankit Sancheti** Kailash Parbat, total sales in FY12 was how much?
- Sumit Malhotra** Total sales in FY12 was 75000 cases.
- Ankit Sancheti** And in rupees?
- Sumit Malhotra** Around 23 crores.
- Ankit Sancheti** In terms of Almond Drops, are we moving, planning to move any other grammage into pet bottle this year?
- Sumit Malhotra** No.

- Ankit Sancheti** Currently only 500 ml remain in pet bottle?
- Narayan Raman:** And the sachet.
- Ankit Sancheti** And can you tell us the share of the sachet and this pet bottle in overall sales, this quarter and last quarter?
- Sumit Malhotra** That 500 ml is 6.8% in the first quarter, and sachets have gone up to 14%.
- Ankit Sancheti** That would have also contributed to some benefit in terms of product mix, in terms of margins also?
- Sumit Malhotra** What? 500 ml or sachet?
- Ankit Sancheti** Both put together.
- Sumit Malhotra** 500 ml is more than the equated gross margin. Sachet is slightly lower than that.
- Moderator** Thank you. Our next question from the line of Grishma Shah from Envision Capital, please go ahead.
- Grishma Shah** What expansion in gross margins this quarter, given that we have got these margin expansion, how much of it would go in incremental ad spend, how much do we...?
- Sumit Malhotra** See, the incremental ad spend is 0.75%.
- Grishma Shah** For the year how much do we intend to?
- Sumit Malhotra** That I don't think we can anticipate at this moment. Like I have been saying that the total spends are dependent on the competition. What happens in the cumulative year is something which I can't even predict at this point of time.
- Narayan Raman:** I think it will be fair to say that we will do whatever ad spend and promotions spend that is necessary first to protect Bajaj Almond Drops growth because that is our flagship brand and whatever increase or decrease that we will have to do will only be of secondary importance will be given to the other brands and products. First, whatever is required to be done for Almond Drops we will do that, even if it matter that there could be a slight increase in the total ad spend, mix or whatever. Am I right in saying that?
- Sumit Malhotra** You are. In fact in the middle I said that our aim was to contain our EBITDA at around 25%
- Grishma Shah** And in split just go in...?
- Sumit Malhotra** If there is a need to advertise more or promote more, we will do it. If there is no need we will add it to our EBITDA like we did this quarter.

- Grishma Shah** It has been a year for Kailash Parbat. Do we have any more products which are going to be launched?
- Sumit Malhotra** Not yet, because again I have been saying that we would like this product to stabilize, stabilize I mean at least becomes cash neutral. We made loss last year the way we are I think you look at a loss this year also. So if I keep adding products and incurring losses on new products, my main brand which is Bajaj Almond Drops will start suffering attention. This is something like Narayan just said we would not like to do and so we will wait for this to stabilize. It might take six months, it might take two years.
- Moderator** Thank you. Our next question from the line of Mr. Srikant P V S from Motilal Oswal, please go ahead.
- Srikant P V S** I just wanted to know you have given the region wise breakup of Light Hair Oil market. Can you just take me through the overall, I mean region wise breakup of overall Hair Oil market?
- Sumit Malhotra** Total Hair Oil 23% come from the south, the biggest market for total Hair Oil is actually west, it gives around 25%, north gives 21% and the remaining is east.
- Srikant P V S** Do you basically plan to like grow in the southern markets and what are your initiatives?
- Sumit Malhotra** Obviously, we would plan to grow. Currently, we are investing very heavily in the south. Like a new product or new market also requires investment if we are investing. But the point on inflection that is the point at which more and more consumers start using a product has yet not occurred.
- Srikant P V S** So because primarily there are coconut. So do you see any noticeable shift..?
- Sumit Malhotra** No, not yet.
- Moderator** Our next question from the line of Ravi Mehta from Money Logix, please go ahead.
- Ravi Mehta** My question is on the vegetable oil. It has been around Rs. 80 range. How is that shaping up?
- Sumit Malhotra** It's gone up.
- Ravi Mehta** With the kind of drought like situation do you see... ?
- Sumit Malhotra** It's going up, we don't see any drop.
- Ravi Mehta** What kind of price range are you getting it for the current quarter?
- Sumit Malhotra** I think its 86 now?
- D K Maloo** 85 will be the average for the quarter.

- Sumit Malhotra** 85-86 would be the average for this quarter.
- Ravi Mehta** Last year that was a case where coconut oil was actually shooting up and vegetables low. This time it's going to be the other way around?
- Sumit Malhotra** Yes, but those are not interdependent.
- Narayan Raman:** I must also interject and say, one thing, it also depends on what the government action will be because India is a very large importer of vegetable oil. So, if these prices do rise up(**Inaudible**) **59:03** government action as it has happened in the past as well, because vegetable oils have very serious weightage in the wholesale price index and therefore inflation. The government also plays around with the import and customs duties in such a manner so that they try to raise the prices within reasonable level. Unfortunately that has not happened in the last year but I think the past historical trend has been that.
- Ravi Mehta** In our products, is there a possibility that we can switch to coconut oil or we have to stick to vegetable oil?
- Sumit Malhotra,** We have to stick to vegetable oil. Coconut oil has two problems; one is its very sticky, the second is it gets oxidized, becomes rancid very fast.
- Narayan Raman:** Also the fact that coconut oil to mask its smell, it becomes far more difficult, it's very pungent.
- Ravi Mehta** Here we won't be having much inventory in this vegetable oil?
- Sumit Malhotra** No, we don't keep too much. Our biggest inventory is like I was saying Light Liquid Paraffin.
- Moderator** Thank you sir. Participants that was the last question. I would now like to hand the conference over to the management of Bajaj Corp for closing comments.
- Sumit Malhotra** Thanks a lot to all the participants of the concall. On behalf of the management, I Sumit Malhotra would like to thank you for your support over the last two years that we have been in the public regime, and I hope that will continue in the future. Like always, I am open for any questions even post this call. So thanks a lot and hope you are back again at the end of the next quarter.
- Moderator** Thank you, sir. On behalf of Kotak Institutional Equities, that concludes this conference. Thank you for joining us.