



“Bajaj Corp Q4 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Bajaj Corp Q4 FY2018 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 “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Jay Doshi from Kotak Securities Limited. Thank you and over to you Sir!

Jay Doshi: Thank you Stanford. Good morning everyone. On behalf of Kotak Institutional Equities, I welcome you all to the Bajaj Corp Q4 FY2018 Earnings Call. We have with us the 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 hand over the call to Mr. Malhotra for opening remarks. Thanks and over to you Sir!

Sumit Malhotra: Thanks Jay. Good morning to all and welcome to the conference call for declaring the results of the Q4 and the annual results for the Financial Year 2017-2018 of Bajaj Corp. With me are Mr. Sandeep Verma, President (Sales & Marketing), Mr. Dilip Kumar Maloo, CFO and Vice President (Finance) and Mr. Kushal Maheshwari, Head Treasury.

The company closed the quarter with a turnover of Rs.214 Crores. The growth in turnover vis-à-vis the Q4 of last financial year is 5.01% consequently the volume growth is 5.86%. The EBITDA for the quarter is Rs.73.08 Crores, which is a growth on a Y-o-Y basis of 8.56%. The EBITDA to sales ratio remains at a very healthy 34.08%.

The PAT and PBT for the quarter is pegged at Rs.55.41 Crores and Rs.70.46 Crores respectively. On an annualized basis, the turnover growth is 2.7%, whereas the EBITDA is dropped by 34%. The stabilization issues related to GST are still a cause of our concern. Lastly budgetary support announced by the Government of India for excise the zones have been claimed as the funds. Unfortunately that the funds have yet not been sanctioned by the relevant authority.

Due to the implementation of GST this year, the growth figures on Y-o-Y basis are misleading. To put it to perspective even though the growth in turnover as per the P&L is 5.01%, this is not a like-to-like comparison. The primary reason for this is that the sales value last year is netted after a 14% VAT impact; however, this year the tax impact is because of the GST of 18%. If the turnover was to be compared on a like-to-like basis, the growth in this quarter is at 10.12%.

All the domestic sales verticals which are general trade, modern trade, and CSD has shown a growth in the Q4. The volume growth of the total hair oil segment is still flat as against the volume growth of 3.6% in the Q3. The uptake volume in the Q4 have grown by 4%. However for the light hair oil, the growth in volume has picked up. This has been led by a smart increase in rural volume growth.

The rural volume growth of light hair oil has come from 0.7% in the Q3 to 5.3% in the Q4. This has led to a volume growth of 5.2% of complete light hair oil segment. As against this segmental growth, Bajaj Almond Drops has grown by 7.3% by volume and thereby you will see a gain in market shares within the light hair oil as well as the total hair oil segment. The improvements in volume growth of light hair oil and even better gains by our lead brand Bajaj Almond Drops has resulted in all-time high volume market share of 60.1% in the month of March.

The value of market share has risen to 62.7% for the same month. This coupled with improvements in rural volumes point towards the turnaround in growths of light hair oil segment. Domestic sales are showing continued signs of recovery across the all segments. The general trade business is showing up 11.07% growth in business in a GST neutral scenario.

Modern trade has had a very good Q4 of this year and is showing a 24% growth in volume. CSD business is also showing a turnaround and has shown a growth of 5.6% this quarter. The sales in the IB segment or the international business segment are still a cause of concern. Though corrective actions have been taken turnaround is at least a quarter away.

Our initiatives in improving our direct distribution have resulted in reduction in the dependency on the wholesale. What is encouraging is that along with increase in direct the total distribution for Bajaj Almond Drops had driven to 3.9 million retail outlets. This is again a clear sign that with the increase in rural growth, the future of the light hair oil segment will be better in the coming quarter.

The innovation center has already started delivering products that are being launched successfully. After the launch of Bajaj Brahmi Alma, Ayurvedic Kesh Kala in Q3 of this financial year, we have now launched Bajaj Coco Jasmine in the month of February 2018. In the Q4, Bajaj Brahmi Amla this being the first full quarter after launch has shown a 59% volume growth vis-à-vis its earlier avatar. Our second launch Coco Jasmine has been accepted by consumers in Maharashtra and it is bound to show significant uptake and market share in the coming quarter.

The big strain in the Q4 was the increase in price of crude. This has caused a strain in cost of uptake as well as raw and packaging material. The largest increase in cost is for light liquid paraffin. As against the price of 48.22 per kg in the Q4 of last financial year, the price this quarter is at Rs.65.45 per kg. Even sequentially as against 61.22 per kg in the Q3, this quarter LLP has shown a 7% increase in its price. Even after accounting for input tax credit, the equated price is still at Rs.56.38 per kg, which is still an increase of 17% on a year to year basis.

The refined mustard oil during this quarter is largely flat. After accounting for the input tax credit the price of refined mustard oil this quarter is at 81.44 as against 81.68 per kg last year.

Nomarks focus project is now extended beyond UP. The new deals are in place and we should see visible results very shortly. During the financial year 2017-2018, Nomarks cream has shown a 30% growth turnover nationally. In the pilot state, the growth in volume is 43%. Even on an

annualized basis, the whole brand has achieved a turnover of Rs. 24 Crores, which is more or less equal to the turnover we have gained last year.

The positives that have been witnessed during the Q4 are namely, one, growth in volume of light hair oil industry. Second, growth led by improvement in total volume. Three, continued leadership position of our lead brand Bajaj Almond Drops. Four, improvement in volume and value market shares with a healthy EBITDA of 34% despite strain on prices and lastly a mass improvement in distribution despite reduction in dependency of wholesale segment. We are now open for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Avnish Roy from Edelweiss. Please go ahead.

Avnish Roy: Sir, thanks and congrats on good volume growth. My first question is on the modern trade, Sir, I see Big Bazaar now offering every day low price and Reliance retail also offering 6% off on most of its products, so how has been your growth in this quarter and in terms of margins because these players are offering a lot of discounts, does it impact your margins in modern trade?

Sumit Malhotra: I said Avnish, in this quarter in modern trade, we grew by around 24%, right, which is higher than the growth recorded by the whole company, which means that modern trade as a segment within our company performance is now becoming bigger and bigger. In terms of these big days and all that, since we are the leader in market share in terms of hair oil, we have a much better negotiation capability there and we make sizable margin in modern trade also. So these kind of discounts are – we normally do not ever uptake one plus one, but we do give freebies and discounts on big days or 15th August and 26th January and all that, but that does not really negatively impact our margins. I would basically say that modern trade is slightly more profitable than general trade product sale.

Avnish Roy: And Sir to summarize your margins in modern trade versus say last quarter and even going ahead, there will not be any substantial difference right?

Sumit Malhotra: No, also it is still a fairly small part of my total business, currently a little over 7% now, coupled with the fact that we actually end up making more margins in modern trade.

Avnish Roy: Sir, my second question was on the chemist distribution and of course on Nomarks. So in Nomarks, we have been focusing on increasing the chemist distribution. Now in this budget, if you see government has removed the 15,000 cap in terms of that medicine spend. So now you do not need to show the proof, etc. So do you see structurally in the chemist shop consumer buying behavior to shift because lot of consumers were buying from chemist shop because they wanted to meet the target of 15,000 and now no such rule is there, so is chemist shop going to reduce in terms of percentage of sales to FMCG company and thereby your focus also should it reduce longer term, not from one quarter perspective.

- Sumit Malhotra:** See I have not seen any change there and I am hasten to say that it will not move the needle significantly because if you look at FMCG contribution in FMCG of OTP or chemist driven sales is not very, very large that you will see some major shift in growth volumes of FMCG companies there and also 15,000 for a household in a year is a very small amount. So it is not going to cause major disruption here.
- Avnish Roy:** Okay Sir. That is all from my side. Thank you.
- Sumit Malhotra:** Thank you Avnish.
- Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.
- Ashi Anand:** Yes, Sir, thank you for the opportunity. The first question I have is more at the macro level. I was just trying to understand if you go back five years you were seeing a significant shift away from coconut hair oil towards light hair oils. Now that kind of shift while it is going to see some relative growth in the current quarter, I am just trying to understand what has as compared to five years back where light hair oil was rapidly gaining shelves and what are the key drivers of the shift, is it like relative price of copra and other oil, is it function of rural income and down trading versus up trading, if you could just give some colour on this entire macro shift.
- Sumit Malhotra:** I think it is a combination of everything you said, I think the biggest thing was that people were moving from coconut to value added, which continues even today. The only difference is the biggest gainer in value-add five year ago was light hair oil. Currently, the biggest gainer is Amla oil because you would know that we are in a very peculiar situation, in which the value-added hair oil is actually cheaper than a commodity, which is coconut and therefore the inertia to move from a commodity to value-add has become less. Coupled to the fact that rural growths maybe came down over the last two to three years first because of bad monsoons and second because of the disruption that happened along the way. So it actually the gains that we used to get from coconut reduced and somebody else within the value-add started gaining. I believe that people prefer premiumization and the brand that we have developed for Bajaj Almond Drops will see a resurgence of this shift from coconut and the low cost value added hair oils to light hair oil and specifically Bajaj Almond Drops in the coming quarter.
- Ashi Anand:** Okay. Excellent. The second question was really with relation to our offer strategy with relation to new product introduction, it is good to see a product being launched in the quarter. Just wanted your thoughts on are the new products introduction primarily focused on adjacencies around hair oils and secondly given the fact that we have significant cash reserves any thoughts on using that to go out and acquire something to enter different categories all together to be able to leverage our distribution.
- Sumit Malhotra:** Yes to both, the immediate launches will be adjacencies of hair oil and maybe the skin care. The future launches could be in other category, but immediately it will be basically either hair oil or skin care. In terms of using the cash for acquisition that is always on the card but when will that

happen, where it will happen, I am not too sure at this point of time because until you really sign on the dotted lines, you really do not know whether the acquisition is going to happen or not. We are actively looking for brands that can be acquired.

Ashi Anand: Okay Sir. Thanks for the answer.

Moderator: Thank you. The next question is from the line of Manas Agarwal an Individual Investor. Please go ahead.

Manas Agarwal: Thank you for the opportunity Sir. My question is in line with what the previous question was actually. Just extending on those, the vision 2020 that you have spoken about in your previous con calls as well, how do you see like your innovation centers working on and you said hair oil products variable, coming quarters, you look to launch a variant one quarter each, any other product lines that you started to evaluate, you are saying you are looking branded acquisition for these, so do we see any movement outside of hair oil because this diversification that your are currently doing, we see it as something within the hair care segment itself. So what is your outlook on other segments all together?

Sumit Malhotra: Manas, you are only looking at the brands we have launched and since we probably know hair oils better than the other categories, the fastest of the block has been in hair oil, as we move along you will see us launching or restaging other categories also and we have a whole part of our innovation center working on unrelated categories, so you could possibly see something this is not a hair oil, not a skin care as we go along our innovation path, so it is not that we are only focusing on hair oil, we have all the streams working day and night to come up with differentiated innovative products that can be launched successfully. In terms of MENA, yes we have been let me tell you the valuations still appears to be a little higher and therefore we are cautious because the higher the valuations the more difficult it is to turn it around, but we are actively looking at a MENAs within India and outside.

Manas Agarwal: Okay, just a followup question on the MENA side, I see that a lot of IPO procedures still in the form of liquid investments kept aside for acquisition. So do you foresee any big acquisitions and is there any scope for external parties coming into view with those or you are satisfied with the cash pool that you have and your debt positions seems comfortable.

Sumit Malhotra: This is all very easy because until you have an acquisition, you do not know how you are going to fund it. Whether that would be small or large you may think of taking external help, external help could be debt or external equity infusion or help from a PE or DC. Even though I want to, I cannot give you a definite answer with this question.

Manas Agarwal: Noted Sir. That is all from my side. Thank you.

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

- Percy:** Hi Sir, this is Percy here. Sir, a few quarters back, we had launched a sort of variant of the Bajaj Almond Hair oil into soaps saying that the equity of Almond can work in soaps for skin care, etc., Could you give us an update on that launch, how successful or otherwise it has been and what kind of sort of is it nation wide, is it state wide, any sort of colour, you can give one how that launches progressive and whether it has met your expectations or not?
- Sumit Malhotra:** Percy I think you have got it all wrong, we never launched Bajaj Almond Drops soap, it was given free along with Bajaj Almond Drops. If you are looking at whether that would be accepted by consumer, it was more a kind of consumer offer with Bajaj Almond Drops and not a launch, we did not launch it specifically anywhere in India or outside. So I do not think it is a question of meeting expectations or not. Yes, the results from consumers have been interesting, but we still need a differentiation and that is what we are really working on because soap does not make any sense with the biggies around and their ability to sort of monitor and get cost efficiencies, we as a small soap manufacturer, will never be able to make a significant dent. So therefore we are still looking a differentiation and we would in the meantime keep using it as more a consumer offer or a trial pack along with our hair oils rather than a launch in individual capacity.
- Percy:** Sir is not the Almond benefit differentiation because I do not if there are two many mainstream soaps offering Almond as such.
- Sumit Malhotra:** Every company has almond so far. Almond in the soap is not innovative. It is an age old thing and if you look at the soaps available starting from Godrej No 1 to Lux all of them has almond. Almond in soap is not so innovative. I think Almond in hair oil was innovated than we launched it. I do not think it is innovative any longer and it is just first mover and the ability to build a strong brand that is helping us to take forward. It is not innovative. You have every body from each of our competitor trying out almond hair oil also. Almond is not the thing and as you would know that soaps are a difficult category to be able to sort of make the differentiation.
- Percy:** I understood Sir. Second question Sir on Nomarks, I understand you are focusing more on the cream segment and I think the cream has grown at 40% plus, so just a clarification Sir, this 40% plus figured does it include sales outside India and if yes, could you give us the number for the growth within India?
- Sumit Malhotra:** This is the company wise sale and unfortunately because of the way the IB is doing, if you look at sale within India, it is higher than 40%. As we have shown this IB has actually dropped this year and Nomarks within IB has also dropped significantly. So actually domestic growths are much higher in the case of Nomarks.
- Percy:** I see and currently approximately what would be the percentage split between the different formats of Nomarks that is cream, face wash or whatever else you have soaps?
- Sumit Malhotra:** Currently 60% comes out of cream – sorry now 78% comes out of cream and the remaining 22% comes out of the maybe at other things, we are not focusing on face wash which is a large

segment, but last year it was at around 16%, it has now dropped to half in terms of its saliency within the Nomarks.

Percy: Right and Sir last question on the hair oil segment, you mentioned that there is a sort of rural uptake that you are witnessing this quarter, so I mean how much of that journey of recovery of rural have we completed. Is it like one third of the journey completed or is rural sort of really come back and is rural growth currently ahead of urban or that is yet to happen?

Sumit Malhotra: In terms of how much is the journey, I really do not have an answer because there is no benchmark on how has been monitored, what is going to be the final growth in rural in the coming year, so that is not a question I can answer in terms – it is being higher at this moment, it is actually equal to urban role this quarter, Q4, right and therefore you will see improvement in excessive for our main brand which is Almond Drops. Is this actually still lower than the urban growths. For light hair oil it is more or less the same. So yes, it has just started and the commentary I made was that you look at the way rural started growing around 7 to 8 years ago. This is the path that we actually took a that amount of time, so I am quite hopeful that in the coming quarters, you will see a double digit growth in the rural and it will start overtaking the urban growth because logically there are more people, if the government invests in the rural areas they will have more disposable income and so on and so forth.

Percy: So historically say three years back, rural was running at what multiple of urban?

Sumit Malhotra: Four years, three years the problem has already started four years ago. Distance was around 10% in the growth of rural versus urban.

Percy: That is 10% points you mean?

Sumit Malhotra: Yes.

Percy: Wow! Okay. That is all from me Sir. Thanks.

Moderator: Thank you. The next question is from the line of Raghav Behani from Dalal Street Bulls. Please go ahead.

Raghav Behani: Good morning Sir. My question is with the revenue contribution of different products in the company's overall revenues like ADHO segment is contributing I guess the maximum as of now may be around 85%-90%, so going by the growth in the Amla segment and the jasmine segment, do you expect that the other segments will contribute a significant portion over the next two to three years, do you see any kind of – that kind of scenario playing out?

Sumit Malhotra: The whole objective of this is reducing the dependence of Almond whether it will happen in the next two or three years, I am not very, very sure, but I think collectively the new brand launches will reduced the dependency in Bajaj Almond Drops.

- Raghav Behani:** Okay, Sir could you just give me exact percentage figures of contribution if it is available.
- Sumit Malhotra:** There is investor presentation if you go to slide #30, we have given the volume of these things and this is something that we have been tracking over the last many years
- Raghav Behani:** Okay Sir, one more quick question is that you mentioned about hedging through contracts on the MCX AND NCDEX, is it something a new hedging technique that you are trying out for the crude oil prices or something?
- Sumit Malhotra:** No, this is something we started around two years ago for mustard oil because in mustard oil we can actually hedge mustard seed and it will move its proportion to the oil, so if you had hedged this properly and oil went up and therefore there was a negative impact on gross margins, you would make a positive impact on the hedging volumes that you had done for seeds. Crude is a very difficult thing, we have been trying in small quantity, but I think crude is not only dangerous, but also the exposure is very high and we are basically an FMCG company and therefore we do not want to get into large scale hedging of crude. It will be very, very dangerous for a company like us.
- Raghav Behani:** Okay, that is it from my side Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi Sir. Thanks for the opportunity. Sir first question pertains to the comment that you have made in your PPT that volume market share of Almond Drop hair oil has actually increased in overall DHO market, but value market share has not picked up. If I add this with your opening remarks that somehow the premiumization trend this time has not – that the trend has not been beneficiary of conversion from CHO and it has been picked up low end hair oils like Amla Hair oil, so somewhere we are gaining volume market share, but not value market share, so just wanted to understand the disconnect between the two.
- Sumit Malhotra:** Tejas, since you have been following the hair oil industry, the trend shaker this year is rise in prices of coconut oil. Coconut oil is still around 35-36% of a total hair oil in India today and therefore disproportionate rise in prices of coconut has actually reduced our value market share whereas volume in coconut has not grown as much in what as in value and that is the difference between volume and value market share that you see. In fact some five or six years ago, coconut used to be half of our price that ratio has actually dropped over this year significantly.
- Tejas Shah:** Sure, so Sir keeping that benchmark consistent, do you think that this year you will take a price hike on the key brand?
- Sumit Malhotra:** We were actually taken a price hike in Bajaj Almond Drops in April itself and what we have done is that actually increased the price of the larger SKUs and in the lower sales we have gone back to our original volume, you remember that we moved from 50 to 53 mL in the same bottle

and 100 to 105 mL post implementation of GST. We have actually reversed that and gone back to 50 and 100, whereas in the higher sizes, we have actually increased the MRP.

Tejas Shah: So Sir, what would be the weighted average price hike?

Sumit Malhotra: It is very difficult because you cannot rate the volumes but if you look at the largest sizes, we have taken a 5 or 6% price hike.

Tejas Shah: Sure. Sir second question pertains to international business I believe that the business had a very relatively low base and you see this kind of deceleration is slightly surprising, so just wanted to know if you can share some colour on that.

Sumit Malhotra: Actually because we had a low base deceleration is the much faster, all you need to do is one distributor stops buying from you and you will see a drop. When you have a larger base your risks are spread over larger number of AVRs and consumers and that is the one of the reasons that you see one major, the biggest hit has actually happen in the MENA region there, we are growing the fastest, so places like UAE, KSA, gulf area we were actually going quite well up till two years ago, last year we first got into problems with the distributor then with our own infrastructure in place and that is what we need to get back into place there.

Tejas Shah: Sure and Sir lastly one book keeping question, other income witnessed quite a volatile run rate this year on Q-o-Q basis, so if you can guide us on what one should pencil in for FY2019?

Sumit Malhotra: Tejas as we do not know under the Ind-AS you have to account for mark to market losses on the treasury so actually the cause for deceleration is basically a very large mark to market loss that we have had to put on our books, not only did interest rates not go up, bond rates also did not go up, in addition therefore we have to book what was the mark to market loss....?

Dilip Maloo: It was Rs. 3 Crores in addition to the opening loss of 5 Crores.

Sumit Malhotra: We have already had opening mark to market loss of 5. We have booked another 3 Crores loss in that. So this is actually not an actual loss, so it does not appear on your book as such but because of the new accounting standard, we have to account for it.

Tejas Shah: Great Sir. This helps. Thanks a lot Sir and all the best.

Moderator: Thank you. The next question is from the line of Jinal Sheth from MultiAct. Please go ahead.

Jinal Sheth: Hi Sumit Ji. Couple of questions, firstly taking the point about Tejas where you mentioned the coconut prices, and since you also mentioned that in this time around Amla we have seen dull trading so the price differential between Amla and premium hair oil was too high and then we have taken a price hike now anything that we could see any thoughts on that that it could negatively impact us, any thoughts?

- Sumit Malhotra:** Jinal you still remember two things that over the last three years the construct of the Amla market itself has changed, so the leaders used to be the highest priced Amla, which is basically brands like Dabur Amla and all that. Over the last three years, the leadership has actually been taken by a low-cost Amla category which has formed and therefore in terms of volume that low-cost Amla is now bigger than the Dabur Amla volume, so there has been a reconstruct of the whole thing. Now the reason why the low-cost Amla sales is basically because of the price rise and whereas you price more than the premium category where you are by far the leader and you are very large. Keeping that in mind, we were very conscious when we took the price hike and we did not take a price hike across all the SKUs. We took it only in the larger SKUs assuming that by buying a larger SKU of Bajaj Almond Drops which is one of the highest price products would not be so price sensitive, but yes there is something everybody needs to be looking around because as brands other than the low cost keep on increasing their prices, for example coconut keeps on increasing prices, then the low-cost Amla continues to be at the lower price, this conversion could affect other brands also.
- Jinal Sheth:** I understood, secondly what is the update and how are we seeing things on the wholesale trade channel?
- Sumit Malhotra:** More or less that has now come back, constantly we are not pushing wholesale because it has actually help us to bring it down from 55% dependency to 34-35%, which is good because if your focus is going to be innovation, the larger the dependency on wholesale and lesser the direct distribution will hamper you even when you launch new brands right. So on the larger side of it, I think in hindsight demonetization and GST has actually helped us to speed up the innovation processes.
- Jinal Sheth:** But just to that point, sir basically what you saying is suppose in the rural growth picks up, we might not be able to take full advantage because now we do not want to have too much of dependence on wholesale, could that be...?
- Sumit Malhotra:** Yes, if you look at it unilaterally yes, but what we have also gone and done is increased the number of distributors we had in the rural areas. We currently more than doubled the number of distributors in the rural area. So yes, if you had done that, we could have been negatively impacted, but we saw that and took corrective actions at the time of demon itself, not now and most of this is now getting seen as increase in rural volumes. In our case faster than the light hair oil categories, etc.
- Jinal Sheth:** Thank you so much Sumit Ji. Good luck to you and the company.
- Moderator:** Thank you. The next question is from the line of Ajay Thakur from Alder Capital. Please go ahead.
- Ajay Thakur:** Hello Sir. Thanks for taking my question. I had just one question regarding the growth rate in the Amla segment, how has it been trending, you can just throw some light on that front, at least for the last one or two quarters?

- Sumit Malhotra:** See not one or two quarters, if you are looking as Amla category itself, that is actually trending faster than the light hair oil and like I said in the previous question also, this is the first time you will really see a value-added hair oils being priced lower than the commodity, so it is growing basically because a law of conversion from coconut, from unbranded, it is moving directly into value added. Normally what happens is unbranded guys move to coconut who moves to a low-cost value-add then it moves to a premium, but here it is jumping the brand and going directly to the value-added hair oil category, the biggest beneficiary is actually the low-cost Amla.
- Ajay Thakur:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Aditya Sheth from Investec Capital. Please go ahead.
- Aditya Sheth:** Hi Sir. Thank you for taking my question. Sir what is the volume growth in skin category this quarter?
- Sumit Malhotra:** Which category?
- Aditya Sheth:** Skin care category.
- Sumit Malhotra:** I did not get you.
- Aditya Sheth:** Skin care category.
- Sumit Malhotra:** Skin care...the category growth. It could be around 21%-22% anti-marks, actually skin care we do not follow, we follow anti-marks because skin care is a huge category which has things like moisturizers and fairness creams and all that, we do not track that, we track anti-marks and we are now focusing on anti-marks women productivity that would be something in the mid 20s.
- Aditya Sheth:** So anti-marks for you was around 21% growth year on year, is that correct?
- Sumit Malhotra:** Yes.
- Aditya Sheth:** Okay, so when I see the presentation, if I see the cases sold year on year it has come down from 24,000 to 20,000, so what is the discrepancy in that?
- Sumit Malhotra:** There is no discrepancy, what you are seeing is **nomarks** as a whole, **nomarks** as a soap, as a face wash, as a face mask, as a face pack and also face cream, so if you look a face cream, face cream has grown at 30%, whereas in value term, in volume terms also it has grown at a fast pace, whereas the figures that you are quoting as everything, this is not only skin care or anti-marks, it has got everything in it.

- Aditya Sheth:** Okay. Understood and my second question is on again the category cases sold, so on the others what are the products that come under others where the cases sold has doubled this quarter?
- Sumit Malhotra:** A few other things like black toothpowder, and low-cost amla, jasmine hair oil, all those things which are not focused products, which are waiting for some spark in terms of differentiation and then only will we invest in these. These are actually non-investing.
- Aditya Sheth:** Okay and any particular reason for them to grow in this quarter?
- Sumit Malhotra:** Simply we have launched Coconut Jasmine, which is the part of this.
- Aditya Sheth:** Okay, so this comes under this, okay, all right. Thank you very much Sir.
- Moderator:** Thank you. The next question is a followup question from the line of Ashi Anand from Allegro Capital. Please go ahead.
- Ashi Anand:** I have a just quick question on outlook on margins, so we have a different kind of things striking through, rising input prices but we have also taken price increases and you have mentioned value engineering initiatives over the presentation, just wanted some kind of a sense on how you see margins pan out in FY2019?
- Sumit Malhotra:** See our aim is to keep margins constant, but at this point of time we have taken care of that, but if the prices keep on rising and we chose not to increase prices of our finished products immediately, so you might see a marginal contraction in margin but I think we should be able to manage that aspect.
- Ashi Anand:** But we believe that the raw material prices remain where they current year, we should be able to maintain margins as what we have done so far?
- Sumit Malhotra:** That is the proven task for us.
- Ashi Anand:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** Thanks for the opportunity Sir. Sir quickly one clarification on the SKUs where you have taken the price hikes are more than 100 mL right?
- Sumit Malhotra:** Yes.
- Amit Sinha:** And is it fair to assume that in terms of volume there will be around one third of our total volume and somewhere around that?

- Sumit Malhotra:** No, the smaller would be larger in terms so volume. So just to give an idea sachets are 18%, 50 mL would be around 20 odd percent, 100 mL is the largest that is 26%-27%.
- Amit Sinha:** Okay Sir that adds up to somewhere around 65%, so still 35% is more than 100 ml.
- Sumit Malhotra:** So yes you are right, if you see our the annual reports we do get breakup of sizes that is the fastest way of getting dependency and even in the smaller SKUs we have not taken a price hike but we have done a volume correction, which will actually add to our bottom line.
- Amit Sinha:** Okay. So that will basically in terms of effective price hikes, I understand it will be difficult to get to a number, but it will be around 3%-4% in that vicinity.
- Sumit Malhotra:** Yes, it would be fair to estimate that number.
- Amit Sinha:** Okay, secondly Sir on your Brahmi Amla Ayurvedic oil and clearly the offtakes have been very good, which are the states which are doing well for you?
- Sumit Malhotra:** Actually we first launched it in only four states and then we extended it, so I think the Hindi-speaking areas are doing well because like I said that we are looking for differentiated products, which are going to be support us by marketing, right and therefore the advertisement at this point of time is on in the Hindi-speaking areas, which logically will result in faster growth in the Hindi-speaking area.
- Amit Sinha:** Okay, this quarter growth is also an account of expanding your distribution for that product.
- Sumit Malhotra:** Obviously. That is the only way you grow, you cannot have only advertising and offtakes without distribution. In fact we have that slide on the investor presentation, in which we have shown you the increase in offtake and...
- Ashi Anand:** Yes, it is there, but I thought that within a particular state also there might be some offtake improvement. Last question is on your overall plans for launching one product every quarter broadly, so we are sticking to that plan, right Sir.
- Sumit Malhotra:** We do not change so fast, because these are strategies which are thought of over a longer period of time and therefore you do not go back on your strategy over two quarters, I can at least see one every quarter for the two or three quarters.
- Ashi Anand:** Okay Sir. Thanks a lot for your time. Thank you.
- Moderator:** Thank you. Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi Sir, couple of followups. Sir for the reasons that you have explained in the past calls, our employee cost witnessed sharp increased in the last two to three years and for two to three

quarters, the run rate has stabilized at around Rs. 19 Crores per quarter, so should we look forward to normal rate of inflation in this cost line item here on?

Sumit Malhotra: No, you would not because the jumps that you have actually seen in other expenses, you are talking about other expenses, right?

Tejas Shah: No Sir, employee cost Sir?

Sumit Malhotra: Employee cost, I think more or less that is through. So now you will see the inflation cost tweaking in in terms of increase in employees also.

Tejas Shah: So that non-linearity that we witnessed in the last two to three years is paying us now on that.

Sumit Malhotra: As I see it now.

Tejas Shah: Okay, sure. Sir second just for academic reason, you launched Coco Jasmine in Maharashtra, whereas in fact in the previous question when answering that you mentioned that some of the offerings that we are launching now intuitively has much more ready market in the Hindi heartland. So just wanted to understand why coco jasmine has been launched in Maharashtra whereas other launches have been Brahmi Amla has been relaunched and focusing on Hindi heartland area?

Sumit Malhotra: See, there are two parts of it, Tejas. Logically you cannot launch all the products in one area. We have to launch our product, let it stabilize, then launch in other products, right. If you are to look at markets differently, you will have a different offerings in each of the market, so rather than offering product only in market, it makes a lot of sense to let one product stabilize, then offer another in that market and consecutively look at other market, for example today we have launched in the west which is Maharashtra, tomorrow you would see another launch in the east, because we have not launched anything in the east and therefore the team is sort of ready to take off extra initiatives on a new product there, so I do not see there is a disconnect. We do not keep on launching in Hindi heartland because you believe you are strong enough there and therefore you can keep on adding products. You add products and then let the team take it up and then go forward. Also in Jasmine the biggest area is Maharashtra for the coconut, jasmine offerings, so it is better to go into the largest area and fight it out there.

Tejas Shah: Sure Sir. Thanks Sir. That is from my side Sir.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good morning Sir, Sir my first question is now considering the fact that most of the demand-related headwinds are not behind us and there is an expectations of normal monsoon, so Sir this year can we expect at least a double digit volume growth in ADHO ?

- Sumit Malhotra:** We do not give guidance and what you are actually seeing is only the green shoot, so maybe it is a little too premature on looking at major jump in growth, my point towards that I think the worst is behind us, how fast will be able to attach the best we ever had is something I do not think we have a visibility at this point of time.
- Ankit Babel:** Okay and Sir secondly what could be the contribution of new launches in the overall growth for the company maybe in this year is 2%, 3%, 5%?
- Sumit Malhotra:** It is very, very small. This year is not going to be a turnaround year.
- Ankit Babel:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Avnish Roy from Edelweiss. Please go ahead.
- Avnish Roy:** Sir just one small followup, Sir in spite of such a sharp inflation in raw material, your gross margins have been protected really well that is good. Just want to understand that bit on value engineering, what exactly have you done and has competition also done similar things?
- Sumit Malhotra:** See I think value engineering is the second biggest cause for being able to maintain. The first is basically buying LLP properly and like I have been indicating in all my conference calls that we have actually got a decent strategy on when to buy and how much to stock. So a lot of this has happened because we actually stocked up at a time when crude was rising. In terms of value-add engineering not many people can do it because the biggest value engineering that we have done is on our glass bottles. If the new technology is available, you can actually have lighter bottles and therefore cheaper bottles that can be made with equal or better strength in terms of transportation. So this is what we have been working on for the last three years and this year saw that benefit come in to our margin profiles.
- Avnish Roy:** And Sir what is the stock you have of the real lower raw material or is it largely over because you have taken the price hike?
- Sumit Malhotra:** That would largely be over but even we still have a lowest cost than what is currently available. To give you an idea, the current price would be close to around Rs. 74, Rs. 75 a kg, we still have stocks at around Rs.70 odd per kg.
- Avnish Roy:** And for 74, is the price hike taken or...?
- Sumit Malhotra:** Yes.
- Avnish Roy:** And Sir followup on that in some of the places for example Mumbai plastic ban has happened, does it impact your LUPs for example?

- Sumit Malhotra:** It has not been accepted, if you have been following the trend, it has been reversed by Government of Maharashtra itself and the discussion is happening on how to do it, especially for non-food items which we fall under.
- Avnish Roy:** So you do not expect any big impact in Mumbai for example.
- Sumit Malhotra:** In the last 30 years I have seen this happen thrice at the cost of sounding negative, I do not think it will happen early.
- Avnish Roy:** And Sir lastly E-Way Bill when it happens within a state then do you expect some disruption I understand in April not much a disruption, but in the second phase, you expect some disruption?
- Sumit Malhotra:** No, I do not, I think, in all kind of a thing we were very well prepared and we were able to put it into ERP system, so actually the April thing went seamlessly and we really did not have any kind of disruption. Even today we are prepared for within the state and we have armed, depots and C&F agents in such a way that they will be able to move into this as and when it is enforced.
- Avnish Roy:** And Sir how do you see media inflation I understand lot of new products but from media inflation perspective, is it likely a big concern FY2019.
- Sumit Malhotra:** Oh yes. See if you look at it normally media has been fairly stagnant. This year we expect it to go up by around 5 off percent. This can be absorbed in our overall price increase that they have done.
- Avnish Roy:** Okay Sir that is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Tanmay Sharma from Jefferies. Please go ahead.
- Tanmay Sharma:** Hi Sir. I have only one question on margin you said you will be able to maintain the margins at the current levels, if the crude and your LLP remains, Sir my question is why do not you think we should be ready to forgo some of the margins currently considering that we are at closed to all time higher margins and considering the hair oil category instead of taking our price hike, we could have been more aggressive and we have benefited from the fact that commoditized oil is increasing and take more share from there instead of focusing more margins and other forgoing some margins for that. This is the only question I have.
- Sumit Malhotra:** I think you are right, but when you forgo margins we also risk yourself open for competition coming in and overspending you and therefore even though we have taken a price hike like I said it has been only on a few SKUs and not across the broad and therefore even though we would ideally have to 6%-7% price hike across the broad, we did not do it. We have taken that into consideration. In fact in one of the previous calls I said that we would like to maintain margin, but not at the expense of volume and this is the philosophy that we have actually followed here.

- Tanmay Sharma:** Okay, Sir that because have you said media inflation is also going to be only 4%-5%, so there will be...?
- Sumit Malhotra:** It would be 18%, not 18%, 9% this is approximately the percentage of advertising to sales that we have. So it is going to be 4%-5% or 5%, which is less than half a percentage.
- Tanmay Sharma:** Okay Sir. That is it from my side. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Amit Kumar from Investec Capital. Please go ahead.
- Amit Kumar:** Thank you so much for the opportunity Sir. Just a quick followup on my side, you sort of mentioned that jasmine product Maharashtra is by far the largest sort of state for the jasmine hair oil, if you can just highlight two three other states which are big on this form of hair oil essentially and the second one was – the coco jasmine product that you have launched and how should we sort of look at differentiation versus even the current products, so Parachute has a jasmine offering, Dabur through Vatika they have a jasmine offering, how should these are look at differentiation in this particular product versus what is already available in the market.
- Sumit Malhotra:** See if you read the presentation, we have put our stance right up front and saying that the differentiation we are offering is reduction in breakage and this is being clinically tested. This is not a claim that is sort of drawn out of the hat and that differentiation we believe is strong enough to get a change from the current hair oil users because today hair fall and frazzled hair and all these things are becoming much more top of mind for consumers especially ladies right. So yes we have been very careful in what we are saying what we are advertising, is being back by claims, which are backed by clinical trial and that is what they are looking at. In terms of markets in Maharashtra is the biggest, followed by West Bengal and followed by Andhra. So actually intuitively you are saying that since this coconut it would be very vague in the south, but that is really not the case.
- Amit Kumar:** Okay. I understood. Thank you. That is it from my end.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing comments.
- Sumit Malhotra:** Thank you. Thanks a lot again for logging in and it is always very encouraging that we have such a lot of participation in our investor calls and even outside the investor call if you have any questions, you can send e-mail to our investor relations department headed by Kushal. Thanks again and meet you after the next quarterly results.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Kotak Securities that concludes this conference. Thank you for joining us. You may now disconnect your line.