“Bajaj Corp Limited 4Q & Full Year FY-2016 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Bajaj Corp 4Q FY-2016 Earnings Conference Call hosted by Kotak Securities. 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 '*' 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. Thank you and over to you sir.

Anand Shah: Thanks, Ali. Good Afternoon, Everyone. On Behalf of Kotak Institutional Equities I Welcome You All To The Bajaj Corp 4Q FY-'16 & Full Year FY-'16 Earnings Conference Call. We have with us Senior Management of Bajaj Corp represented by Mr. Sumit Malhotra -- Managing Director; Mr. VC Nagori -- Chief Financial Officer; Mr. Dilip Maloo – Vice President, Finance and Mr. Kushal Maheshwari –Head, Treasury.

I would now like to hand over the call to Sumit for opening remarks. Thanks and over to you sir.

Sumit Malhotra: Good Afternoon To All and Welcome To The Conference Call. Like Anand said I have with me Mr. VC Nagori who is the CFO and President, Finance; Mr. DK Maloo who is the Vice President, Finance and Kushal Maheshwari who is the Head, Treasury.

The company closed the financial year '16 with a turnover of Rs.867 crores which translates into turnover growth of 5.74% over the preceding financial year. The EBITDA for the year is Rs.278.54 crores, which is 32.14 of the sales and is higher by 13.75 versus the Financial Year '15. The profit before tax and profit after tax are Rs.251.60 crores and Rs.234.86 crores after adjusting the exceptional item of Rs 46.98 crores. The PAT for the year has grown by 14.19% over the previous year. For the company the 4th quarter of this financial year has not been very encouraging and the turnover recorded during this quarter was Rs.227.79 crores, this shows a marginal decline of 3.24% over 4th quarter of last financial year; however, the EBITDA for the quarter is Rs.76.58 crores which has grown by around 2-odd-percent over the same quarter last year. As a percentage of sales, EBITDA has improved to 33.62% as against 31.88% in the corresponding period last year. The PBT and PAT both remain healthy at Rs.68.68 crores and Rs.54.02 crores after adjusting exceptional items of Rs.11.74 crores.

The environment within the FMCG industry continues to be rather subdued and the overall Hair Oil market is nothing very different. The overall Branded Hair Oil market has grown by just 0.7% in volume terms for the period April to Feb 2016. Within the Hair Oil industry, the volume growth of the Light Hair Oil was slightly better, Light Hair Oil remains the fastest growing segment within the Hair Oil segment and the value offtakes of our lead brand has also been quite good and has shown 8.5% growth in value offtake during the period April to Feb this year. Within the Hair Oil industry, the growth recorded by the Light Hair Oil and specific Almond Drops is the highest for the period April to Feb '16. Though offtakes have started improving over the last 1 or 2-months, the same is yet not visible in the primary sales. The major cause for concern remains the slowdown in the rural sector and this has dropped drastically if we were to take on a year-to-year basis. For the period Jan-Feb this year the volume growth in rural has come down to just 1.2% which is perhaps the lowest over the last 14-15 quarters. Despite the strain on our volumes, our lead brand Bajaj Almond Drops has shown an increase in distribution figure and a marginal improvement in market share over this period. Our market share now stands at around 61% by value and the brand is available in 3.7 million retail outlets all over India.

The good news is on the cost front and the quarter stood out because there was a further fall in the prices of Light Liquid Paraffin as against an average rate of Rs.54.7/Kg in the 3rd quarter of this financial year, the 4th quarter the price LLP has come down to Rs.46.41/Kg. Since the prices of LLP have now stagnated and even which are moving up we have bought forward and we have a long-term contract which will see us till September of this year.

On the Vegetable Oil front, the prices have slightly relented during the quarter and has come down to Rs.86.21/Kg Vs Rs.93.76/Kg in the last quarter.

The acquired brand Nomarks has closed the quarter with a turnover at Rs.8.18 crores. Though there is a significant drop in the turnover over the corresponding quarter; however, the secondary sales has seen an uptake during this quarter. As per Nielsen, the offtake of the category as well as the brand continue to be very encouraging. The Anti-Blemish Cream category continues to grow and has grown by 22% during the period April to Feb '16. Within the category Face Wash segment continues to show the fastest growth and it is growing at 23.9% vis-à-vis 16-17% growth in the Cream segment. The margins remain very healthy for Nomarks also. Because of this despite very high level of advertising the brand continues to be profitable at the EBITDA level.

Another good news is that our International business has grown at 59% during the year FY-'16 despite Nepal not doing well, now the International business contributes a little over 4% of our total turnover. We are now open for Questions.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Sir, a couple of questions actually; one, while we heard your comment on the rural how it has actually panned out in the last quarter. Given the optimism which I think street seems to be having on based on the monsoon forecast, etc., from a demand planning point of view, how are you looking at rural for the next six months?

Sumit Malhotra: Manoj, frankly, I have also heard the statement by the meteorological department and it has bought fear to us also, but frankly I do not see much happening in this quarter because anyway the monsoons will hit you sometime in June-July and the positive effect earliest I think will be towards the end of the second quarter, most likely the 3rd quarter of this financial year. Having said that I think internally we stand by our policy that we are going to continue pushing the rural demand and that is because we strongly believe that the growth will continue to come from the rural demand. The last 1 or 2-year have been an aberration and that hopefully god willing and the monsoon willing you see a turn in this year.

Manoj Menon: Secondly, on the urban consumption side, at least in the last one year, there has been definitely enough green suits for urban to do better than what actually it is doing currently, let us say low food inflation, etc., So, are you finding anything in any of your urban areas in terms of demand? What I am trying to get it is that for example, are you finding that let us say Mumbai is underperforming and let us say some of the other cities are doing well or vice versa, any trends which you are seeing in urban?

Sumit Malhotra: If you go back let us say around 2-years urban was the first cause of concern and there were times when the total Hair Oil in the urban segment was actually declining, that has overturned, then over the last 3-4 quarters urban is growing even though at a much lower pace at 1.8-2%, but the growth is back in the urban area. In terms of the urban area the faster turnaround has actually come from the Tier-1 towns and not the metros. So you still find metros like Bombay, Delhi not growing as fast as the Tier-1 towns like Lucknow, Kanpur even the Indores and Jaipurs of the world.

Manoj Menon: If you could just help us visualize how the Nomarks trajectory could actually pan out over the next couple of years because it has been fairly been volatile in the last year or so?

Sumit Malhotra: I think it was targeted to be a little more volatile, may be it panned out more volatile than we actually wanted it to do. But the way I see is you see more steady sales coming back into this segment and because now the stock at the distributor level and also the retailer level are more or less neutralized. So come this quarter or maximum next quarter the primary and secondary will start equalizing, to give you an example, this 4th quarter our primary sales as I said was around Rs.8 crores, whereas our secondary was close to Rs.12 crores. So going forward you will most likely see primary and secondary sales being equal there.

Manoj Menon: Have you done any price hikes in the last few months?

Sumit Malhotra: No.

Manoj Menon: If you could comment about and quantify the Indian Accounting Standard which is implemented from 1st of April specifically on your company?

Management: Manoj, in our company there will be hardly any effect of this Indian Accounting Standard because we do not have any major fixed assets and again our investments in treasury are also in mezzanine and bonds only. Maximum mark to market some differences will be there, otherwise there will not be any effect on any of the effects.

Manoj Menon: On revenue recognition?

Management: On revenue recognition also we have been following all these principles. So hardly there will be any change as per our I think study. Presentation wise it will come because the discounts and all these things will have to be reduced, sales have to be reflected net of discounts and all these things. So only presentation part will be changed.

Manoj Menon: But will it be correct to say that the actual net sales prospectively this year will be actually lower because you will take the promotions from other expenditure and now actually netted off with the sales…?

Management: It will be across the board because everybody in the industry is following the same practice.

Sumit Malhotra: Previous of the base levels will also go down, let us say for in our case of primary scheme around 3-4%, so 3-4% will be the drop in the turnover this quarter and also the last quarter because you would take that into effect then.

Manoj Menon: So which means incrementally the advertisement spends what comes as a cost line item will actually include only the media spends and essentially that will complete, exclude all the promotions, so that will be media expenses?

Sumit Malhotra: No, the way we understand is things like this freebies, etc., there will be in ASP itself, what will come is on invoice any discount and any **(Inaudible) 13:36** that will come will be netted off in the turnover itself.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Just a few questions; firstly, from our peak market share of about 60.9% in the second quarter, our exit market share has been 60.3%. Of course, you have indicated in the past that year-on-year is always like a better comparison. But I am just curious this 60 basis points loss of market share could you say some color on who has actually gained and in your opinion what would you attribute that market share gain by a competitor too?

Sumit Malhotra: If you look at the market share, the market share has actually grown over last year. Again, Karthik, I have been trying to tell you that if you look at a shorter period we will always see this thing, for example, in Feb you will see one swing, in March you might see the other way, right. In terms of any brand gaining market share, nationally there is no brand that has gained market share. There have been some states in which some brands have gained market share specifically in let us say UP, Keo Karpin has gained marginally. But if you take year-by-year the market share has actually gone up and not gone down.

Karthik Chellappa: If I understand it this 60 basis points sequential contraction is just a mix issue and in a few states players like Keo Karpin have gained marginally, is that by way of interpreting?

Sumit Malhotra: I do not know where you are getting that figure but if you open the 'Investor Presentation' you will see that last year our value market share was 59.7 and currently the market share is 60.3. What you are obviously seeing is an old presentation in which the basis is changed. Like I have also been telling you every 2-years Nielsen changes its base. So you are actually seeing the old base versus new base and that is probably where you are getting this 0.6% change in market share. If you go to the presentation that is on the site now, that has like-to-like basis.

Karthik Chellappa: If I just look at the SKU wise breakup in your Slide #9, the 100 ml and above, the portion is now about 32%-odd. If I were just to go back to the same figure last year, the share of greater than 100 ml used to be somewhere north of say (+50%). So, is it fair to assume that at least this year there has been significant downtrading in the category?

Sumit Malhotra: No, both your figures are wrong. 2-years ago more than 100 was not 50%, what has happened is sachet has grown from 17-18%, 2% points has increased, that is all, 50% more than 100 was around 7-years ago and not just 1 or 2-years ago. The slide if you see you see it is Light Hair Oil and not our Almond Oil.

Karthik Chellappa: At least as far as Bajaj Almond is concerned, you have not witnessed any kind of let us say downtrading also?

Sumit Malhotra: Not major, because our sachets have been growing and again they have grown at around 1% points in terms of saliency this year.

Karthik Chellappa: This is related to that; in terms of our A&P spends, if I just look at our promotional spends alone excluding advertisement, our promotional spends probably in absolute terms is the highest ever in our history. In spite of that, we have had a negative volume growth of 4%. Although I admit that the base last year fourth quarter was very-very high. So does this mean that incremental or the marginal utility of our promotional spends is actually dwindling?

Sumit Malhotra: It is very difficult to find it out, but broadly whenever your volumes are under strain, you promote more heavily. When your growths are coming in you advertise more… I think I have said this on this con-call at least thrice before. Whenever you will find a brand under strain in terms of volume growth you will have more sales promotions especially at the time when you are seeing that consumers are preferring lower cost product. One way of enticing the consumer to buy more of a higher priced product is by offering these sales promotions which are things like you get a soap free or you get a toothpaste free along with the main brand and that is why sales promotions go up there. As volumes will start coming in, you will see that the shift will happen from sales promotion to more of advertising.

Karthik Chellappa: Can I have the gross margins for Nomarks for this quarter?

Sumit Malhotra: 66%.

Karthik Chellappa: What would our secondary sales growth for our Bajaj Almond brand?

Sumit Malhotra: For the whole year it is around 5.5% volume.

Moderator: Thank you. The next question is from the line of Prannoy Kurian from Centrum**.** Please go ahead.

Prannoy Kurian: My question was on Nomarks. If I look at on QoQ basis, what is the reason for the drop from Q3 to Q4?

Sumit Malhotra: Basically like I said in the beginning itself we are in the process of rejigging the mix and therefore what we are doing is we are actually downscaling the distributor and retail inventory so that the new designs and the new brands come in much faster.

Prannoy Kurian: That secondary Rs.12 crores number, would that be something that would show up in first half of next year?

Sumit Malhotra: Sure, there should be growth to that.

Prannoy Kurian: What about price increases for the core Almond brand, are we looking at something like for the next year?

Sumit Malhotra: Normally we take a price increase in April, this year we have not taken a price increase.

Prannoy Kurian: LLP we had bought a lot of quantities I think when oil at $30, now we expect that benefit to continue till September, right?

Sumit Malhotra: We have bought till September, yes.

Prannoy Kurian: After that what will be the impact in margins roughly? LLP stays at same as it is right now.

Sumit Malhotra: Today we have bought that Rs.42/Kg. If it remains at 42, there is no impact on margin.

Prannoy Kurian: So it would not even after September the margins should be on the same…

Sumit Malhotra: That is why I am asking you, if you can predict what the price is I can tell you what the effect is. If it is going to remain at 42, then there will be no effect in the margin.

Prannoy Kurian: This year other income has fallen. Is there simply a case of interest rates going down?

Sumit Malhotra: One is interest rate, second is we gave away the dividend in February, so our cash balance has actually come down also.

Prannoy Kurian: If I see the other income it is falling year-on-year as well, right. So getting a lower yield in this environment whether it is the cash balance or the bank deposits. Is there any plan to increase payouts going forward?

Management: That would be the call of the board. As far as the interest rates are concerned, as you know RBI had cut 125 basis for the last year and 25 basis in this year on April 5th If you see the interest rates have come down by 150 basis which is reflecting in the yield which is generated on the cash balances. Going forward as we see the interest rate regime to be softening so that will automatically reflect in our interest we are generating. As we earlier communicated we prefer the top notch credit quality of our portfolio and hence the return is generated in line with our risk appetite.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Just one or two questions; like in the presentation you have mentioned that your target is 65% market share for Financial Year '17. So now what sort of a growth are you assuming for the market like the Light Hair Oil market? I guess you would be assuming normal monsoon in this. So basically what kind of market growth are you assuming for this?

Sumit Malhotra: Shalini, this is market share which means that irrespective of market growth you can still gain market share, the market can decline, but you can still gain share.

Shalini Gupta: But if you can just give some sense of what kind of market growth you are expecting for this year?

Sumit Malhotra: Do not give guidance on that, Shalini, basically because over the last few years this has become a real big question mark in terms of predicting the growth of the total market, for example, 5-years-ago Light Hair Oil was growing at 11-12% by volume, currently it is growing by 4.8% by volume. It all depends on the macro economical factors. Also more importantly what is going to happen to the rural area in India.

Shalini Gupta: Since you are saying like 5-years back Light Hair Oil market was growing at 11-12%. So in the near future as in the next 3-years do you at all expect that kind of growth or that kind of growth is behind us now?

Sumit Malhotra: Obviously, it is behind you because the base has gone up tremendously, 5-years ago the market was much-much smaller than what it is now.

Shalini Gupta: Glass Bottles are a large component of your cost. If you can give your outlook on Glass Bottles if at all?

Sumit Malhotra: Traditionally, CAGR cost increase is around 5 or 6% p.a., but we were fortunate over the last 2-years the price did not go up, we are in the middle of negotiating price change now, let us see how much it ends up with.

Shalini Gupta: So Vegetable Oil prices have been going up and they have come off a bit in this last quarter. I am just wondering, to what are these Vegetable Oil prices linked, because when I look at Palm Oil, that has gone up, that is because of conditions in Malaysia? But if you look at the domestic market, Copra is down. So if you can just give a sense of what these Vegetable Oil prices are linked to and what are you expecting going forward?

Sumit Malhotra: We use double refined mustard oil and therefore the price of the Vegetable Oil that is consumed obviously depends on the mustard seed. Therefore, whenever the crop is harvested at that point of time the construct price comes down and after that for example this is the lowest period that you see and from now on till around December the price will keep on rising. It is not directly related to Copra may be related to palm because mustard is also cooking oil. So indirectly or directly that is related to palm but we do not use palm or coconut in our combination.

Shalini Gupta: Sir, if you can give the growth for Bajaj Almond Drops for the fourth quarter of this year in terms of value and volume maybe?

Sumit Malhotra: Have you been able to download the 'Presentation'? If you go to Page #23 you will get all the numbers that you want.

Shalini Gupta: This is sales performance of Almond Drops, is it?

Sumit Malhotra: One after the other you will have all brands in terms of volume and value.

Moderator: Thank you. The next question is from the line of Jubil Jain from PhillipCapital. Please go ahead.

Jubil Jain: I have a few questions; first one is on Ayurvedic Hair Oils. While Ayurvedic Hair Oils have existed in the market since long time because of the renewed interest. Are you seeing some sort of threat from the players manufacturing Ayurvedic and Herbal Hair Oils?

Sumit Malhotra: No, not yet.

Jubil Jain: Can you give me the growth rate for Bottles versus Sachets for Almond Oil? Is there a huge difference?

Sumit Malhotra: Not really because if you take last year Almond has grown by around 4-4.5% and Sachets has grown by around 4-4.5%, then therefore the Bottle has grown by the same amount.

Jubil Jain: Will the tax rate be same as in FY16 for FY17, FY18 or there will be a change?

Management: At least for next 2-years, tax rate will be same to 21-22% because we have adequate arrears of MAT.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from Trust Group. Please go ahead.

Naveen Trivedi: In the last two years, LHO market value growth was lower than the total Hair Oil market. So when do you think that the LHO market would start growing ahead of the overall market because that is the thesis for the segment? What all will be the prerequisite for the pickup in the LHO market?

Sumit Malhotra: Naveen, you are looking at value, right. What has actually happened over the last 2-years is that the major part of the Hair Oil market which is Coconut the price of Copra has gone up tremendously and that is why in terms of value it is quietly skewed away from Light. In terms of volume, Light has always been the faster growing Hair Oil thing.

Naveen Trivedi: But if I am not wrong, this year Copra prices are also not as high as we have seen in the FY15?

Sumit Malhotra: If you look at the slide, you realize that difference between overall Hair Oil market volume and value is close to 6.5% and this is primarily because of price rise in Copra, all the other brands have really not taken a price hike this year.

Naveen Trivedi: So do you think that it has created a place where there is some room in terms of price hike in next one year?

Sumit Malhotra: Anyway because we are the premium-priced Hair Oil, we can take a price hike without affecting the volumes. The thing is whether your want to or whether you need to under the current environment is the question. At this point of time, we believe that there is still strain on the volumes and therefore it is not necessary to take a price hike at this point of time.

Naveen Trivedi: In Q3FY16, LHO secondary sales growth was around 6.5% while primary was slightly lower than the secondary sales growth. Again, the expectation was that as secondary growth is higher than the primary, Q4 can be slightly better than the Q3. But that has not been happened despite the secondary has picked up in the Q3.

Sumit Malhotra: Again, one major mistake we all make is we look at growth. The basic for growth is the base. If you see 4th quarter of last year our volumes grew by 23% and value grew by 28%, right. So even though your secondaries are doing well but growth over such a high base is the problem and not the secondary. The secondary is there but what you are trying to compare is we are trying to compare growth over a huge base of 23% last year.

Naveen Trivedi: But base of the Q3 was also very high, no?

Sumit Malhotra: No it was not, last year Q3 grew by some 16-17%, Q4 grew by 23%.

Naveen Trivedi: At what price we have done this contract for LLP?

Sumit Malhotra: We have not done contract, we have bought approximately 40-42.5.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Banyan Capital. Please go ahead.

Rahul Agarwal: My question is on Nomarks. As you said that in Q4 there was a dealer and distributor level destocking happening, so you had lower revenue. But, for the entire year revenue was just Rs.38.6 crores Vs Rs.58.2 crores last year. So, what was the reason for degrowth in the entire year?

Sumit Malhotra: I think you have been missing the conference calls that we have been having. What we are trying to do is we are trying to move Nomarks from a problem solution product to a mass cosmetic product and therefore we are going through a process of redesigning the product look and feel of it and therefore before we do it we have to get our stocks in place because obviously last year sale of Rs.58 crores was not the offtake, it was also stock going into the retailer and the distributor which is getting utilized now, it will continue until we now have a steady state whether its Rs.12 or 13 crores per quarter.

Rahul Agarwal: So going forward, can we expect around Rs.12-13 crores a quarter in FY17?

Sumit Malhotra: We do not give guidance.

Rahul Agarwal: But is there destocking and the process complete in Q4?

Sumit Malhotra: No, it would not, it will continue until the new offtake of the new brand or the new look of the brand starts.

Rahul Agarwal: So when is that expected to start?

Sumit Malhotra: It should happen, it is now metering down, you could possibly see may be a part of this quarter.

Rahul Agarwal: What are the margins you are doing in Nomarks?

Sumit Malhotra: It is 66% gross margin.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: What was the secondary growth for the quarter in Almond Drops?

Sumit Malhotra: I think I told you it is around 5.5%.

Sachin Kasera: Regarding this market share increase, you are looking at exiting at 65% market share or you are looking at full year market share of 65% in FY17?

Sumit Malhotra: Obviously, exiting. To get a full market share you have to start at 61, you have to end closer to 70.

Sachin Kasera: But what are the two or three key strategies you could share with us based on because we have been in the range of around 57-60 for the last two-three years. So taking from 60.3-60.4 to 65 is like almost 450 basis points increase, a huge growth. One of the things you mentioned that you are not taking a price hike. Is this one of the strategies?

Sumit Malhotra: That is not got to do with market share. If you look between '13, '14 and '15-16, your market share has gone up by 2 percentage points. This is the worst possible years in the history of this brand. In terms of the market itself, being slow in terms of growth and obviously that much more strain on getting market share within a competitive environment. I think the biggest thing like I always been saying is that growth in Light Hair Oil and the growth in our market share will come from conversions. One, you grow the market by converting from Coconut to Light Hair Oil and you will gain market share by converting within the Light Hair Oil from one brand to the other. Both of these continue and I think the amount of money we spend on ASP is a clear indication of our commitment behind this process.

Sachin Kasera: But if I understand these two-three things that you mentioned is something you have been doing for the last many years. So what gives you the confidence that there should be such a sharp increase in market share in FY17?

Sumit Malhotra: That is the commitment we gave around three years ago, right. At that point of time, we assume that we would gain around two or three percentage points every year which has not happened. Then therefore, we will stick investing behind that strategy. In terms of confidence, you obviously have the confidence because that strategy has given you 60-61% market share already.

Sachin Kasera: As you said that this is the target that you had set three years back and obviously last two years maybe you have not achieved the market share you would have liked to. I am just trying to figure out, is this a realistic number to achieve 65%, is this a very aspirational number, in the sense, we may have to at some point of time maybe a quarter or two roll this over to FY18 or FY19?

Sumit Malhotra: More than market share we have more than trusted in the growth because market share is a summation of many other things like competitors' intensity whereas growth is how much we can invest in conversion from coconut to our brand which is the more important long-term objective of our company.

Sachin Kasera: What has been the growth in the Modern Retail in this financial year?

Sumit Malhotra: Around 14% volume within the country.

Sachin Kasera: What has been the increase in the distribution network?

Sumit Malhotra: If you look at the presentation, you will see it is 3.7 million now, we started with 3.5 lakhs approximately.

Sachin Kasera: What is the plan for FY17 for distribution network?

Sumit Malhotra: We would continue pushing it as much as possible.

Sachin Kasera: How do you see the ad spends for FY17?

Sumit Malhotra: Under the current environment because of the margins that we have been making, it should only go up and not down.

Sachin Kasera: Regarding the overall market growth if we see the two year combined FY16 and FY15, obviously, 11-month numbers is what you reported in the presentation, CAGR is around (+2-2.5%) which is quite a bit of correction from 8-10% the market was growing at. Is this mainly attributable to the slowdown that we are seeing in the economy specific or are there any challenges that the segment is facing from one of the key drivers of the conversion from Coconut Hair Oil to Light Hair Oil?

Sumit Malhotra: If that was the case, all the other segments would be growing except Light Hair Oil. Obviously, there is more macroeconomic factors than something specific to this segment itself.

Sachin Kasera: Sir, this price hike normally, last year also despite a benign raw material outlook, is it mainly because the last two years have been pretty sound for the sector and you being the leader, you want to stimulate demand and that is why you are not taking a price hike or is there anything else?

Sumit Malhotra: No, there is no need to, your margins are among the highest ever. Why do you need to take a price hike?

Sachin Kasera: But there is always possibility for some upside to the margin sir?

Sumit Malhotra: Obviously, there is. This is the call that we have taken that at this moment it is not necessarily at all. With the EBITDA of 34%, where do you need a price hike?

Lakshminarayanan: This is Lakshminarayanan from Catamaran. I see that Amla Hair Oil become almost the third largest after Nomarks. I understand how profitable is the Amla Hair Oil business. What is the kind of potential it actually holds? Because I think that is even larger than the Almond Hair Oil market per se. Second, what are the things from a strategy point of view or operational point of view you intend to do in the next 1-year which is quite different one from what you did last year to either sustain your profitability or market share or explore new avenues?

Sumit Malhotra: Amla is so much smaller market than Light Hair Oil, I am just correcting you on that. Our Amla is actually a low cost Amla and 80 ml of Amla sells at Rs.20. To give you comparison, Bajaj Almond Drops 100 ml sells at Rs.60. So it is a low price warrior. Currently, we have only launched it in four states all over India and therefore, I agree with you that there is a lot of potential for it to grow even though it will never become as big as Bajaj Almond Drops, because the market itself is not that big and the market for a low cost will always be less than the leader. So that is the answer on your Amla question. In terms of strategic inputs, we will just have to continue what we are doing; the basics being advertise more, use the communication message to get faster conversion from Coconut to Light Hair Oil. Second, drive distribution especially in the rural area because we strongly believe that once this economic scenario turns in, hopefully, the monsoon turn around, you will get much faster growth once again from the rural area. The third I would say is building your second and third line in terms of managerial bandwidth because the bigger we become, the more complex operations would be and we would need a much stronger bench strength to sort of implement the strategies that we have at this point of time. I think last but not the least is automation. We have already been at sort of linking all our distributors to our ERP, we are now in the process of linking our distributor sales mentioned to our ERP, that should take another year, year-and-a-half. These four I think among would be the key strategy inputs that we would take this year.

Moderator: Thank you. The next question is from the line of Sheetal Bhatt from Catamaran. Please go ahead.

Laxmi Narayan: Just a follow up on the AHO. How large is the market leader in terms of revenues? We did around Rs.17 crores in AHO, right. I am just trying to compare it in terms of how large, in the sense in terms of revenue or in terms of volume it can actually become?

Sumit Malhotra: Dabur Amla is the biggest thing, it is now around 12-13% smaller than Bajaj Almond Drops in value terms.

Laxmi Narayan: You mentioned rural growth, monsoon, inflation, etc., What are the key leading indicators you actually look at when you actually drop your budget or business plan for the next three years or one year plus for example?

Sumit Malhotra: This we look at what is happening to the market in terms of the total Hair Oil versus the Light Hair Oil growth, we also look at the kind of GDP that are going up across the country and other indicators which are basically rural driven like wages and the amounts on NREGA being spent, etc.,

Laxmi Narayan: When compared to last year, do you think the lead indicators are looking better?

Sumit Malhotra: Not yet.

Laxmi Narayan: You mentioned that for the next FY17 & FY18 the tax rates will be in line with what FY16 is. Is it right to assume that from FY19 onwards you will be at a normalized full taxation?

Management: Yes, as of now, you can presume that, but finance minister has also indicated that the normal rates will also go down, so that picture will be clear only in that year.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Just wanted to clarify some data points; earlier, you had mentioned that the rural growth on the fourth quarter was somewhere in the region of 1-2%. Did I hear that right?

Sumit Malhotra: Yes, January and February, not the fourth quarter.

Karthik Chellappa: This was the lowest in the 14-15-quarters?

Sumit Malhotra: This is not a quarter, this is only two months because March numbers have not yet come.

Karthik Chellappa: Given that our overall volume growth this quarter year-on-year was still negative, is it fair to assume that relatively rural is still growing higher than urban?

Sumit Malhotra: Yes, it is, you are right.

Karthik Chellappa: Sir, you mentioned about the ayurvedic this thing. So, at this point of time, you do not think that it is taking share away from Light Hair Oil in any meaningful manner, if I heard you right?

Sumit Malhotra: Yes, because of the reason to buy which is a problem solution and the price. The biggest brand which is Kesh King is close to 3-3.5x the price of Bajaj Almond Drops.

Karthik Chellappa: In the Ayurvedic category, you are including Patanjali as well?

Sumit Malhotra: Obviously.

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

Koustubh Pawaskar: I have two questions; one is related to Copra, since Copra prices are coming down, so do you see there is a competition for you going ahead despite the fact that things are improving on ground, we might see monsoon coming back on track and that might lead to better rural demand? But do you see drop in Copra prices is threat to your conversion?

Sumit Malhotra: Not surely, it has not happened up till now, because if that was the case when the reverse happens, that Copra prices went up, we should have grown much faster, that too did not happen because you should realize that Copra is largely dominated in the south and the west. Therefore, irrespective of price of Copra people still continue using Coconut Hair Oil.

Koustubh Pawaskar: On Kailash Parbar Cooling Oil, what exactly is your strategy over there because…?

Sumit Malhotra: We have stopped investing behind this for the last 1.5-years and therefore if you look we are really not counting on getting any major volumes from it.

Koustubh Pawaskar: But going ahead, what could be the strategy on that?

Sumit Malhotra: At this moment, we are not pushing money behind it, we have bigger battles to face.

Koustubh Pawaskar: So Almond Drops Hair Oil and Nomarks would be key focus areas for you going ahead?

Sumit Malhotra: And you heard about Amla.

Moderator: Thank you. The next question is from the line of Purvi Parikh. Please go ahead.

Purvi Parikh: My question is sir, you mentioned that one of the cause of concern is the slowdown in rural sector. How much do you see it impacting you as in how much of your revenues come from rural sector?

Sumit Malhotra: In this quarter 42% of our sales came from rural.

Purvi Parikh: How much do you think the slowdown will have an impact if you have any mitigation strategy?

Sumit Malhotra: Basically rural has always been a case of being able to distribute economically into rural areas because you realize that there are some 5,000 towns but 6.5 lakhs villages and therefore the strategy always have been how can you promote your product in the rural areas by distributing at a low cost and that strategy continues.

Purvi Parikh: Any other cause of concern that you see specifically to 2017?

Sumit Malhotra: GP is not growing as much as we want. All those are cause for concern.

Purvi Parikh: What do you have to say about the upcoming competition like Patanjali that has just come up very recently in the recent years, do you see it as a big threat?

Sumit Malhotra: I do not see it as a threat. I always believe that in FMCG the greater the competition, the faster the industry growth. They are creating another sort of excitement in the ayurvedic range. Ayurvedic has been a big thing in India and now it is coming back into prominence. I think that is good for the industry itself.

Purvi Parikh: I think Bajaj has a line of ayurvedic hair oil and all, right?

Sumit Malhotra: No, we do not.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: You mentioned that international operations have grown by 59% in the current year. So what percentage of revenue is now coming from international operations?

Sumit Malhotra: I said 4%.

Sachin Kasera: Do you expect this trend to sustain 40-50 because the pace as of now is slow?

Sumit Malhotra: Yes.

Sachin Kasera: Where do you see international revenue as a percentage of sales say two-three years down the line?

Sumit Malhotra: We are aiming for something like 10-12% by that time.

Sachin Kasera: Any new geography that you are targeting from other than where you are present right now which could be big to achieve this number?

Sumit Malhotra: Obviously, yes.

Sachin Kasera: Which are the key two or three geographies you think that will be contributing for this growth from 4%?

Sumit Malhotra: The moment you are getting your larger sales from the Indian subcontinent and the gulf, now we are getting into Southeast Asia and also getting into the northern African subcontinent. All these will start contributing this year itself.

Sachin Kasera: In some of these geographies, you are looking at getting some market share from existing brands or this is a category that you are creating in some of the geographies?

Sumit Malhotra: There are two parts of it – one is Hair Oil, the other is Creams. Hair Oil will be a more kind of smaller market whereas Creams will be much bigger. So you will have a different strategy for both of these items.

Sachin Kasera: Do you have Nomarks in some of these geographies?

Sumit Malhotra: Yes.

Sachin Kasera: Do you think that Nomarks will also be a substantial contributor to the interest of revenues two-three years down the line?

Sumit Malhotra: In our experience, Nomarks could possibly become bigger than Hair Oil in 3 years, 4 years down the line in the interest of markets.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Motilal Oswal Securities. Please go ahead.

Jehan Bhadha: Sir, want to understand why we are not introducing our Almond Drops Hair Oil similar proposition on the Shampoo side, could you elaborate why because I think Dabur has a similar product on the shampoo side as well as the hair oil, would it not help the existing customers to extend themselves to Shampoo as well?

Sumit Malhotra: It does not make sense. Simplistic. Before we became, the second biggest brand in Hair Oil was Dabur Amla. Have you seen Dabur Amla Shampoo? No. The reason is when you extend a brand into other categories, the core benefit of that brand should be extended. In the case of Hair Oil, the core benefit is nutrition, whereas in the case of shampoo, the core benefit is cleansing and therefore if you start extending hair oil into shampoo, you always run the problem of eroding the core benefit of that brand. Basically whenever you extend the brand, you should be very-very careful of what is the core benefit of the mother brand. Unfortunately, for Hair Oil, it is very different from the core benefit to Shampoo. Shampoo is more cleaning and conditioning whereas Hair Oil is more nourishing.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Sumit Malhotra: Thanks a lot to all of you for logging in onto the conference call. Like we have been saying, we are among the fastest to declare our results and we hope to keep meeting this expectation from you in the quarters to come. Like most of you, we are also praying for a very good monsoon and therefore uplift for at least Q2 of this year. I do not think we will see much in Q1, so Q1 could be muted again. But if monsoon do turnaround like the Indian Meteorological Department is saying, we can hope for a much better second half of this year. Thanks a lot. Have a great day ahead.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Kotak Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.