



“Bajaj Corp Limited Conference Call”

August 9, 2011

Moderator: Ladies and gentlemen good day and welcome to the Bajaj Corp Q1 FY'12 Earnings Conference Call hosted by Kotak Institutional Equities. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Amruta Basu of Kotak Institutional Equities. Thank you and over to you, Madam.

Amruta Basu: On behalf of Kotak Institutional Equities I welcome all of you to this Bajaj Corp Q1 FY'12 earnings conference call. I would like to welcome the Bajaj Corp team, Mr. Sumit Malhotra, Managing Director, Mr. Dilip Maloo, CFO and Vice President Finance, Mr. Narayan Raman, President, Corporate and Investor Relations. 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: Welcome to the conference call for the Q1 FY'12 results. Thanks a lot for dialing in, as Amruta said I am Sumit Malhotra, the Managing Director of Bajaj Corp. I have with me Mr. Dilip Maloo, who is the CFO and Vice President Finance and Mr. Narayan Raman, who is the President of Corporate and Investor Relations of the Bajaj Group of Companies.

The company has closed the Q1 of FY'12 with sales of Rs.106.58 Crores and a profit after tax of Rs.28.42 Crores. This translates into a growth in turnover of 30.44% and a PAT growth of 25.16%. Our main branch, which is Bajaj Almond Drops, continues its growth story. Though the light hair oil markets have grown by 16.5% by volume and Almond Drops has shown a 20% plus volume growth. This has resulted in the value market share to 53.5% (this is MAT MS) value market share June 2011 and a volume market share of 49.5% this is a rise of approximately half a percentage point in both value and volume market share on a MAT basis in Q1.

The brand is now available in over 20 Lakh outlets, which is a growth of around 80,000 outlets in the first three months of this financial year. If you translate this for the first six months, we have added more than 1.75 Lakh outlets to the franchise of Almond Drops. Our new brand, which is, as you know Kailash Parbat Thanda Tel has now been in the market for one and a half months and has already notched up the market share of 1% by volume. The brand is already available in 2.5 lakh outlets vis-à-vis the leader this would be around 27 Lakh outlets. Still very early days but the responses from the trade have been very encouraging especially considering the fact that we have not changed our policies towards the trade. We are still taking 100% advance payments as we do for Almond Drops.

Our post launch consumer evaluation shows that the USP of Chandan has been liked by the consumers as has the differentiated perfume and the product color. With the summer season ending earlier this year, because of the earlier monsoons the summer has actually dampened much faster the next round of action in this brand will happen in March next year when the summer starts again. With the advent of monsoons and then winter the next two quarters see a much lower sales of cooling oils; however, we continue to build distribution by rolling out the

brand to more towns and retail outlets so that we are well stocked before the arrival of next summer season.

In states where Almond Drop is very strong, Kailash Parbat Cooling Oil has shown a much faster traction. To give you an example Rajasthan where we are strong in Almond Drops within the first month of launch it has notched up a 7.6% market share. I think this is a testimony to the strength of the Bajaj brand name and the distribution that we have been able to build up over the years.

The second initiative if you all remember in the Q1 was the launch of 500 ml SKU of Almond Drops, as you would remember (as said in my earlier concall) that this was the first move away from a glass bottle in Almond Drop to a PET bottle. The response to this SKU has been very **encouraging**. In the first quarter of this year alone this SKU has contributed over 4.7% to the overall volume of the brand. What is even more encouraging is the fact that this is not at the expense of the other large sized SKU namely 300 and 200, incidentally 300 ml is the fastest growing SKU in the Q1 with a volume growth of 37%. The 3 ml sachets, which is spearheading our rural drive continues to grow at a very healthy rate of 35% by volume. We continue to add to our rural reach of our main brand. Our main brand that is Almond Drop is now available in more than a million outlets only in rural India as against a total of around 2.0 million outlets all over India.

To give you a little heads up on the Hair Oil Industry, I am quoting Nielsen figures, the volume growth of hair oils have actually slowed down to 4.8% in the Q1 of this financial year. Though the value growth has been a healthy 21% the difference between the volume and value growth obviously is because of the increase in MRP of almost all brands.

The Amla market has shown a 10.3% growth in volumes whereas because of the early end of our season, cooling oils have disappointed a little and shown a growth of just 7.2% in volume. As a result light hair oil continues to be the number one fastest growing segment within the hair oil market with a volume growth of 16.5% and value growth of 23.8%.

The company continues its endeavor of high growth through inorganic route, towards this end we have recently appointed on the Board of Directors, Mr. Jimmy Anklesaria who as Director Business Development will be in charge of shortlisting targets for acquisitions, engaging in the negotiations, finalizing the terms of acquisition and most importantly integrating acquired company into the Bajaj Corp Structure.

EBITDA for the Q1 stands at 25% this has however declined if you compare it on year-on-year basis for the Q1. This is on account of steep increase in raw material and packaging material and also the higher advertising to sales ratio for the new product during this quarter. As you might be aware our main raw material is light liquid paraffin or LLP as it is called, the price of it is directly linked to the price of crude, as a result of the rise in crude prices during the period April to June 2011, the prices of LLP has averaged Rs.86.26 per kg, this is against an average of Rs.56.92 per kg during the Q1 of last year that is financial year 2011.

This is a whopping 51% increase in prices of LLP on a year-on-year basis. In addition to this the prices of glass bottles have gone up by 17% and refined oil by 24%.

We have taken a price increase of 8.5% on MRP basis on our main brand, which is Almond Drops in the April of 2011. The price increase has covered the rise in LLP prices up to Rs.90 per kg; however, we were able to get the benefit of this price increase only for two months during the quarter. In addition to this advertising and sales for promotion spends as a percentage to sales went up from 10% in Q1 of last year to 11.8% in the Q1 of this year this is mainly on account of the launch Kailash Parbat Thanda Tel as a result of all these factors, the EBITDA has fallen from a 35% level this was very high in Q1 of last year to a 25% in this quarter. With the full effect of price increase coming into effect and also softening of the crude oil prices we expect EBITDA to show much better margins in the coming quarter. I can now open it up for questions.

- Moderator:** Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Shweta Jain from Emkay Global. Please go ahead.
- Pritesh:** Just confirming on the details, which you gave initially in the opening remarks you said that the overall volume growth for the hair oils was about 4%?
- Sumit Malhotra:** 4.8%, total hair oil or branded hair oil, which is as per Nielsen figure.
- Pritesh:** And we gave the figures of Amla 10% at volume growth, light oil at 16.5%, cooling oil was what I missed?
- Sumit Malhotra:** 7%.
- Pritesh:** If all the three have grown higher than this then which of the categories have actually grown lower than the 5% overall growth?
- Sumit Malhotra:** More than half of hair oil is coconut, so the balance basically reflects in coconut hair oil market slowing down, as per our estimate it should be flat in Q1, I am taking only the Q1 figures into consideration.
- Pritesh:** Secondly you said that the price increase, which you took, was about 4%?
- Sumit Malhotra:** 8.5%.
- Pritesh:** And that was in the month of April?
- Sumit Malhotra:** Yes.
- Pritesh:** This covers the LLP price increase up to Rs.90 per kg?
- Sumit Malhotra:** Yes, in Q1 the average was Rs.86 per kg.

- Pritesh:** Versus Rs.56 in quarter last year?
- Sumit Malhotra:** Yes.
- Pritesh:** Then in the conversion of your glass bottle to PET bottle what is the status that we have reached and what would be the road map hereon?
- Sumit Malhotra:** If you look at our experiment what I have said in my previous meetings that we are not in a hurry to convert glass into PET and that is why we have been very slow in launching a new size and we did not convert any of our existing sizes into PET, so I think it will take more than a year for the next step to start becoming visible to the consumer because we would like to see how the consumer responds to the 500 ml sizes not only the bottling that we have to be careful about, but also how it will hold through the summer because the heat in the retail shelves becomes so high that we fear some kind of deterioration may happen in the product.
- Pritesh:** So what we have done so far is only the new SKU launch?
- Sumit Malhotra:** 500 ml we launched in PET. I do not remember whether you were there for our last concall, the logic for 500 ml moving to PET was that there was a lot a demand for 500 ml, but when we were putting 500 ml into glass the weight became more than 1 kilo and 1 kilo glass bottle hair oil product was not seeing any traction in our consumer research, so the only way was to move it in to PET and we also thought that there was a good way of checking out PET versus glass in terms of consumer perceptions.
- Pritesh:** Lastly we have now extended to the cooling oil market so if I have to look at your overall strategy or the extension of Bajaj brand in different product categories how does it shape up from three years perspective within hair oil or may be outside hair oils also?
- Sumit Malhotra:** Like we have said in our RHP we have on the anvil more products but consciously we have taken the decision to launch one product let that product stabilize and only then can we consider other products. Which category it will be, I think it is still too early to say but let me tell you that another season has to pass, which is the next summer season and then only shall we start considering the launch of another brand within our stable.
- Pritesh:** So what we restrict as of now for this year is just this new launch that we have done we consolidate that and move forward?
- Sumit Malhotra:** Please remember it has to stabilize because like I have been saying that we will not try to remove money from Almond Drops to subsidize a new product because we believe that there is still lot of growth potential in Almond Drops and until we reach the 65% market share level we do not anticipate reducing the advertising to sales spends on Almond Drops.
- Pritesh:** Could you give an outlook on the A&P spend absolute number if possible for this year?

- Sumit Malhotra:** I have the percentages which would have also gone on the website, it will be a part of other expenses but if you look at Q1 last year the A&P spend was 9.98 or 10% on an absolute basis a little more than Rs.8 Crores this year it is 11.8%, which is Rs.12.6 Crores.
- Pritesh:** If I have look at the full year number will this be on a higher side at 11.8%?
- Sumit Malhotra:** Not really I think it will be more or less at 11.8%, but please remember this 11.8% is approximately 2% of spends on the new brands, so if you look at Almond Drops versus almond drop it has more or less stabilized, it will be between 9% to 11%.
- Pritesh:** Lastly if you could give us the value growth for Amla Oil and cooling oil for Q1?
- Sumit Malhotra:** Value growth for Amla is again including figures of Nielsen it is 13% value growth and cooling oil is 8.7%.
- Moderator:** The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Congratulations on good volume growth. My first question is on the glass prices, are you seeing any correction happening in the second half because price is linked to crude and crude has corrected significantly?
- D.K.Maloo:** Right now we are not expecting any correction in this quarter because crude has recently fallen and there is always a time lag of two to three months when the actual effect comes in the market. So right now we are not expecting any decline in the prices of Glass.
- Abneesh Roy:** That is why I have second half two, three months lag would have happen.
- D.K.Maloo:** Second half will be over by next month it is too early may be in Q3 of the year we will see some different.
- Abneesh Roy:** What about LLP, would it be better?
- Sumit Malhotra:** LLP should also be better by Q3 because right now the prices have not fallen so far but since the crude has declined so the effect will come may be 45 days to 60 days from now. So from October onwards we should see the declining trend in LLP prices.
- Abneesh Roy:** Would you also look at taking any kind of price cut over the medium term?
- Sumit Malhotra:** Like I have been saying in all my meetings taking a price cut on Almond Drops could be disastrous because there I have a premium brand and the moment I take a price cut I am signaling to the consumer that here is a product available at a much lower price than it was available earlier on. It is exactly like if you had a Mercedes and some dealer offered you 30%, 40% discount on the Mercedes you would think that there is something wrong in the car itself, so we in the past

year have near taken a price cut what we do is increase our promotional spends that is give consumer offers or freebies along with your product but no price off.

Abneesh Roy: Coming to cooling oil, you said in Rajasthan you have done quite well 7% share that is because your flagship product is very strong there, my question is in cooling oil are we seeing regional strongholds for different players for example Andhra, Marico has done well, Navaratna also has its own strong states, similarly you are strong in Rajasthan, so is that how the industry evolves from a medium to long term?

Sumit Malhotra: I think it is very early for anybody to comment on us or Parachute ayurvedic cooling oil because both of these are less than a year old, it normally takes three to four years for you to make a comment like "I am a regionally strong brand" or "I am a nationally strong brand" because if you look at even Navaratna it took over five years for it to establish a base in Andhra Pradesh and brands like Himgange, who are extremely strong in UP, Bihar, Jharkhand, Chattisgarh have taken more than 10 years to establish its position, so I think it is too early. Like I said in my opening address I think the traction, the speed at which we are moving currently is faster in areas where Almond Drop is much stronger and the reason is very simple because our distribution is much higher if you take just states of Rajasthan, Gujarat, Madhya Pradesh, Punjab our distribution is even better than Navaratna

Abneesh Roy: Could you repeat those states?

Sumit Malhotra: If you look at the investor presentation wherever our market share has more than 55% the states of Rajasthan, MP, Gujarat and Punjab.

Abneesh Roy: Sir you said normally you will like the new product to stabilize and you said next summer you would like to watch, so will it be fair to say that every two years is the broad plan for product introduction?

Sumit Malhotra: I do not think you can make that comment because the problem with this or the advantage of the cooling oil is that it is a seasonal product, so you actually know the traction in two seasons whereas if it was the non-seasonal product you could have seen it within a year.

Abneesh Roy: Sir you also spoke in the initial remarks regarding some acquisition. Could you elaborate on that anything firmed up on that because you hired a senior person there?

Sumit Malhotra: Nothing firmed up, nothing to talk about but what had happened was that over the last two years me and Narayan have been trying to bring down acquisition targets and we realized that the amount of time we were devoting to this and the kind of experience we were bringing on to the table was not sufficient enough and that is why Jimmy came on board. He joined on July 15. He is in the process of making a grid which means which market, which category, what price of acquisitions should we start looking at in his experience. To give you a little background Jimmy has been with Godrej for six to seven years and he was part of the M&A team till around two years ago. Last two years he was part of the international business group which was actually

involved in integrating all the acquired companies in to the Godrej structure and I believe after looking at what has happened in Godrej that the whole process has been done really well and therefore this experience should also help us to speed up this process of M&A.

- Abneesh Roy:** Are you pointing towards more of an international rather than a domestic acquisition?
- Sumit Malhotra:** At this moment I am not pointing towards anything. I am saying that the grid is getting ready and he is also speaking to investment bankers and getting their view so I would not like to say anything or comment on this as of now.
- Abneesh Roy:** One last one in Rajasthan how does your cooling oil price compare with the stronger players?
- Sumit Malhotra:** See everywhere the prices were the same when we launched it, post that in May Navaratna has taken a price increase from Rs.48 per 100 ml to Rs.50 per 100 ml. The reason why I have mentioned this is it is a very different step from what Emami normally does because Emami takes a price hike in off-season and normally not during the summer, you would have seen their results; their margins were under tremendous pressure.
- Abneesh Roy:** What is your price?
- Sumit Malhotra:** We are at 48. I said we launched at the same price. We have taken a price increase Navaratna has gone 50 now.
- Abneesh Roy:** What about Himgange?
- Sumit Malhotra:** Himgange was at 48. They are now raising it to 50.
- Abneesh Roy:** As of now you would obviously not look at price hike?
- Sumit Malhotra:** Not yet. I think we still need to get our distribution base right see if I start playing around with MRP during the time distribution is increasing I would have different prices across different states depending on how fast my distribution has moved. So I think the price increase will happen towards the next season at the most.
- Moderator:** The next question is from the line of Diwakar Yasarapu from Fortune Financial Services. Please go ahead.
- Diwakar Yasarapu:** Sir there is some sequential decline in volume this quarter right?
- Sumit Malhotra:** If you look at it Q4 of FY'11 that is the immediate preceding year it was 21.7% but please remember Q4 is normally a faster growing quarter because of the incentive that the distributor gets and also because of upstocking during the retail area. Quarter before that we grew at 14% this went up to 21.7% is currently at 20% which is despite the price increase in Q1 of this year.

This is as against the fact that in Q4 FY10 we were holding prices despite a hike in LLP pricing in the Q4.

Diwakar Yasarapu: That is what I wanted to know whether the price increase had any significant effect of the volumes decrease.

Sumit Malhotra: No.

Moderator: Thank you. The next question is from Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Sir, firstly just the patient understand, this quarter our gross margin was at about 53% now assuming that LLP remains wherever it is, you see this going back to our normalized gross margin level that is still some more price hike needed for that?

Sumit Malhotra: At this point of time we do not see any reason for another price hike if LLP remains at the same level. But currently I think the crude prices are very volatile looking down two weeks and then it went up, really that drop in crude prices have not yet resulted in any major drop in LLP prices, but even at the current level I do not see any reason for increase in MRP of our product.

Riken Gopani: So we would probably have our earlier gross margins back from next quarter onwards?

Sumit Malhotra: Fingers and toes crossed.

Riken Gopani: Last time when crude had fallen significantly from the high would we have given so much of freebees and nobody in the market would have taken any price cuts at all just to understand how the competitor behaves in this market?

Sumit Malhotra: The only brand that takes price cuts is Parachute coconut oil at that point they would have taken a Rs. 2 off. No other brand in Amla light hair oil or cooling space or value added coconut oils took any price cuts. At that point of time, this happened in 2008, when the crude prices went to the roof and we took two price increases once the crude fell from \$140 to around \$44 our EBITDA expanded to around 40% and that point of time we would have spend around a 2% in more in consumer promotion not more than that.

Riken Gopani: Just to understand if there any specific skew in terms of what SKU grow in a specific quarter or that is more or less even?

Sumit Malhotra: It is more or less even the only difference is for the pack is if you offer the consumer promotion for example in a quarter if you have a consumer promotion that SKU grows faster.

Riken Gopani: Okay as of now we do not have any specific promotion running out?

Sumit Malhotra: Q1 there was no promotion.

- Riken Gopani:** Can you share what was the contribution of cooling oil this quarter?
- Sumit Malhotra:** It was around 3.8%.
- Moderator:** Thank you. The next question is from Sushma Shah from Envision Capital. Please go ahead.
- Sushma Shah:** Sir just one question we have taken a price hike during the quarter despite that the RM to sales has increases is more because we experience a glass price increase during the quarter vis-à-vis Q4?
- Sumit Malhotra:** That is because of the increase in the prices of light liquid paraffin increased in the cost of glass bottles and increase in the cost of vegetable oils.
- Sushma Shah:** I understand that, but Q4 we had not taken any price hike?
- Sumit Malhotra:** No we had not.
- Sushma Shah:** Q1 we took a price hike despite that RM to sales is at 47.5% so what has happened between the two quarters, as there been an sequential increase beyond what we can cover during the quarter or what was it?
- Sumit Malhotra:** See like I said in my opening address in consumer products when you take a price hike it would gives the beneficial affect of the price hike on day one. In our case you have got the affect only in mid May. So actually half of the quarter you are still operating on the old price, but the new circumstance pattern. Therefore if we have taken the price or we were able to implement the price hike in the beginning itself the consumption would have gone down marginally, but still would not be at the same level as Q1 of last year.
- Moderator:** Thank you. The next question is from Aniruddha Joshi from Anand Rathi. Please go ahead.
- Aniruddha Joshi:** What was the ad spend to sales issue in this quarter and in June 10 quarter?
- Sumit Malhotra:** June 10 quarter was 9.98% or 10% this quarter is 11.8%.
- Aniruddha Joshi:** This increase is completely due to launch Kailash Parbat?
- Sumit Malhotra:** Largely not completely.
- Aniruddha Joshi:** Your sales ratio remains at around 12% for the full year or you see tapering it of in coming quarters?
- Sumit Malhotra:** In the Q2 and Q3 cooling oil market sort of stabilizes it is either rains or winter. So the spends on cooling oil will come down. The spends of Almond Drop will not come down. So if you say that out this 9.5% Almond Drop spend that plus minus 1% would continue in the next two quarter in the last quarter again spend on cooling oil will go up.

- Aniruddha Joshi:** So for the full year the ratio will remain around 10%?
- Sumit Malhotra:** No it will be more than 10%?
- Aniruddha Joshi:** Just on tax rate the March quarter we had tax rate of just 16% and this quarter we have again seeing the tax rate moving to 20% so do you see the tax rate remaining at around 20% for the full year?
- Sumit Malhotra:** Yes tax rate is 20% for the year.
- Moderator:** Thank you. The next question is from Yogesh Bhatt from ICICI Mutual Fund. Please go ahead.
- Yogesh Bhatt:** Could you just throw little more light on the usage of the cash as you have mention that we have joined recently and you are working out something, what are the timeline by which you expect these if at all to materialize and what kind of the usage of the cash out of that 410 Crores which we have?
- Sumit Malhotra:** Again it is a little too early to comment on both the things, but what we did realize that if me and Narain were doing this acquisition short-listing and negotiation and all that it was taking too long, because we had other things to do. So we expect the process to speed up, but it is very difficult to say when, how big acquisition will be where it will be because opportunities are far between and therefore even with the concentration of eight hours a day and six days a week so on and so forth by the new gentleman, it is still difficult to predict, but we definitely believe that since his sole responsibility and the responsibility of the team we have added two more people to work with him. It would become much faster than it would have been earlier.
- Yogesh Bhatt:** Okay on the boarder way could you able to share that it would be India or out of India?
- Sumit Malhotra:** On a board perspective I can only tell you that India currently the valuations are way too high and then too very few targets are available. So it is difficult in India though we would have liked it to be in India. So currently if you ask me put my head on chopping block I would say that currently it appears that it might be outside, but we are trying for India also.
- Yogesh Bhatt:** Okay and one more last thing, on the cooling side the way the momentum has been get to earlier to guide on that but the way things have panned out in the initial month would you see this brand contributing reasonable contribution to a topline three four years down the line?
- Sumit Malhotra:** We sincerely hope so because three four years down the line is the time that Almond Drop should start stabilizing at a 65% market share at that point of time the growth in Almond Drop it will be less than what it is now. So unless we have a second brand or the acquired company in our fold, these we will not be able to show the kind of growth that we are currently. So we all are working towards this making this brand a success and getting some acquired brands in our fold before the end of this three four years that you were really talking about.

- Moderator:** Thank you. The next question is from Percy Panthanki from Daiwa Asset Management. Please go ahead.
- Persi Panthanki:** Sir my question is on the structure of the market in terms of the various sub-segments of hair oils and as you said light hair oil is growing very fast versus some of the other segments. So just wanted to understand the drivers of this growth. If I can just sort of pledge down the drivers obviously there are new consumers coming into the hold and there could be some consumers who are shifting from more traditional forms like coconut into light hair oil so which of these drivers, both these drivers and may be a couple more, which at simultaneously and together, but which driver do you think is contributing to the bulk of this growth that you are seeing?
- Sumit Malhotra:** If you want one, Percy I would say that the one driver that is contributing than most is the non stickiness and modernity cues of a light hair oils especially Almond drop, because if you see the study being conducted by IMRB basically household panel that they do which is a measure consumption. If you look at that the number of new users that are coming in suppose 100 new users into Almond Drop fold 41% or 41 of them come from coconut oils, 18 comes from Amla 8 come from unbranded hair oils. And only 8 come from other light hair oils, so the reason why.
- Percy Panthanki:** How much are completely new users?
- Sumit Malhotra:** Completely new users, the non hair oil users?
- Percy Panthanki:** Yes. They would also be coming into the consuming fold right?
- Sumit Malhotra:** 1%, because hair oil is 92% penetrated category in India though increasing penetration beyond 92 the only consumer product that is more penetrated than salt. So increasing penetration is going to be very, very difficult especially for a brand like ours I think the onus of this really lies with Parachute coconut oil which is trying to drive penetration.
- Percy Panthanki:** Can you repeat those percentage once more?
- Sumit Malhotra:** 41 is coconut, 18 is Amla and 8 is unbranded hair oils and 8 is other light hair oils.
- Percy Panthanki:** That still does not add up to 100 Sir?
- Sumit Malhotra:** There are many other oils.
- Percy Panthanki:** Okay but it is basically just then tail of very small numbers?
- Sumit Malhotra:** You will get some guys converting from Vatika, Clinic All Clear or Jabakusum and cooling oils also.

- Percy Panthanki:** In light of this information my followup question would be that if out of 100, 41 people are coming from coconut oil then why it is that the coconut oil as a category is not degrowing in the first level, because it is growing it might be single digits but it is still growing?
- Sumit Malhotra:** It will grow because please remember one-third of hair oil users use unbranded hair oils. Even the coconut is loosing from me but it is getting from unbranded hair oils users moving to branded hair oil.
- Percy Panthanki:** In this figure of 41% coming from coconut that 41% could be unbranded also or this will be only branded coconut?
- Sumit Malhotra:** These are all branded coconut oil, 8% is unbranded hair oil.
- Percy Panthanki:** Which would include all subcategory?
- Sumit Malhotra:** All mustard, coconut, groundnut.
- Percy Panthanki:** Last question on this topic is given that you are getting this benefit of conversion from other categories there must be some sort of phenomenon of low hanging fruit happening that people who want to change would be changing now rather than 10 years down the line? So do you think that in three or four years this low hanging fruit to an extent would be exhausted and after four years may be people still keep shifting from coconut but the pace of shift would slowdown and therefore the pace of growth of light hair oils could also slowdown?
- Sumit Malhotra:** All theoretical discussions and hypothesis. My hypothesis is it would not happen. The reason why I am saying so is we have to look at the age profile of the Indian consumer versus ace hair profile of the almond hair oil users. More than 50% of almond hair oil to be exact 54% of almond hair oil users are between the age group of 15 to 39 years of age and as this is an often-quoted figures more than 50% of Indians are less than 30 years of age. So if conversion is happening because of these youngsters it will still continue for many years to come.
- Percy Panthanki:** So you are basically saying that the demography dividend, which is giving benefit in several other categories, will benefit your category as well.
- Moderator:** Thank you. The next question is from the line of Gaurang Kakkad from Religare Capital Markets. Please go ahead.
- Gaurang Kakkad:** Congratulations on a good set of number Sir. My first question would be in terms of gross margin contribution how would Kailash Parbat be different from Almond Drops?
- Sumit Malhotra:** Currently it has got a lower gross margin than Almond Drop. The reasons are three; one is we do not have economies of scale as of now. We are buying very little amount of substances, which are not used in Almond Oil. The second is that in the last quarter menthol prices are actually

gone through roof. So even though light hair oil is being hit by LLP cooling is hit by LLP plus menthol.

Gaurang Kakkad: How much would menthol be up YOY?

D.K.Maloo: It was almost 80% Rs.1800 per kg against 1000 per kg.

Sumit Malhotra: Gaurang please remember that the sales mix currently is not the ideal mix. By sales I mean normally in cooling oil around 28% to 30% of the sales are through sachets, which are lower margin than the bottles. In our case more than 50% are sachets because we are still in a trial phase. As we go on people will start moving towards bottle and therefore the gross margin will shift positively and we will buy more therefore buy better and so on and so forth.

Gaurang Kakkad: So over the next three to four years it is likely that margin profit would be similar?

Sumit Malhotra: It will be lower than Almond but not very significantly lower.

Gaurang Kakkad: Also in terms of distribution reach if I remember correctly you said that current distribution reached for Kailash Parbat is 2.5-lakh outlets. So when the next season comes in by March what is the target as to wherein would you be for the next season?

Sumit Malhotra: Internal target we have to touch around a million outlets.

Gaurang Kakkad: One million by next March. In terms of Almond Drops is there any further potential for increasing the distribution?

Sumit Malhotra: Of course there is, if you look at total number of outlets in India, FMCG is close to 5 million or 50 lakh. If you look at Amla is available in 3.7 million outlets. Even if you look at light hair oil total light hair oil is available or retail outlets stocking light hair oil is 2.6. So we still have a fair bit to go in coming close to that 100% distribution in light hair oil or little more gap between us and Amla on a huge gap between us and Parachute.

Gaurang Kakkad: This incremental distribution would it be the southern markets or it would be largely in the non-southern market?

Sumit Malhotra: Incremental vis-à-vis total hair oil of Parachute has to be in southern but the traction yet is not there. We have been investing behind south for the last two years. We still have not got the traction. So the low hanging fruits would be increased distribution in three zones of North, East and West but the long-term game plan has to be south, I am still to crack open that market to give you an example out of 23% of total hair oil users or hair oil being used is in south and for light hair oils are 4% is in the south. So I have a whopping 19% still there.

Gaurang Kakkad: Like you added around 80000 outlets can a similar run-rate continue for the next few quarter?

- Sumit Malhotra:** In the next two years I think we can still continue. It was approximately 1.75 lakh outlets in six months. Even if you look at the trend it was around 90 in the Q1 of this calendar year and 80 in the Q2 of this calendar year.
- Moderator:** Thank you. The next question is from the line of Nirav Dalal from ShareKhan. Please go ahead.
- Kaustub:** I have a question on your two brands that is Brahmi Amla and Bajaj Amla Shikakai. Two of these brands have been seeing a volume decline for several quarters. So just wanted to know what is your plan for these two brands are you looking out some change in the mix or may be republishing these brands in the coming quarters. What exactly is your plan for these two brands?
- Sumit Malhotra:** To give you a background till around four years ago we used to spend on all the brands that is we used to spend on Almond, Brahmi as well as Amla Shikakai. What we realized was that the growth in Brahmi and Amla Shikakai was not as per our expectation and when we did consumer survey we realized that the consumer does not see any differentiation between our Amla brand and Dabur Amla as therefore even though we went on advertising the consumer would think that this is an advertisement for Dabur Amla and Dabur Amla would sell more. So what we have decided and we have been working on for the last couple of years is, to find the differentiator between Brahmi and Dabur Amla. Until we can get the differentiator and this differentiation can be real or it can be proceed. This differentiation has to be there in the consumer's mind, which is very, very difficult.
- Kaustub:** Have you started with this process or still?
- Sumit Malhotra:** That is on for the last two years now because the first differentiation that we tried was price and Amla Shikakai was the lower price product than Brahmi Amla & Dabur Amla did not give traction because it was not giving margins enough to invest behind the brand and therefore we are very clear that the differentiation should be product linked. It is real offering and not price.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Anand Rathi. Please go ahead.
- Shirish Pardeshi:** Just one question you mentioned that in Rajasthan and MP you have seen higher growth in terms of Kailash Parbat just wanted to check what kind of volume growth you would expect in terms of cooling oil because I would assume that traditionally these two states would have usage of hair oil. So is that shift, which is happening towards cooling is the secular trend, which is changing in the consumer profile?
- Sumit Malhotra:** It is a very good question because what is happening in cooling oil is earlier on we used to sell cooling oil in UP, mainly Eastern UP, Bihar, Jharkhand and Chattisgarh. What Navratna did is was it added a fifth state, which was Andhra but thanks to Navratan's the national distribution of Emami the other states also started selling cooling oil. Earlier on it used to be a UP-Bihar product so they will say that in Rajasthan that labor that is coming from UP, Bihar traditionally uses cooling oil but what has happened over the time is that more and more non-users of cooling oil

have started using cooling oil and thereby brought this usage pattern of cooling oil and this was one of the reasons why we did not launch a clone of Navratan. We said that to get conversion of non-cooling oil users to cooling oil you have to offer the differentiated product and that consumers can easily understand that Chandan or Sandalwood is the product that is the USP that is causing the cooling and therefore is more likely to shift. So this is what we were meant to do and we have been trying to do. We were also been trying to broad base the usage in terms of the sex. Earlier on if you see all the ads of cooling oil is all aimed at male, Amitabh Bachchan or Govinda or Sanjay Dutt advertising and selling it to males. We have broad based that and we are saying that look a women also works in the heat. So she too needs the product but the product that she need is not the harsh red ugly smelling product that our competitors have.

Shirish Pardeshi: So you mean to say what if I have understood correctly you are saying growth is more of rigid than the sachets?

Sumit Malhotra: Mostly it will be sachets because trial has to be in sachets because this is the problem solution thing this is not something that you take in to the house and use regularly everyday of the week and the trial will happen in sachet and currently more than 50% of my sales is sachet but I am not bothered about that because once trial happens sales starts picking up. The first month we had a very high percentage of sachet post that our bottles have started picking up.

Shirish Pardeshi: Just one extension to that in the earlier you mentioned that your gross margin is lesser in terms of cooling oil and are you looking for economies of scale. I am just curious how long you would think you would manage with such low gross margin is there any timeline or is there any percentage you have in mind?

Sumit Malhotra: Internally it is fixed minimum of two years as a break even period. They have also taken on a very senior resource in R&D and he is basically trying to bring down the consumption cost in cooling oil.

Shirish Pardeshi: Very, very lastly in terms of what are the timelines you guys are expecting some meaningful output from Jimmy in next 1 to 1.5 years?

Sumit Malhotra: It is still very, very difficult to say. This is zero sum game. Actually you may have a target and a completion within months or it might take years. We are not planning to push Jimmy on the timeline. The reason is that we believe that the first acquisition has to be done very carefully because we realized that not only is the acquisition important but more important is integrating that acquired company into Bajaj and if I push Jimmy too hard and we collectively make a wrong decision. I do not think this company will stand too much such strong decision.

Moderator: Thank you. We have a follow on question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: One question on the pricing strategy if you see Parachute has taken much higher price hike of around 30%-32% while we are a premium product we have taken lesser price hike and also that

is visible in our gross margin which had gone down far higher than what Parachute has been wanted to understand why we in spite of being a premium product why we are not going for a higher price hike what is the reason are we too much focused on the market share?

Sumit Malhotra: Abneesh there are two misconceptions that I would like to first erase from your mind. One is that with the 8.5% increase in MRP we have taken is more than covering the price of LLP plus increasing price of glass bottles plus increase in price of vegetable oil. The reason why you are seeing a decrease in EBITDA is because we did not get the advantage during the whole quarter one and second you are comparing it to last year Q1, where we taken a price increase in May of last year without the LLP prices having gone up that significantly. The second thing you also have to take into view is that in Parachute the price has gone up in 100% of the raw material. Because it is basically coconut oil there, whereas in our case the price goes up in one-third of the cost of raw material, which is the percentage of LLP.

Abneesh Roy: Why we did not take the price hike earlier, you said one month we did not get the benefit so any reasons why?

Sumit Malhotra: What we have said since you have logged in on to the last concall, the last quarter of last year the prices were actually started going up. The third quarter of last year the prices were at Rs.67 a kg, it went up to Rs.77 a kg in the fourth quarter that time we played the volume game. We said that there is a toss up between increase the price during this quarter versus gathering more volume gain so we played that game in that quarter and therefore the volume grew at 21.7% vis-à-vis 20% growth in volume in this quarter.

Abneesh Roy: How much is the seasonality in cooling oil?

Sumit Malhotra: Now it is around 63%-64% in the first four to five months of the year. This year the season has closed much earlier otherwise it is used to last till around September.

Abneesh Roy: It is closed or slowed down because you are still saying 35% closed?

Sumit Malhotra: The season closed, the summer season closed earlier than normal.

Abneesh Roy: But still 35% of sales happened in the balance seven months?

Sumit Malhotra: Yes.

Abneesh Roy: So that means your ad spends for the new cooling oil will continue to some extent even in the balance 5-6 months?

Sumit Malhotra: It would not be zero, but it will be much lower than what we did in the initial stage.

- Abneesh Roy:** If you see Navratna has gone into other cooling products, cooling Talc and all that, so what is your view I am not asking for any timeframe, but would you like to be restricted to oil or basically are you also opened to branded structure?
- Sumit Malhotra:** If you are asking me at this point of time?
- Abneesh Roy:** No, not at this point of time, your thought process from a long term, two years, and five years?
- Sumit Malhotra:** My thought as of now is that we would not like to extend oil into other cooling products and the reason I am saying so Abneesh is that one problem I believe Navratan will have and it has already had on account of Parachute Ayurvedic cooling oil that the consumer does not know what causes the cooling. He believes that Navratan is a cooling oil, but what is causing the cooling he does not know and therefore if you extend it into powder again powder what causes the benefit nobody knows or any other such extension you are actually creating a more kind of a depletion of the core value. The reason behind which we launched Kailash Parbat was to have a linkage between the core value and ingredients in my products, which is Chandan. The moment I extend this core value of Chandan into other products I lose.
- Moderator:** Thank you. Sir there are no further questions at this time. I would like to hand the conference over to Ms. Amrita Basu for closing comments.
- Amrita Basu:** Thanks Vivian. I would like to thank the Bajaj Corp team for taking the time to do this call. Any closing remarks Sumit?
- Sumit Malhotra:** Thanks to all of the investors and people who have logged on. Thanks for all their interest in our business and from the team of Bajaj Corp we assure you that we will try and do better and better and better in the quarters to come thanks a lot.
- Moderator:** Ladies and gentlemen on behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us.