



“Bajaj Corp Limited Q1 FY 2018 Earnings Conference Call”

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**MODERATORS:** **MR. JAYKUMAR DOSHI – KOTAK SECURITIES LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Bajaj Corp Q1 FY19 Earnings Conference Call, hosted by Kotak Securities Limited. As a remainder, all participant lines will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities Limited. Thank you and over to you, sir.

**Jaykumar Doshi:** Thank you. Good morning, everyone. On behalf of Kotak Institutional Equities, I welcome you all to Bajaj Corp's Q1 FY19 Earnings Conference Call. We have with us Senior Management of the Company represented by Mr. Sumit Malhotra – Managing Director, Mr. Sandeep Verma – President (Sales and Marketing); Mr. Dilip Maloo – Chief Financial Officer and Mr. Kushal Maheshwari – Head (Treasury). I would now like to hand over the call to Mr. Malhotra for opening remarks. Thanks and over to you, sir.

**Sumit Malhotra:** Thank you, Jay. Good morning to all. And welcome to the conference call for declaration of the first quarter financial year 2018-2019 results for Bajaj Corp. With me are Sandeep Verma, – President (Sales and Marketing); Dilip Maloo – CFO and Vice President Finance; and Kushal Maheshwari – Head (Treasury).

After many quarters we are seeing all the indices of the company's performance like turnover, volume, EBITDA, retail offtakes, market share, etc., showing positive growth. During this opening address I will be getting into each one of them, and then we are open to questions.

The company closed the quarter with a turnover of Rs. 215 crores. The growth in turnover vis-à-vis the first quarter of last financial year is 9.45%, the volume growth is 8.7%. The EBITDA for the quarter is Rs. 70.48 crores which is a growth of 13.9% over EBITDA of Q1 in the last financial year. The EBITDA-to-sales ratio is maintained at a very healthy 32.8% which is 128 bps improvement over the last year Q1 EBITDA-to-sales percentages. The PAT and the PBT for the quarter are at Rs. 53.77 crores and Rs. 68.53 crores respectively.

The growth in turnover on a tax neutral base, that is accounting for the difference between the VAT and the GST regime, is 13.2%. After 11 quarters we are seeing double-digit turnover growth, even though there has been a base effect of GST last July, the encouraging news is that our lead brand has shown a volume off-take growth of 10.5% this quarter. The main reason for this is an improvement in the growth in the rural areas as against a 4.8% growth in the previous quarter, our lead brand Bajaj Almond Drops has shown a 11.9% growth in the rural areas this quarter. Though GST still is causing some concern, this concern is now largely on the refund of the budgetary support announced by the government for the erstwhile excise free zones in the hilly states. We have started receiving a small part of this refund, but the company still has to get a refund of Rs. 21 crores for the last four quarter refunds.

We are seeing a very robust growth in our domestic hair oil volumes. This is led by growth in modern trade sector which is 36.25%. General trade which is largely sales to traditional retail formats has also shown a very encouraging 17.5% growth. While sales in CSD normally grows in tandem with retail sales, orders from CSD are showing very erratic trend. We believe that it is difficult to predict what the strategy is and therefore do not expect any major growth from CSD this year. On the other hand, the reboot of the international business is towards the last stages of implementation. We expect that the positive results would be visible in the third quarter of the financial year.

Even though the offtake volume growth in total hair oil segment, that is including all the brands, has dropped this quarter. The growth in light hair oils has actually picked up. Volumes of total hair oil has grown by 2.6% quarter. On the other hand, due to the rise in copra prices the hair oil value growths have jumped to 11.3%. As against the volume growth of 3.6% in the third quarter volumes of total hair oils rose to 4% in the fourth quarter and have now fallen to 2.6%.

On the other hand, the light hair oil segment growth and volume has picked up. This has been led by a smart increase in rural growth. The rural volume growths of light hair oils have jumped from 5.3% in the fourth quarter to 9.8% in this quarter. This led to a volume growth of 6.7% for the complete light hair oil segment whereas our lead brand Bajaj Almond Drops has driven the growth in light hair oil with a growth of 10.5% this quarter. Improvement on volume growths of light hair oils and even better gains by our Bajaj Almond Drop brand has resulted in all time MAT market share of 59.4% in volume terms and 61.8% in value terms.

As predicted in the last quarter's con-call, with turnaround in light hair oil volumes largely driven by Almond Drops is well underway. We expect that with a good monsoon and various rural income growth programs announced by the government, this growth trajectory should continue in the next couple of quarters.

Along with our market share gains, the effort to increase our direct distribution has resulted in an all time high distribution of our lead brand. The brand is now available in 39.76 lakh outlets. The direct distribution currently stands at around 4.8 lakh outlets and our aim is to reach 5.4 lakh outlets within this financial year. This increase in distribution is led by doubling of our direct rural reach over the last one year. Along with the improvement in direct reach the use of automation by all our sales personnel has led to better control and efficient targeting of the right kind of outlets for our products.

This quarter saw the restaging of our skin care brands Bajaj Nomarks. The national launched happened in mid-June with enthusiastic response from the consumers and the trade has driven the brand to a 41% value growth during this quarter. In fact, June 2018 we saw the highest monthly primary and secondary sales for this brand since July of 2015. The new packaging and the new communications strategy with Tapsee Pannu as the brand ambassador has been widely appreciated by the consumer. This restage has been driven by the innovation center and this is the third in the line of launches that have been planned, with a confidence that we have gained

with the three launches we expect the next round of launches to be larger and more exciting. The previous launches, Bajaj Brahmi Amla Ayurvedic Hair Oil and Bajaj Coco Jasmine have shown early signs of success in the geographies where we have launched these brands.

There has been a pressure on margin which remains high due to the increase in crude oil pricing as well as the rupee depreciation. On a quarter-by-quarter basis light liquid paraffin has gone up by 20%, even after accounting for input tax credit there is a 3.7% rise in LLP prices. On the other hand, refined mustard oil has gone up by 14% which is equivalent to 8.6% rise post ITC and glass bottles by 6%. This quarter most of the negative effect of these RMPM cost increases have been contained due to a) increase in prices or MRPs in April 2018, b) maintaining stock of lower price RMPM and c) the ITC, or the input tax credits that we have this year. However, if this inflationary trend continues, we may have to look at another price increase this year.

Another standout feature of this quarter's performance is the difference between the growths of the operating profit and PAT. This difference is on account of the stark decrease in our other income. As per accounting standards we have recognized the fair value of our investments in corporate bonds as on 30th June. As a result of this, the reported other income in the first quarter of this financial year has fallen from 11.06 crores last year same quarter to just 1.17 crores. This drop is on account of mark-to-market losses which we know are only notional of around Rs. 8.2 crores.

We have invested all our funds in AAA rated bonds and hence there is no real loss, but due to the sudden depreciation of rupee rates in the last two days of June, this mark-to-market losses have had to be recognized. The positives we have witnessed during this quarter are:

- A) Growth in volumes in light hair oil industry led by improvement in rural volumes.
- B) Improvement in leadership position of our brand, improvement in both volume and value market share.
- C) A very healthy EBITDA of 32% despite strain on RMPM prices.
- D) Marked improvement in distribution led by improvement in direct distribution and deeper penetration in to the rural sector.
- E) Lastly the highly visible launch of our new Ayurvedic Bajaj Nomarks and the new strategies thereof.

We are now open to questions.

**Moderator:**

Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Avnish Roy from Edelweiss. Please go ahead.

**Avnish Roy:**

Sir, my question is on the anti-marks category, the growth rates are slowing down significantly for the past four quarters for the category from 48% to 35%, 22%, 9% and now 7%. So, if you could explain why this is happening, is it because of any specific Nielsen issue or is it that market share loss is happening due to some of the smaller players, if you could discuss that. And in that

light your re-launch of your own brand, does it make sense if actually there is a category slowdown?

**Sandeep Verma:**

See, one of the reasons for the 40% or the 50% plus growth rates that we were seeing in the anti-marks category earlier was also because of the entry of many new brands. Now that entry of new brands has obviously slowed down, most of the brands which are there in the market now, in the category now have been there for more than a period of one year. So that is one reason that we can see the slowdown. Other than that, we see absolutely no reason from a consumer impact perspective or from a consumer demand perspective into the category. We still believe very strongly that this category is going to continue to grow at a CAGR of 25% to 30% plus over the next three years. We have launched on account of long-term interest into this category without taking the current short-term slowdown into purview.

**Avnish Roy:**

But normally when new players come they do expand the market for medium-term longer-term perspective, such a sharp dip does it not mean that competitive intensity also would have gone up because so many new players have entered?

**Sandeep Verma:**

The competitive intensity has definitely gone up which is why the need for re-launch in any case, you cannot continue to play in the same category with the same set of rules with your existing mix, if you have new player coming in and changing the rules of the game which is what has happened in the category. And that demands a complete re-launch, which is what we have done. So what I am saying is that yes there continues to be a category growth, but like you said it is not to the extent of 40% to 45% that we were seeing earlier because there have been no new brand entries as such to further growth from that perspective.

**Avnish Roy:**

My next question is on Bajaj Brahmi Ayurvedic Hair Oil and your Jasmine hair oil, these two are seeing very good growth, obviously on a smaller base. And in your future outlook you have said that you want to keep driving the off-take. So my question is, currently this high growth is it coming from the competition or is it just expanding market? And what exactly are you doing in terms of driving off takes, is it the pricing part or is it the distribution which you have discussed in the presentation, is that driving mostly the off-take?

**Sumit Malhotra:**

See, both the brands are in completely different stages of growth, vis-à-vis Bajaj Coco Jasmine we still believe that these are early days, so most of the gains and offtake that we are seeing is largely because of distribution expansion per say. On the other hand, Bajaj Brahmi Amla Ayurvedic that you are seeing, the growth in offtake that we are seeing is we believe we are getting back some of our legacy consumers. If you recall this is obviously a heritage brand and one of the major reasons for it becoming so small is because we actually lost majority of our consumers. So we believe that a lot of the early growth that we are seeing is actually from the last consumers of this brand who had moved on to some of the other brands. But just to repeat, in the case of Coco Jasmine this is largely on account of increased distribution as you pointed out. We still feel that it is very early days that currently what we are doing in both Bajaj Coco Jasmine and on Brahmi Amla is to continue to increase our awareness by continuing with our

television and other campaigns, and also on focusing on the coverage part especially on the Coco Jasmine front.

**Avnish Roy:** And sir last question in terms of the innovation, you have said in Mission 2020 cultural innovation is going to be extremely key and that too across the globe. So my question is, how do we quantify this in terms of your R&D spend or in terms of new launches? Next two years are you able to quantify it? I do understand it will be much higher than in the past three years, but are you able to quantify these two aspects?

**Sumit Malhotra:** See, comparing our current R&D expenditure with R&D expenditure of the past will probably not be the right measure, simply because of the low base. What we can actually say is that our R&D expense has gone up by about four to five times. But like I said, it is really on a very, very small base. We will continue to invest behind R&D so the spends on R&D will continue to see an upward tick. We believe that we will get by the end of three years, which is basically by the end of 2020 we expect to get almost 40% of our incremental growth coming in from the new innovations or innovation that we have done this year, or we will continue to do in the next two or three quarters. So that is our goal.

**Avnish Roy:** FY18 would have been how much in terms of that number?

**Sumit Malhotra:** FY18 is very small because our big launch has just happened in June.

**Avnish Roy:** And this innovation is defined as in the past two years or three years?

**Sumit Malhotra:** No, we have only innovated in the last three quarters if you remember.

**Moderator:** Thank you. We have the next question from the line of Bharti Mundhra from CD Equisearch. Please go ahead.

**Bharti Mundhra:** Sir, what is the status of our expansion activity in Baroda?

**Sumit Malhotra:** See, we have begun the designing part of it. As you know that for such a large facility we will need a lot of time in terms of designing it. But once the designing is closed by around July – August, we should start construction sometime in September - October.

**Bharti Mundhra:** And sir what capacity are we eyeing in that front?

**Sumit Malhotra:** We are trying to get around one-third of our expected capacity need for next year from Baroda this year.

**Bharti Mundhra:** And what is the capacity utilization of the Gohati plant?

- Sumit Malhotra:** The Gohati plant would be currently very close to 70% odd and we are trying to build that further also as we go along. And then all the small plants would stop being operational and we would have three large plants based in Paonta Sahib, Guwahati and Baroda in let's say two years time.
- Bharti Mundhra:** And if you could just throw some light on the sales from the IB division for the quarter?
- Sumit Malhotra:** It is actually next to zero, and the reason why we took this step was in order to clean up the infrastructure being the stock lying at our depots, stock lying with our distributors and start on a clean slate. This was also the time that the new team came in and we did not burden the new team with all old issues. So you will see that there is a major drop in IB this quarter. From next quarter you will see a much lesser drop and the final third quarter you should start seeing some growth coming back.
- Bharti Mundhra:** So, this drop is because of decline in off-take from the consumers?
- Sumit Malhotra:** No, it is basically your pipeline stock that is being dried out. Our offtakes last month in June were the highest in three of the geographies that we exist which it is Bangladesh, Nepal and UAE. So it is not off takes, it is rather clean up of the pipeline.
- Bharti Mundhra:** And why is the sales volume of Amla Hair Oil category getting depressed?
- Sumit Malhotra:** If you are talking of plain Amla which is a low-cost warrior, we are not focusing on that at all. And whatever sale is happening we are letting it go. We are not investing behind the brand because we believe that there the differentiation between the Amla brand is the least. And until you can find the differentiation you really do not invest in communication on such brands.
- Moderator:** Thank you. Our next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.
- Manoj Menon:** A few questions, I will actually take on by one. First, the confidence on potential price increase which you may have to do this fiscal as the covers go away by August, I am sorry I just missed your initial brief, just request if you could just adjust this price increase confidence thing first?
- Sumit Malhotra:** See, in terms of confidence, Manoj, you can either go by legacy which is I think not worth it because three years we have not taken increase. But the price increase that we took in April has really gone through and that shows through in the kind of volumes and off takes that you are seeing in the market. Second is, also that if the price of light liquid paraffin and other raw materials keep rising the way they are you really do not have any choice but to take it. It is largely due to confidence in volumes not dropping after the recent price increase and more because of necessity.
- Manoj Menon:** Secondly, on a two years CAGR basis your volumes are largely flat, but while it is an improving trajectory if you can just help us understand basically the recovery so as to speak which is seen in ADHO, is it macro, micro? The context what I am asking is, you had a lot of disruptions in

the last couple of years because of managerial changes, process changes, etc., do you think it is all completely behind you or is it still holding back some of the growth?

**Sumit Malhotra:** If you look at internal changes, I think it is behind us. But if you look at external like demonetization and GST, I do not have any control over that so I cannot comment on that. But I think the basic thing, and I harped on it during my opening address was the rural growth coming back. And sequentially if you look at it for Almond Drop and light hair oils quarter-by-quarter for the last three quarters, both have been rising which means that the total growth of light hair oil and the rural growth of light hair oil has been rising, which is a sign that we were looking for in my last results con-call, I had pointed towards that saying that the trend is positive and therefore I believe that light hair oil growths are coming back.

**Manoj Menon:** Sir, actually there is a sub-question here, is it fair to say that some of the recovery in growth in premium oil which you belong to is also because of the very high ticket size for coconut oil currently?

**Sumit Malhotra:** I do not think you can devise it like, yes if coconut oil price is the only reason the consumer would have gone through the lower priced Amla, so why would it come to us. But yes, on the other hand also the gap between coconut and light hair oil has decreased and there could be possibly an option there and that is why our advertising communication is focused on converting people from heavy hair oils to light hair oils, notwithstanding the price gap.

**Manoj Menon:** At 9% employee cost to sales, I know that percentage is sometimes probably hides more than what it actually reveals, would it be fair to say that there is leverage for you or is it that let's say the employee cost for 2019 and 2020 could also still growth in double-digits that you will not probably get leverage for the next year or two?

**Sumit Malhotra:** I am not too bothered about that, I am bothered about the difference we get from the increase in employee cost. If need be we will continue investing behind manpower because that is the biggest differentiator between a good and a great company. And looking at our margins, looking at our EBITDA I think there is enough scope to absorb if necessary any further rises. But looking at it from today's perspective, I think we are more or less there.

**Manoj Menon:** Sumit, actually the question here is, when I look at your organization chart today versus let's say what it was five, six years back, it does appear to be significantly better staffed in terms of line functions, etc. The question here is, is 70% - 80% of those investments is already captured in this 9% or let's say hypothetically speaking can this 9% be 10% and 11% in the next couple of years?

**Sumit Malhotra:** I think you used the right word hypothetically, it depends on how fast you are growing and what is the complexity of your business. As we stand here today, if you look at our kind of a business I think it is good enough. But if you were to take a few acquisitions along the way, you need to buck this up again. And that is why I am not giving you a definite answer on whether 9% or 10%



is good enough, whether it will come down with increase in turnover or go up with the complexity increasing.

**Manoj Menon:** And two small ones, No-marks, if I understand correctly, now is the re-launched as a pure Ayurvedic brand, is that understanding correct?

**Sumit Malhotra:** Yes, perfect.

**Manoj Menon:** So, I don't know if it is a trivia question, the name No-Marks is English and Ayurvedic, how should I read this?

**Sumit Malhotra:** You can read it like No-marks is English and it is the biggest anti-blemish cream, or Fair & Lovely is purely English and it is the biggest fairness cream in India today and Almond Drops, if it is growing in rural area does not have even a single Hindi alphabet on the whole packet.

**Manoj Menon:** No the context, I am asking basically because that I presume that No-marks is predominantly an urban product and for whatever reason most of the Ayurvedic brands what are there in the market, at least the successful ones, has got some sort of an Ayurvedic connotation or Hindi name to it, that is the only reason I am asking that question.

**Sumit Malhotra:** No, you are wrong there. The largest anti-blemish is No-Marks, and No-Scar is actually a steroid based anti-blemish, it is not Ayurvedic. The second largest should be Fair & Lovely is Ayurvedic but it is also English.

**Manoj Menon:** And lastly, looking at your annual report you have given the SKU mix in page number 74, obviously we have seen a significant improvement or rather increase in 300 ml contribution. Is there a big picture there or is it something cyclical which has happened last year?

**Sumit Malhotra:** Manoj, my request to you is not see individual SKUs, look at buckets, the bucket you should be looking at is the low SKU which is the sachet 10 ml and 50 ml, the mid ones maybe the 100ml to 200 ml and the large ones which is 300 ml - 500 ml. If you look at that you will see that the 300 ml - 500 ml contribution to the overall saliency of Almond Drops is growing which is a very healthy sign, which means that the entry into the household is in larger volume terms, which means that more and more people within the house are using it rather than just being a solace user. And that is the reading you should take into that SKU wise breakup.

**Moderator:** Thank you. Our next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.

**Manish Poddar:** Actually, just wanted to compare let's say now going ahead when I compare the LLP prices let's say in Q2 FY18 in the presentation which you shared, the LLP prices mentioned there is 51.8. So would it be right to compare that 51.8 to now incrementally to 60.46 which is now the landed cost adjusted for the ITC?

- Dilip Maloo:** Yes, you are right, because that second quarter of last year GST had already come in and therefore you are comparing like-to-like.
- Manish Poddar:** So about 17% kind of inflation out there?
- Dilip Maloo:** Yes.
- Manish Poddar:** Okay. Just on this cash position, now we have been holding cash for quite a considerable period of time, do we have time limit till when, I understand we have been looking for acquisition, but is there a time limit let's say by FY19 end if we do not get the acquisition we would look at distributing cash or something like that?
- Dilip Maloo:** We have been distributing cash, if you look at our dividends that is distribution in cash. The only other thing I can do to deplete from my cash balance would be buyback. So we are not looking at buybacks at this point of time. But coming to your main part which is acquisition, we are not desperate for an acquisition because we know that we could easily make a big mistake there. So we will be cautions when we analyze acquisitions. But now with our confidence in improving distribution, launching brands and being able to support brands in meaningful way, I would say the chances of an acquisition are much higher now than they ever were.
- Manish Poddar:** And just one small bit, on this Ayurvedic oil category is there any trend which you are seeing at household level which you will like to call out?
- Sumit Malhotra:** Obviously with people like Kesh King and Patanjali and Indulekha and all that, it has a category. And one of the biggest issues we have in hair oil is it is very unglamorous category. And all of these Ayurvedic hair oils are making it a little bit more meaningful in the consumers mind and therefore I think it is a place you should be in.
- Manish Poddar:** But it is still an and product when I compare your product, not with Parachute, but when I compare your product with an Ayurvedic hair oil it is still an and product and it is not a or product at household level?
- Sumit Malhotra:** Yes, it is a product and medicine is always an and product, it not or, you do not lose your regular hair oiling habits because you buy an Ayurvedic.
- Moderator:** Thank you. We have the next question from the line of Ashish Anand from Allegro Capital Advisors. Please go ahead.
- Ashih Anand:** The first question is, in one of our previous quarters we have spoken of shift from coconut hair oil actually happening more towards Amla versus Almond. I just wanted to understand, has any of this changed or is that trend kind of still continuing?
- Sandeep Verma:** If you recall Manoj's question, one thing he alluded was the increasing prices of coconut improving the shift between coconut and other hair oils. So what has actually happened over the

last two quarters or three quarters is that because of rise in copra prices the difference between the Parachute and the other hair oils has actually reduced. And therefore, conversion has speeded up in terms of volume terms. Earlier on it was going largely towards the Amla segment, I think over the last two quarters it is coming back into the light hair oils also. But yes, the larger shift is happening towards the low cost Amla.

**Ashih Anand:** The second question, when we are looking at improvement in volume growth, especially in rural, I was just trying to understand how much of this could be partly explained by a base quarter that was impacted with GST?

**Dilip Maloo:** We are talking of off-take, and GST did not affect off-take. If you go back you will see that the off-take was still there, the growth was still there in the first quarter of last year. So what you are most probably confusing with is you are confusing turnover with off-take. So GST affected turnover because there was a decrease in stocking through your pipeline, the consumer did not have any effect of GST, if at all, the consumption would have gone up because prices went down after GST implementation.

**Ashih Anand:** Just lastly in terms of if you are looking margins, we have certain raw material price pressure, we are looking at increasing both R&D and I am assuming A&P spends on our new product launches. Is it possible to give one to two years kind of an outlook on how do we see margins moving?

**Sumit Malhotra:** Normally we do not give guidance on these kind of thing, but I think in my opening address I said that if crude continues to rise our margins will be under stress, not because of cost of investment in R&D or A&P, that can be managed, the thing that cannot be managed is the raw material and packaging material prices. And you would realize that most of our raw material and packaging materials are directly or indirectly related to the price of crude. That is something that will affect us and we might have to take a price increase there.

**Ashih Anand:** Just a small follow-up on that, in terms of how much was price increase that we had taken in April, assuming raw material stay where they currently are, how much of incremental price increase would we need to take to be able to maintain current levels of gross margins?

**Sumit Malhotra:** I will not answer your second question because that is forward-looking. In terms of that if you take the increase in price and the decrease in volumes, the equated price hike would have been around 2.3% or 2.4%.

**Moderator:** Thank you. Our next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

**Aman Batra:** Just understanding a bit more in detail on this other income where you have taken this mark-to-market hit, what was the gain that you took into the balance sheet when you restated in June?

- Dilip Maloo:** Around 2.79 crores in first quarter of last financial year mark-to-market gains. And this time it is minus 5.4%.
- Aman Batra:** This would be one quarter phenomena or when transiting to IndAS you would have taken a larger gain, is it?
- Dilip Maloo:** No. It is basically at last of the month if you have to sell your corporate bonds what kind of gains or losses you would take, that has got nothing to do with the IndAS.
- Aman Batra:** And these are essentially held to maturity for you?
- Dilip Maloo:** It is notional, if I do not sell I do not actually incur these losses.
- Aman Batra:** Second thing, in Brahmi Amla, probably I might not be reading correctly but have the reported revenues from Brahmi Amla declined over last year and previous quarters?
- Sumit Malhotra:** Again, looking at revenues you would see a different picture, looking at off-takes you would see a 20% growth in off-take, revenue is a mix of quite a lot of things, last year we had CST, this year we did not have any CST, it is not there in CST. So it is a mix of many other factors, not only off-takes. What we are looking at for success in our brands is the change in off-takes.
- Aman Batra:** And the last thing was more on a slightly longer-term, I believe the ESOPs have been issued, so at what prices have they been issued?
- Dilip Maloo:** Let it get passed then we can share it, it has not yet been passed, the AGM is on the 23rd post which the NRC will approve it and then only can we talk about it.
- Moderator:** Thank you. Our next question is from the line of Amit S from Macquarie. Please go ahead.
- Amit S:** Sir, my first question is, your employee cost has gone up on a sequential basis from fourth quarter of FY18. Any particular reason for that?
- Sumit Malhotra:** Most capable people building second line.
- Amit S:** In the domestic franchise?
- Sumit Malhotra:** Both, domestic, R&D and also international business.
- Amit S:** So I am not asking for a medium-term kind of a thing, but this number will continue to go up over this year?
- Sumit Malhotra:** Absolutely, obviously it will go up, but once the efficiency starts coming in the percentage would be stable or maybe decrease as we go along.

- Amit S:** Secondly on the international business, in the presentation you have mentioned an ambition of Rs. 100 crores by 2020, just wanted to understand the road map which are the countries where you are looking at the growth prospects and are you also expanding in the additional countries?
- Sumit Malhotra:** One thing we realized along the way is, until you have a managerial bench strength you should not get into too many countries. So one of the biggest change in strategy is look at few countries and invest in these countries, trading is not what we would like to push as we go along. If you look at the countries that we are strong, and we would like to invest in are the obviously the larger areas like Nepal, Bangladesh, Gulf region or the new countries like Indonesia and all that where we believe that there is enough potential for our kind of products, both hair and skin care where investments will give you returns. So in terms of number of countries, I do not think you will see a massive increase in number of countries where we would be participating in. But doing more consumer facing work I think you will see more of this happening in three or four countries that I mentioned.
- Amit S:** And lastly on the A&P side, is it possible to give a breakup on the kind of incremental spend which you are doing on your new products, for example, Brahmi Amla and Coco Jasmine?
- Sumit Malhotra:** I would not like to break it up by brand.
- Moderator:** Thank you. Our next question is from the line of Jinal Sheth from Multi Act. Please go ahead.
- Jinal Sheth:** Just taking back the comments that you were discussing earlier about coconut price going up, so there I just was slightly confused, are we seeing that conversion because of that price gap reducing or also we are seeing demand uptick, just some thoughts on that?
- Sumit Malhotra:** How can you separate both, obviously there is a demand which will force the conversion, both things are actually the same thing because conversion happens when there is a demand, the demand may happen because of improved communication, higher disposable income, reduction in prices between the two competitors, but after all it is obviously lead by demand.
- Jinal Sheth:** What I have understood with our conversations in the past where when there is usually a slowdown people are down trading, but here because obviously the Parachute prices have gone up so I am not sure if that up-trading is happening or is it because of the Parachute prices going up?
- Sumit Malhotra:** In bad times normally, what happens is since it is a non-Amla category the conversion itself slows down because people are not willing to take the jump between shifting brands. Yes, high inflation also causes down-trading, but down-trading would happen from coconut to low cost Amla in any case. Now what is happening is your low cost is also growing but at a slower pace, between light hair oil is picking up, which means that the economy and therefore in the economy the disposable income is now becoming a little better so people are willing to take this choice of buying a little higher priced product.

- Jinal Sheth:** That is why your positive commentary. And if it was for other reasons you would not have been as positive as what you are suggesting?
- Sumit Malhotra:** Yes, and this is for last two con-calls, I called it out last con-call and I am calling it out this con-call.
- Jinal Sheth:** And on the second question I just wanted to understand where even on the exports and even on the No-Marks where we are saying that we have dried out the trade pipeline to support the re-launch, so is there a change in distributor?
- Sumit Malhotra:** See, we had a whole packaging in the pipeline. Now normally when you reach stage to the size that we have we have actually changed everything in terms of look. If I put both of old and new you would not recognize the product. Therefore, it is always better to try out the pipeline, now pipeline would normally mean your manufacturing units, distributors, whole sellers, but sometimes because you cannot do it you cannot normalize it across everyone, there are some retailers that also get stopped out, at that point of time you start losing off-take. So off-take has gone down because obviously the drying out that we did has affected stock in the retail areas. So possibly a consumer who went asking for No-marks did not get it in the retail.
- Jinal Sheth:** And we expect this to normalize in the next one to two quarters?
- Sumit Malhotra:** It has already happened.
- Jinal Sheth:** And just lastly, what is the update on our premises in Worli?
- Sumit Malhotra:** Now that is a sore point, we still have a few more permissions to get, maybe when we meet I will take you through it. Something which I was never exposed to and after getting exposed to it is something I do not understand at all, it takes so much time to even remove the debris that we have created because of escalation you need permissions, and that permission takes two months. So yes, if we would like it we would like to move in tomorrow, but we cannot because of the various permissions that are not there.
- Moderator:** Thank you very much. That was the last question in queue. As there are no further questions, I would like to hand the conference back to the management for any closing comments.
- Sumit Malhotra:** Thank you for logging in on to our conference call. I think the last three quarters have sequentially been better than better and I am sure that we will be able to continue this growth trajectory, not only because of the external factors, also because our team is now becoming much stronger and stronger and much more organized, and that would help us grow faster than the market and definitely faster than the light hair oil industry. Thanks a lot.
- Moderator:** Thank you very much. On behalf of Kotak Securities, that concludes this conference. Thank you for joining us, Ladies and Gentlemen. You may now disconnect your lines.