"Bajaj Corp Limited Q3 Financial Year 2014 Conference Call"

February 07, 2014

ANALYST: **MR. ANAND SHAH**

MANAGEMENT: **MR. SUMIT MALHOTRA**
MR. NARAYAN RAMAN
MR. VC NAGORI
MR. DILIP MALOO

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Corp Q3 FY 2014 Earnings Conference Call, hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Kotak Securities Limited. Thank you and over to you Mr. Shah!

Anand Shah: Thank you. On behalf of Kotak Institutional Equities, I welcome all of you to this Bajaj Corp 3Q FY 2014 Earnings Conference Call. I would like to welcome the management of Bajaj Corp represented by Mr. Sumit Malhotra, Managing Director, Mr. Narayan Raman, President, Corporate and Investor Relations, Mr. VC Nagori, CFO and Mr. Dilip Maloo, Vice President, Finance. I will now hand over the call to Mr. Sumit Malhotra to discuss the recently announced earnings. Thanks and over to you sir!

Sumit Malhotra: Good evening to all and welcome to the conference call for the declaration of the third quarter results for the Financial Year 2013-2014 of Bajaj Corp Limited. With me are Mr. Narayan Raman, President Corporate and Investor Relations for the Bajaj Group, Mr. VC Nagori, the CFO and President Finance and Mr. D. K. Maloo, the Vice President Finance.

The Company has closed the third quarter with the sales of 158.20 Crores and EBITDA margin of 42.77 Crores. This translates into a year-on-year growth in turnover of 7% for the quarter and volume growth of just 1%. The EBITDA levels remain high at 27.04%.

On a year-to-date basis, the turnover of the Company has been increased by 15.29% and the volume has grown by 11.7%. On the offtake front as per Neilson, Bajaj Almond Drops still remains strong. Volume offtake for Bajaj Almond Drop has grown by 12% during the third quarter and 13% for the previous April to December 2013. The difference between the Nielsen offtake figures and the figures reported by our Company are basically because of the reduction in stock at the retail and distributor levels. This happens in all FMCG categories where there is a slowdown. Once the slowdown presents stock correction normally takes place first at the distributor level and then at a retail level. Both of this had hit us this quarter. The market share of Bajaj Almond Drops has reached in all time high at 60% in the light hair oil category and 10.5% in the total branded hair oil industry.

During the third quarter of this financial year, Bajaj Almond Drops hair oil has emerged a second largest hair oil brand in India. This is in a three month we all at Bajaj Corp are extremely proud of.

The volume in the overall hair oil market continues to be under strain. In the third quarter, the volume growth is -0.1% whereas on the value front it has grown by just 3.1%. Even the light hair oil which is among the part is growing hair oil segments have shown a growth of just 4.6% in volume terms during the third quarter. The biggest slow down has been seen in the growth in the rural areas. During the first quarter of this financial year, the difference between the urban and rural area growth for Bajaj Almond Drops was an impressive 12.3%. As against this the rural growth in the third quarter has dropped to 11.9% as against 11.7% in the urban area, which means that the difference between the rural and urban growth is next to zero.

While the volume growths have been under strain, the cost of goods sold remains well within control. The second quarter COGS of 40% as against 42.29% in quarter three of last financial year. This is the result of the pre-booking of light liquid paraffin at a very competitive rate of Rs. 75.85 per kg. The current rate of light liquid paraffin is hovering around Rs.86 per kg. We expect the current low price stock of LLP to get offset in February of this financial year.

The prices of vegetable oils remain steady at approximately Rs.76 per kg. The EBITDA levels remained at 27% in this quarter also whereas this might appear as a reduction of approximately 200-basis points versus the EBITDA in Q3 last financial year, there is no drop in EBITDA on a quarter-by-quarter basis. During this quarter, the ASP has gone up by 334-basis points. We continue to spend more on ASP during this slowdown phase as we believe that this consistently high ASP spend, we will yield book results when the economy rebounds.

We acquired the brand Nomarks on August 22 the processes of integration of this brand into our distribution system is on, despite some initial issues on logistics front, we have achieved approximately 6 Crores of sales with a gross margins of over 54% in this brand. The initial consumer response is very encouraging and once the issues of integration are resolved we have confident that the brand will give us better than expected returns. Despite the slowdown we continue to focus on distribution of our brands.

The rural sector now contributes around 39.4% of our main brand sales, which is Bajaj Almond Drops. Our rural brands and focus on increasing the number of distributors continue to give us positive results. Our main brand Bajaj Almond Drop is now available in 2.6 million retail outlets through close to 7000 distributors. During the last 12 months alone the brand has entered into 370,000 additional outlets across in India.

Our strategy on focusing on international business continues after opening a subsidiary in Bangladesh in the first part of this year. We have also recently setup a subsidiary in UAE. The subsidiary will start functioning from April of this year and will be the (indiscernible) 7.16 of our foray into the GCC and North African market. The quarter has been in another weak quarter for Kailash Parbat Cooling Oil. The delay which ensures that the pre-seasonal stocking by distributors has yet not taken place. As you may recall that we decided to amortize the cost of acquiring the Nomarks brand across 36 months. As a result this quarter, we will see an amount of 11.74 Crores being written of under the head of exceptional items.

The loan of Rs.100 Crores that we have taken for the acquisition will be repaid this month. Post this, our company will once again debt free and will continue to have enough cash in our balance sheet. As a result of this strong financial position, the Board of Directors has approved a disbursement of an interim dividend of Rs.6.50 paise per share, this translates into a payout of 650% of the share capital.

This is also from my end initially. We are now ready to take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first is on the volume growth. If you see we were growing much strongly just two quarters back and now if you see even this quarter Marico has seen around 8% volume growth in the value-added hair oil and you also mentioned in the opening remarks that due to stock correction, the growth is looking optically lower. So, what is the real growth this quarter and how you are seeing next two quarters particularly growth numbers and if you could give us rural, urban both insights even more detail, you said rural has slowed down now to the urban levels that is the first question?

Sumit Malhotra: The light hair oil growth is just 4.6% by volume in this quarter as against this Bajaj Almond Drops growth in offtake is 11.8% as 12% exactly 11.8%. Within this, the urban area has grown by around 11.7% and the rural 11.9%. To give you comparison, the last financial year that is financial year 2013, Almond Drops grew by 16.3%, so there is a real drop between last year and this quarter is around 4% approximately. But at that point of time, the urban market was growing at 12.4% and therefore there is a much slow down in the urban market, but the rural market was growing at 23.8% which has dropped to 11.9% in this quarter. So, the slow down is much higher in the rural area than in the urban areas. Urban area is just around few points slower than what was they last year. Now, this was seen all across hair oils, because if you look at total branded hair oil, the volume growth has slowed down from 5.1% last year to -0.1% this year. So, I guess this is a thing that is worrying all of us, but to answer your question, what will happen is you really do not know, because this whole sector which is hair oil survives on conversion. The biggest conversion for branded hair oil is conversion from unbranded-to-branded. In current situation and the current scenario, this conversion is stopping very, very drastically and that is why you mentioned the company’s name in which the biggest brand itself is slowing down there also. It is the value added perfumed hair oil is showing some kind of traction. How long will the last, I really do not know, but there is really no empirical evidence in terms of trending even now to see that we are bottomed out. So, I would wager to bet that it will last another two or three quarters.

Abneesh Roy: One follow up on this, you mentioned the stock correction, so when does the stock correction happen and does it mean that earlier quarters the growth rate would have been optically a bit higher that is why we need a stock correction?

Sumit Malhotra: Whenever the brand is growing and growing as the rate we were growing, because if you look at last year’s volume growth of Bajaj Almond Drops it was around 21% on our investor presentation that was sales from us to distributors. But the offtake growth was 16.3% which means that the extra stock was going into the retail and distributor stock. This happens whenever the brand is growing, when the brand, all the sectors stops growing that is when correction happens, how much is that correction, this correction continues till the time this downturn or slowdown continues. Once the slowdown stops, the stock starts building up again.

Abneesh Roy: My second and last question is on the Nomarks business, now we are managing that part of the business, so if you could tell us how it is shaping up versus expectation, I do not see too much advertising behind that brand at least in the mainline channels.

Sumit Malhotra: There is no advertising.

Avneesh Roy: When is the plan for the advertising part?

Sumit Malhotra: The situation as of now Abneesh is that we are still in the process of integration. Now what do you mean by process of integration means that we are now still giving stocks that our distributors require. As we stand yet today we have only get around 95% of our urban distributor. We have still not tapped any of our semi-urban and rural distributors as of now. We expect the distribution at least to the distributors to get over by March and at that all the time the advertising will start, because today advertising you would have such a large amount of wastage because the product itself will not be available that is why just delay in advertising.

Abneesh Roy: One followup and that is the last one, why should it take so much time to take it to distributors?

Sumit Malhotra: The availability of stock assets, logistic issue, you should realize that one, the products are made in Guwahati. So taking all the news packaging material and bringing all the finished goods takes around a month at least that was one thing. Second the demand that we expected from the market was much less than what we actually got, so we went zone-by-zone in giving the stocks to the various markets. What we have done now is it has created another manufacturing facility on a first party basis, in the northwest that is in Himachal and Uttarakhand which is now starting to feed the extra demand that we have got from the market.

Abneesh Roy: That is all from my side. I will come back.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir, I just wanted to understand your value growth is 7%, but you also mentioned that your volume growth is around 12%, so I am not able to reconcile these two figures.

Sumit Malhotra: Volume growth that we are talking of 12% is in terms of offtake.

Percy Panthaki: At the retail level?

Sumit Malhotra: At the retail level and you are talking about 7% at the company level which is the primary sales, so you are comparing tertiary sales to primary sales.

Percy Panthaki: This 12% is that Nielson number you are reporting?

Sumit Malhotra: That is the Nielson number.

Percy Panthaki: Also I just wanted to understand this slowdown that we are seeing in hair oil, we have seen results of some other companies also. It seems to be a little more than the slow down that we have seen in some other FMCG sector. So, what could be the reason for this? Why is the slow down little more in hair oil versus others sectors?

Sumit Malhotra: The reason I believe and with my experience I can tell you is that most FMCG industries survive on new consumer. That is that you currently have 10 consumers, these 10 becomes 12 and you get 20% growth and therefore when such scenario occurs, new trials come down, but the quantity being used by the current users go up, so there is no down trading in other categories. In our category, the growth comes from conversion. First the unbranded hair oil users convert to branded hair oil and within the branded hair oils they convert into the value added perfume hair oil. This conversion has slowed down number one. Number two, there is down trading in hair oil versus much larger than the down trading that you have seen in other categories. So, one is because it is highly benefitted category it cannot go through new user’s right and second is, there is always possibility and threat of down trading that exists in hair oil.

Percy Panthaki: Second question is on your overhead cost, in this kind of an environment where your gross margin has actually expanded YOY, your EBITDA margin has contracted, so can you give some idea on why is your overheads have grown at 20% plus YOY and is this something that will continue in the future as well.

Sumit Malhotra: If you look at it EBITDA contraction of 200-basis points is more than possibly explained by the increase in ASP. The ASP has gone up 334-basis points whereas EBITDA has dropped by 200-basis points. Now, there are a lot of companies and you would have noticed in this quarter’s result which has, actually reduced ASP. Now, this is a call that we have taken, we have said that in the current slowdown, if you continue to be high spender in advertising and sales promotion, when the market turns, you will see the first advantage. For example, if you look at our market shares continues to grow. Our number two competitor which is used to be at around 16% to 16.5% market share has already been dropped to 14.8% market share and we have hit the 60% market share number. We believe that at this point of time since there is no major pressure on terms of margin, 27% EBITDA is I believe very good and I think even if we can maintain between 25% and 27% it is a good achievement and therefore the sale is really on volumes rather than margins and at this point of time, we think it is prudent to continue investing more behind ASP and this will give up much better results when the slow down overturns.

Percy Panthaki: My last question is on your cost versus your price as you said the LLP price has gone up, but you actually benefitted by a low cost inventory which will get over in February and post February, your high cost inventory will hit you, so in order to mitigate that impact do you plan any price increases?

Sumit Malhotra: Not in this quarter, we normally take price increase in April will happen.

Percy Panthaki: That will be enough to fully cover the increase in the LLP?

Sumit Malhotra: The logic we use in price increase is we add a little overage, for example, if you requires a 3% price increase to take care of the price increase in LLP and (indiscernible) 20.14 which are the two biggest Corp, we actually had a little extra increase by 4 to 4.5%. So that we do not have to take too frequent a price hike. We strongly believe that you should take a price hike when the margins contract only and you should not take too frequent a price hike, these are the two philosophies we work.

Percy Panthaki: That is all from me, thanks and all the best.

Moderator: Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Good afternoon. Thanks for the putting the market context very nicely. I was actually parallely going through the last quarter concall notes and to be fair I think you had flagged most of this reasons last quarter itself. The first question is that while the slowdown is now well understood, could you just give some granularity based on your ground feedback on any regional disparities or any differences or it is just across the board, there is a slowdown?

Sumit Malhotra: The proportion of slowdown might vary when the slowdown is across. The haul (ph) which used to be fairly fast growing market has also slowed down. I think the big difference between the slowdown in many other categories and our category is the extent of slowdown in the rural area. So whichever hit has a higher proportion of rural sales, you will see higher or at steeper slowdown that is one thing that we have noticed and I strongly believe that this is not sustainable, if and when they economy turns, because of size of our rural market, the rural markets will be the first to react to change in the economic scenario and at that point of time since we have continued to invest behind advertising and distribution, we should see the first signs of the economy turning.

Manoj Menon: Fair enough, sir secondly an internal question, do you think that you are gaining market shares in Almond do fast actually for your comfort?

Sumit Malhotra: Yes and no. Yes, because we will reach the plateau which we believe is between 65% and 67% market shares after and no, because I think the faster you use it there is the market share, the more money you have for your other statutory initiatives, because whether you like it or not the pillar of our company remains Bajaj Almond Drops at this point of time.

Manoj Menon: Fair enough. I have couple of more and I will come back to you.

Moderator: Thank you. The next question is from the Sachin Bhatia from Baring Private Equity. Please go ahead.

Sachin Bhatia: I wanted to check this amortization of Nomarks, do we get any tax benefits?

Sumit Malhotra: Yes we do, even though we are amortizing our 36 months as per law of the tax benefit we get the amount has been amortized over five years, so you get actually 20% every year. So that advantage you get in tax, you do not get the whole advantages of amortizing it over 36 months.

Sachin Bhatia: So it would be 20% of month every year with them. My second question is, we have spent around 140, 150 Crores for Nomarks brand and at least this is for first quarter where we have seen a sale of 5.86 Crores. So what would be your expectation going forward since we have made a very large investment behind this?

Sumit Malhotra: I would not like to talk about our working, but I would like to say that the steady state sales of Nomarks around three years ago was around 40 Crores, last year we did Ozone, the parent company did 27 Crores worth of sale. We expect to overhaul their steady state in the first full year of selling this brand. To give you an example, this 5.8 has actually come in less than 1.5 months of sale and without any advertising.

Sachin Bhatia: So just to continue on this question, Nomarks if we really need to build a brand, we will have to be more retail focused, because there will be large number of SKUs, and what we were handling in Almonds, so they should require becoming a retail focus and a cultural change compared to hair oil which is more like a wholesale focus, so how are you managing that cultural change which is required to handle a brand like Nomarks?

Sumit Malhotra: I think it is an excellent question Sachin. This is exactly why we did not go in for a very large acquisition. We realized that one it is not about signing a cheque for 140 odd Crores and buying a brand, it is about changing the focus within the company. We have been trying to do this for the last three years and maybe not very successfully, we tried this with Kailash Parbat, but the company in terms of the field force has been changing from a wholesale to a retail focus, by the reason that earlier on there was a 10 sizes of Almond Drops and four of five sizes of other brands. Suddenly it went up to another four sizes of Kailash Parbat, now 19 sizes of Nomarks have been added. You normally do this by adding people and by training, but I think one good thing, that has happened, unlike Kailash Parbat this was also new brand, this is a brand that was existing and there is a latent demand and that latent demand pulls the salesman to a particular outlet with forces need to become retail oriented rather than wholesale oriented. Have I answered your question, Sachin?

Sachin Bhatia: Is there any plan for adding more sales force to focus on Nomarks?

Sumit Malhotra: We are already adding more people, but in our case these people come under the distributors, so our salaries do not get increased, but subsidies to distributor increase.

Sachin Bhatia: The same guy will go and handle the Almond SKU and Nomarks SKU?

Sumit Malhotra: It does not make sense I think the distribution force separately for Nomarks, because it is still in a very small brand compared to Almond Drops, it is less than 5% of our base.

Sachin Bhatia: Then that means we need to train these guys to focus on Nomarks also, because Almonds I think right now if you go in to outlet it will demand for it if that stocks are not there, but for Nomarks we will have to push?

Sumit Malhotra: Yes, training is part of it, but second is also excitement because it is like you have something new even that something might be very small, when I get it I put excitement behind it, that excitement this therein the sales force especially at a time when volumes are growing as they used to and I am very, very glad that we took Nomarks at the time we took Nomarks, because this is providing excitement and motivation to the team. So, I think, it is come at right time for as a company.

Sachin Bhatia: Thanks a lot Sumit.

Moderator: Thank you. The next question is from the line of Abdul Karim from Narnolia Securities. Please go ahead.

Abdul Karim: Thanks for taking my question. First question is considering competitive intensity in hair oil industry across than most of the hair oil players are focusing to retain its marketing share. Could you achieve your market share at a mark of 65% for FY 2016, I think it is a part of your agenda?

Sumit Malhotra: When we had planned investment behind the Bajaj Almond Drops and we have drawn the strategy, we had said we should hit 65 between FY 2016 and FY 2017. We have already hit 16, so we are ahead of our intended increase in market share, so if it goes the way which is going and we continue to invest behind ASP I think we should be able to hit that number, definitely by FY 2017 if not a FY 2016.

Abdul Karim: I just wanted to understand your procurement, how do you enter into the contract for LLP perfumes and additive Corrugated Boxes and Caps, what is the duration of that contract?

Sumit Malhotra: It varies. For example LLP last year we entered into a yearlong contract and because of this you are seeing the reduced strain on cogs, because we had taken a correct call and taken a year contract, if things like corrugated cartons and all that it is a short term contract, basically you have multiple suppliers who keep on supplying, perfume glass bottles is normally a yearly contract, we sign a yearly contract then give up price hike or price reduction once a year.

Abdul Karim: Most of your goods are made in excise free zones those are the factories in Himachal and Uttarakhand, when are these coming out of the excise benefit, so what is your normal excise rate there?

Sumit Malhotra: Mr. Nagori will answer your question.

VC Nagori: We will come out by next year I think, 2015 onwards there will be excise duty.

Sumit Malhotra: There one addendum to this. As per the law of debt, once you come of the excise rebate you can amortize whatever MAT you have paid over a period of time, so the tax rate that you see in your balance sheet will not be the company tax excise or tax.

VC Nagori: One correction sorry, excise benefit is available up to 2019, income tax benefit will exhaust by 2015 okay is that clear.

Abdul Karim: Thanks.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Good afternoon. I just had on your A&P spends. I just wanted to understand because if you see the competitive intensity of the Dabur, Marico even Lever is looking at value added hair oils as a larger opportunity now. I just wanted to know whether A&P spends would actually have to stepped up from even these levels at 17% to 17.5% and given that our margins which are at industry high levels sustainable at these levels?

Sumit Malhotra: At this point in time, we do not see having to go beyond 17.5%, because we already are at a higher end in terms of ASP to sales spend. If you compare like-to-like brands in hair oil versus basically things like the Amla brand of Dabur or the Lever's brands that they launched last year and the second half of this year we still outspend them in terms of monetary terms and in terms of percentage to sales. So, I do not see it having to go up beyond that but having said that if that is required we will do it, because we believe that this brand has the biggest potential to keep growing. It is only 10.5% of the total hair oil industry at this point of time. So, the saturation or the steadiness of the market share is something that we do not see coming in a very short term from now, so it would make a lot of sense and spending more on this brand rather than milking the brands like other hair oil players are doing here.

Harit Kapoor: Agreed. But even in FY 2015 I just wanted to understand because now you are doing the distribution behind Nomarks once additional A&Ps will require to be invested in Nomarks, because it is a very competitive space, would that also not require a higher spend?

Sumit Malhotra: Not really, because in Nomarks we have gross margin of 61% and there is no extra overheads in terms of extra sales people, extra infrastructures that is required. You need the same sales people at the same distribution system that we have follow the 61 largest percentage would go to ANP and I am not stating the fact, but even supposedly if the ANP were to even 50% of sales you still make EBITDA positive, you would still be EBITDA positive of 10% to 11%.

Harit Kapoor: Agreed. Just one last thing, I just wanted to understanding on what the thought process is on inorganic growth. You obviously have done Nomarks now, but it is still there an appetite to look at a domestic regional or international brand?

Sumit Malhotra: At this moment, I said it is very clearly when we have the concall after that position of Nomarks. We will get Nomarks enough time to stabilize, by stabilize I mean reach its potential in terms of distribution, before we start hunting around for another acquisition. So, I do not see another acquisition coming our way for the next 12 months and possibly 24 months from now.

Harit Kapoor: That is it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Nimit Shah from ICICI. Please go ahead.

Nimit Shah: Good afternoon Sir. Sir just a clarification regarding LLP, so we intent into enter into one year contract post February?

Sumit Malhotra: Where did you get that Nimit?

Nimit Shah: I am just asking.

Sumit Malhotra: No, at this point of time, there is no sense, because currently the LLP prices are around Rs. 86 per Kg, I think it is correct downwards as we move along during the year. So the contracts that we will now get into would be a short term contract of may be a month or two and not the long term contracts that we took last year.

Nimit Shah: You will expect the prices to stabilize and then…?

Sumit Malhotra: We all internally believe that this is still high, basically because of the dollar and also because of the crude rate.

Nimit Shah: After adjusting the MAT credit, what will be your tax rate for FY 2016?

VC Nagori: The normal tax rate will be 33%, but this MAT credit it will be available to us.

Sumit Malhotra: MAT credit would be what we paid in MAT for the first five years of that particular factory that will last for more than a year or two year.

VC Nagori: So we will keep on paying around 20%, but as our liability goes up then the credit will be adjusted to that extent.

Nimit Shah: What will be the exact MAT credit available to us over the five year period?

Sumit Malhotra: It depends on what turnover we do at the end of this year plus and therefore the tax we pay this year and the preceding four years exact I do not know as of.

Nimit Shah: Till date what will be the amount?

Sumit Malhotra: I do not know as of now. Definitely more than the tax that we have to pay in one year, so tax definitely be more than 15% of the tax that we pay in FY 2016.

Dilip Maloo: That will be under concessional tax benefit for next five year, we will be getting benefit of 30% tax.

Nimit Shah: I did not get you Sir.

Sumit Malhotra: What Mr. Maloo saying is that even after FY 2015 when we pay tax, it still be having to pay concessional income tax, which is 30%, after that concessional will also be allowed a set up of the MAT that we have paid in the preceding five years. Have I clarified or confuse to you?

Nimit Shah: Clarified. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mamta Singh from SKP Securities. Please go ahead.

Mamta Singh: Sir, I just wanted to clarify on that we are planning to pay of 100 Crores this will be based from our cash of 408 Crores, so our cash for FY 2014 would be around 300 Crores?

Sumit Malhotra: No, it will go down further, because we have announced the dividend of Rs.6.5 per share. The total outflow will be around 112 Crores more. 100 Crores for debt and 112 Crores for dividend will leave our cash balance.

Mamta Singh: Our interest cost for FY 2014 will be around?

Sumit Malhotra: Whatever we have paid up to now is the interest.

Dilip Maloo: It is around 3 Crores only. Everything we are going to pay it off thereafter we will be a zero debt company.

Mamta Singh: What is the topline you are expecting for FY 2014 and also for FY 2015?

Sumit Malhotra: What is it?

Mamta Singh: Topline or sales and revenue?

Sumit Malhotra: We do not give guidance.

Mamta Singh: Any other capex line for near future?

Sumit Malhotra: No, nothing in the next quarter also.

Mamta Singh: That is all from my side. Thank you Sir.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Thanks for giving me an opportunity. Most of my questions are answered. Sir, I just have one question that your commodity has seen good growth in the Amla Hair Oil, though the other brands were going slowly since we have that in our portfolio, was it not prudent to basically some of our Amla brands in the market?

Sumit Malhotra: You are partially correct in your statement that one of our competitors is showing a good growth in Amla, but the leader in Amla is actually declining, so it is not that we have that our competitor is really, because we have now become the second largest hair oils brand, the brand that was the second largest and now is the third largest has grown by just 3% in the previous April to December of this year right. So that is not doing well. The brand that is doing well is the low priced brand, that brand is sold at Rs. 20 for ATML. So it is actually lower price than even coconut oil. At that level, we do not believe that we can make profits and also have enough to advertise and therefore we would not like to get into that kind of game, which is high turnover, low margins and zero advertising.

Kaustubh Pawaskar: Thanks.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from SEC Investment Management.

Nikhil Upadhyay: Thanks for the opportunity Sir. You explained in the presentation in detail just a continuation on the same thing. So when you said that growth for value added hair oil comes in or when consumer is moving from traditional like coconut oil or Amla oil to value added hair oil, but, if you look at the price differential, so Parachute bottle or Almond hair oil bottle, the price differential might not be so much, so prevents consumer some delaying this movement?

Sumit Malhotra: Good question, basically absolute price distance is not much. For example, a 100 mL coconut is Rs. 27, 100 mL Amla is Rs. 38 and 100 mL Bajaj Almond Drops is Rs. 55, so even if you move from the lowest to highest, you would be ending up paying around Rs. 28 per month that is not the deterrent. The deterrent is that whenever your monthly consumption or the monthly income is getting squeezed, because of inflation, you reduce the opportunity of the ability to think up of new brands that you would like to buy, so the consideration of shift between brands of consideration of experimenting between brands actually goes down in this kind of macroeconomic scenario. It is not that absolute rupee that you are talking off. It is the mindset. The mindset today is that whatever you have, you continue using, if you have a strain on your monthly income move down, but how much is not really concern at this point of time.

Moderator: Thank you. We will take the next question which is a follow up from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is on your margins, I understand that product like yours would operate margins in a band and there would be some amount of trade off between when you would want to push volume, when you would like to advertise more at that time you will have lesser margins when the commodity costs go up, you will have more margin and so on. So, I just wanted to understand that from your perspective as a company, what do you consider this band and when you will take absolute affirmative action to make sure that margins do not fall below X amount, so what is that X amount and on the higher side what do you think it could be?

Sumit Malhotra: That is broad margins currently…

Percy Panthaki: EBITDA margin I am talking about Sir?

Sumit Malhotra: You are talking about EBITDA margin. If you look at our history, our EBITDA margin has never dropped below 23%, in my memory and highest we have ever gone is 34% before the IPO, but we get concerned when EBITDA stops dropping below 25% as we stand here today. You would have seen a lot of companies like ours that the EBITDA margins is actually a moving target today we might say 25, two years from now we might be talking about 20, that depends on the product mix that depends on the environment, that depends on the ability to take a price hike, but as we stand here today, we would be concerned if it drops below 25% we can take corrective price actions there.

Percy Panthaki: One hypothetical question, if I might, we have seen a situation in Amla where the market leader has been challenged by brand which is that significant discount and we have seen consumers moving and that brand is growing at 35%, 40% volume CAGR the leader is flattening our or even declining supposing if that kind of situation where to arise in your product if someone got to launch Almond oil which were at 40% or 50% discount to your product and if you saw consumers migrating there and you saw clear impact on volumes, what would be your strategy, would you allow some amount of volumes decline and maintain margins or would you cut your prices by 40% or 30% and maintain your market share, I know it is hypothetical?

Sumit Malhotra: Good question Percy, but it is not hypothetical. It has happened. In few years ago one of our competitors tried the same stunt with Bajaj Almond Drops. The problem with Bajaj Almond Drops is twofold. One is that the key reason to buy a Bajaj Almond Drops is the Almond and therefore it is like if a consumer goes to the market and you sees Almond is being sold at Rs. 100 Kg instead of Rs. 450, Rs. 500 per kg, he would these resistant to buy a lower priced Almond, because he would say that how can high priced product be available at a lower price, so therefore the image that we have created for Bajaj Almond Drops which is the premium product. If somebody tries hitting it out only on the basis of price, he will find the difficult. So what does he have to do? He has to provide the reason to buy which is low price, also create an image of good product for that you need advertising. Now, fortunately all hair oil products are the cost of manufacturing is nearly the same, so if he tries this low cost Almond variant he would be left with very little money for advertising. What happened in the case of Amla was exactly the same. Unfortunately, the leader actually stopped advertising during this period. He was milking the brand at that point of time and therefore the low cost brand could achieve market shares with minimum advertising. To counter that we are consistently the second highest advertised hair oil brand of the country, because we know this is the barrier to entry.

Percy Panthaki: Thanks a lot.

Moderator: Thank you. The next question is a follow up from the line of Abdul Karim from Narnolia Securities. Please go ahead.

Abdul Karim: One question, recently rural per capita income is looking strong and this tertiary demand coming from the rural area, how do you quantify rural growth as well as urban growth in the next couple of quarters in FY 2016?

Sumit Malhotra: Again, I do not claim to be an astrologer, so I cannot really say what is going to be? But if you look at the trend, the rural growths are slowing down much faster than the urban growth in hair oils. So, I do not see bottoming out. I think at least for this quarter and possibly the next quarter, the rural growth should slow down even further.

Abdul Karim: Can you throw some color on UAE subsidiary when it will on work?

Sumit Malhotra: What?

Abdul Karim: UAE subsidiary?

Sumit Malhotra: It will start working from April. I said that in my opening.

Abdul Karim: Thanks.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Capital Limited. Please go ahead.

Anuj Sehgal: Just going back to the explanation that you gave for slowdown in the rural market when we speak to some of the other company rural and semi urban area and not the areas where they see most of the growth happening for the last 12 months or so. So, why is that different for your product. I understand you are talking about the **uptrading** the consumers, can you just elaborate as to why the different in this category versus the other product?

Sumit Malhotra: I think as I explained that I have said that the brand grows because of conversion. The conversion happens from unbranded which is basically people using the cooking oil in the house, two branded coconut from branded coconut to value added perfume day by there. What happens in the rural areas, the largest amount of unbranded hair oil users stay, if that conversion slows down, the rural area will not see a kind of growth that have happened. In most of the category it is shift between the brands within the category, because there is hardly any unbranded category, so all the numbers that we have actually for branded. We really do not know what is happening in the unbranded category which is the hypotheses that we have.

Anuj Sehgal: Just by definition also assume that the rural consumption is slowing and therefore it does impact, because some of the other companies make us believe that the rural economy is growing as it is moving earlier and there is no impact what is there or whatever is happening in the metros or whatever is happening in the market?

Sumit Malhotra: It should be true for even hair oil, you do not have figures of one-third of the market, one-third market is the unbranded in India. In the rural areas, I would wager to say as much as 40% is unbranded for which we have no figures. We could possibly see unbranded hair oil users increasing whereas branded hair oil which is shown by Nielson could be decline like are seeing today.

Anuj Sehgal: Thank you.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Good afternoon Sir. Just couple of questions, Sir if you can share market share data of Almond Drops hair oil in Almond hair oil categories?

Sumit Malhotra: There is no Almond hair oil category.

Tejas Shah: So that is why, since now there are three brands playing in the same category, versus funding would it be, so if you need any data handy, because I recall at some point you said that as to be somewhere around north of 92%?

Sumit Malhotra: If you look at total volumes, Dabur hair oil would be around 2%-odd. Dabur, Almond hair oil and Clinique would be lesser than a percent, so it is maximum 3% of total light hair oil and 60% light hair oil is Bajaj Almond Drops. So this three would be five, we should be around 95% of the Almond hair oil in market.

Tejas Shah: This lead would have extended in the recent past only?

Sumit Malhotra: Yes.

Tejas Shah: Second question pertained to your commentary in rural slowdown from your experience do you think that this is an aberration because this for the first quarter of major slowdown in your delta of rural growth or urban growth, so should we take it as aberration or you have seeing some prolonged weakness in that consistent basket altogether?

Sumit Malhotra: The current trend is downwards Tejas, and I do not know whether we have hit the bottom or not. So, the current trend for the last four quarters in a row is that rural is slowing down faster than urban consumption of light hair oils.

Tejas Shah: Last question pertains to your Bangladesh operation. This quarter's revenue had any contribution from that geography?

Sumit Malhotra: That geography was very disturbed out of three months more than 1.5 to 2 months were harthals. There is hardly been much sale. We have everything ready in terms of distribution, in terms of manufacturing facility, we are just waiting for the political scenario to become a little better and fortunately we have not started investing behind advertising there and therefore actual loss has really not happened there.

Tejas Shah: But we are ready to go if situation improves over there?

Sumit Malhotra: Everything is ready on the ground.

Tejas Shah: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Dama from Equirus Capital. Please go ahead.

Dhaval Dama: I just wanted to check on one thing. What is the normal level of inventory that we keep at a distributors and retailers end?

Sumit Malhotra: Good question, because you can put inventory in numbers of days or you can put in volume terms. In terms of number of days it depends on what the next month sale is going to go. For example in a growing market and we expect next month secondary to be better than this month secondary and we might be keeping around 35 to 40 days of stock at our distributor level, but if next month secondary drops, this 35 to 40 becomes 40 to 45. This is why the correction is happening. Have I made my point?

Dhaval Dama: Yes Sir.

Sumit Malhotra: To add to this, I think you need to know that we sell on cash. So it is not that I can keep 35 days paid and five days unpaid stock. So 35 days is all paid stock as the distributor level and therefore when your secondary or your tertiary or what we called offtake is flattening, the drop happens much faster in our case, because we do not get any credits in the market, in other companies would give 7 days or 21 days credit they can delay this drop in primaries or that expansion in stock at the distributor by giving extra credit.

Dhaval Dama: Thank you very much Sir.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Sumit Malhotra for closing comments.

Sumit Malhotra: Thanks to one and all for joining the conference call. After the bad quarter, I admit it is not a good quarter. I would like to assure you guys that things are not as bad as you might see and I am sure that your support in the next two or three quarters will see us emerge a much stronger both financially as well as in distribution terms in the quarters to come. Thanks for supporting us and looking forward to continue support in the future. Thanks.

Moderator: Thank you. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.