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Dear Sir/Madam,

Sub: Conference Call transcripts (Scrip Code: BAJAJCON)

Please find attached a copy of the Conference Call transcripts in respect of Bajaj Consumer Care Limited dated November 2, 2021.

The same may please be taken on record and suitably disseminated to all concerned.

Thanking you,

Yours Sincerely,

For Bajaj Consumer Care Limited



Vivek Mishra
Head (Legal) & Company Secretary
Membership No.: A21901

Encl: as above

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“Bajaj Consumer Care Limited
Q2 FY2022 Earnings Conference Call”

November 02, 2021



**ANALYST: MR. MANOJ MENON – HEAD OF RESEARCH –
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Moderator: Ladies and gentlemen, good day and welcome to Bajaj Consumer Q2 FY2022 Earnings Conference Call hosted by ICICI 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Menon – Head of Research – ICICI Securities. Thank you and over to you Sir!

Manoj Menon: A wonderful good morning and good afternoon depending on which part of the world you are joining from. At ICICI Securities it is our absolute pleasure to host the 2Q FY2022 results conference call of Bajaj Consumer Care Limited. Today from the management side we have Mr. Jaideep Nandi - Managing Director, Mr. Dilip Kumar Maloo - Chief Financial Officer, Mr. Kushal Maheshwari - Head, Treasury & Investor Relations and Mr. Richard D’Souza – General Manager - Finance. Jaideep Sir over to you!

Jaideep Nandi: Thank you Manoj for hosting this call and good morning to everybody from India. My name is Jaideep Nandi and I am joined by as Manoj said Mr. D K Maloo, our CFO; Richard D’Souza - General - Manager Finance; and Kushal, who is the Head of Treasury as well as some of my colleagues from the management committee.

So let me take you through the performance of the company for Q2 and first half of the FY2022 before we open the house for questions. The quarter was a challenging one in face of category slowdown and rising input cost. After robust sales in June and July which witnessed high teen growth for the company we saw a sharp decline in sales in the months of August and September.

The company reported a sales turnover of 212.2 Crores for the quarter which is 4.3% lower over the corresponding quarter of the previous year. In hair oils, the sale decline for the quarter was 2.1% by value and volume decline of 0.7%. For the half year, the sales turnover was at 424.2 Crores, a growth of 2.6% over last year. In hair oils, the sales value and volume growths were 8% and 10.2% respectively.

Now gross margin for the company was at 59.1% which is 40 basis points higher on a sequential basis but lower by over 6% on a year last corresponding quarter. We have taken calibrated price increases of about 5% during the year and working on above 20 cost saving products to partially offset the steep commodity price inflation. The drop in gross margin over last year was primarily due to sharp increases in LLP, RMO as well as packing material prices in the year. We have taken another price increase of approximately 2% with effect from November. We will continue to keep a close watch on the commodity prices,

demand conditions, competitor landscape and decides on further pricing actions in the future accordingly.

The EBITDA for the company for the quarter was at 50 Crores with a margin of 23.6% for the quarter. PAT for the company was at 47.3 Crores against 57.3 Crores for the corresponding quarter last year. The topline of the company was negatively impacted mainly due to three factors in a quarter, geographically south and west did well as a region for overall hair oils. This is borne out both by the Nielsen data and our double-digit growth in both these regions in this quarter. Unfortunately, these are under index market for us. On the other hand, our over index markets of Bihar, UP and parts of central India severely declined in the quarter mainly in August and September which had an adverse effect on the company. Secondly as we have been witnessing for the past few quarters the consumer down trading continued in the quarter with the Amla and Coconut categories have been the fastest growing oil, while premium oils have been under pressure. Although our presence in these categories are low currently our direction to complete and balance the portfolio in hair oil should derisk our topline in the mid to long-term.

Lastly with many rural markets slowing down, key wholesale markets again in the north and central parts of the country saw a severally reduced footfalls in August and September. Our company had double digit decline in wholesale while both urban retail as well as direct rural some near double digit and flat growth in the quarter respectively. With the market showing slight signs of recovery in October we expect the demand conditions to be normalizing in the coming months.

While wholesale business has been a dampener to the performance, most of the key initiatives taken at the beginning of the year have been doing well. Broad basing the portfolio to reduce our overdependence on Almond Drops, improving distribution reach in west and south as well as increasing the urban retail footprint in select cities in North, east and central India have been yielding results. Both modern trade growth and ecommerce scale up have been as per plans. Modern trade registered mid teen growth on the back of the better store executions assortment optimizations as well as increase of distribution footprint. While August saw lower than expected footfall for big day events, improvements were seen towards the end of September and October for modern trade. The ecommerce business for our company continued to scale up well with doubling of business quarter-on-quarter and the business now contributing to nearly 4% of turnover.

Listing expansion across key retailers', investments on brand visibility on key platforms, activation of the non-ADHO portfolio continue to yield results as per plans. More than

1/3rd of the sales came from non-ADHO brands in B2C ecommerce which is the highest ever till date.

Almond Drops continue to get media support across TV social media platforms and print media support in key markets. Promotional support to consumer offers and selected queues across key geographies continued during the quarter. Bajaj Amla Aloe Vera has been scaling up well in select markets of North and central India with over 50% growth in the quarter and over 70% on a YTD basis. Rural focused TV campaign started in Q2, this was supported with print media and focused trades.

Bajaj pure coconut oil launched in select markets of west, east and south has been getting good responses from the trade and customers. The product will be used to improve our distribution footprint in these under index markets to leverage the next set of launches in GT planned in the next few quarters.

Urban retail continue to do well with growth for the quarter close to double digit on the back of retail initiatives and outright expansion. In identified top urban cities the thrust to increase our retail contribution will continue going forward.

In rural, focus has been to improve efficiencies through technology interventions helping in brand route optimization and rationalization. With expansion of portfolio the focus has been to see the newer brands in the rural markets which is really seeing traction.

The ecommerce business will remain a focus area for the company. We have just launched our new digital first premium brand in hair care and personal care space, Natvy Soul. We will be expanding our portfolio in the coming quarters. This will be supplemented with renewed thrust of our traditional portfolio in the channel. The digital first brand Bajaj Zero Hair Grey continues to scale up and will become an integral part of the ecommerce strategy as we scale up further activations and support in the ecommerce space.

In the international business, UAE and Africa had a sharp decline due to travel restrictions while Nepal and Bangladesh came out of lockdown and performed well with double digit growth. International business will be taken up as a thrust area from the next financial year.

Various ESG initiatives are being taken to reduce carbon footprints and greenhouse gas emissions especially in case of packing materials. There is reduction in consumption of approximately 14% in glass bottles, cartons and laminates put together through optimization and rationalization of specifications.

The process will continue in the future. Plans are also underway to ensure that bulk of our packing material is of recyclable material. As part of our extended producer responsibility, we are on track with our target to effectively collect and co-process 100% of our post consumer plastic with 48% achievement of target in H1.

At this stage while on a one hand we will keep reacting to the market conditions tactically on the other hand we will keep investing in building capability and systems to achieve our mid to long-term aspiration of delivering sustainable growth through broad basing our portfolio both in the hair care and personal care space with focus obviously on hair oil, making forays into the under index markets of west and south, scaling up our international and ecommerce business as well as improving our execution excellence, process. systems and focus on ESG initiatives.

So with that I end my opening remarks and open the session for questions.

Moderator:

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon:

First of all, good performance on the diversification efforts and some of the new products definitely looks great. But having said that in my mind the biggest elephant in the room is actually the ADHO performance obviously you did allude to and your presentation has been fairly disclosure friendly but my question is, is it really a market growth issue or a seasonal issue or is it really a sales issue what I just wanted to request really to explain in which however quantitative or qualitative data you might have, on the core category growth itself. While you are doing lot of efforts on diversification but the criticality of ADHO growth is very critical from having resources let us say to fund lot of these multiple ventures etc. and also given the fact that ADHO expenses is expected to have a longer runway for growth but the performance over the last maybe few years not sure whether it will be really supporting the case so if you can just talk about the core characteristics of the particular segment or the category with any of the studies or any information which you may have other than Nielsen. Thank you sir!

Jaideep Nandi:

I think that is absolutely a fair question. In fact, I mean overall if you look at the entire premium oils etc. I mean I think it is pretty clear in the last few quarters there has been a bit of down trading but having said that ADHO being one of the largest brands in the hair oils category I think it is on to us as well to see how we can scale up ADHOs business etc. If you look at except for the last two months of August and September across the last three four quarters ADHOs growth has been generally going pretty good in fact what we wanted to expand both in terms of urban retails where we wanted to seed ADHO where our

presence was low as well as in terms of deep rural I think the work had sorted up pretty well so obviously the setback of August and September has been there. If you ask me, yes we can improve our execution excellence as well and this is exactly what we are looking at in certain markets. I mean there is no question that the wholesale market really had a big setback in most of the wholesale mandis in the north and the central parts of the country but given our brand strength I think there is some more play there. We have seen that some of the corrective actions and we saw some positive impact of the month in October itself. There is no question that ADHO will have to fund the growth and hence ADHO needs to keep growing not withstanding whatever happens in all the other portfolio. I think that consciousness across the entire marketing sales team is very much there and I think we should see ADHO coming back strongly in the coming quarters.

Manoj Menon: Thank you sir I will just come back I got a couple of follow ups on this for that I will actually come back after that question queue.

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

Abneesh Roy: My question is on the rural data which Nielsen has given out even Unilever had called out the slowdown based on the Nielsen how seriously are you taking this data because rural from 8.3 to -2.7 also if you could comment on the urban growth also because that is also no growth right on 12% base which is not very high even urban is not growing as per Nielsen so could you comment on both rural slowdown how serious is it and in urban things do not seem to be remarkably different.

Jaideep Nandi: See if you look at rural, clearly we see the slowdowns that are happening. In fact while our rural remained flat because last year we started the van initiative and direct rural for us has been still holding up we see the gap in our wholesale fairly reflects that rural markets have clearly had a setback and that is not really coming back in a big way. In urban we see pockets which have been doing well. West and south for us also which are obviously much under index has been going well. We see signs of recovery in Delhi and in some of the other markets. So urban is more of a mix pack but I think rural is flat mostly across the country. We see rural and we have to factor in that last year rural had the impetus hence rural actually grew much faster. So on a two-year basis rural and urban will be more or less similar but rural this year on a YoY basis has gone down and that is not going to correct in the next one or two quarters. I do not see that correction happen as far as year to year is concerned.

Abneesh Roy: My second question is on Amla your market share you have done well from 1.6% to 3% of course at 3%, brands do not turn profitable in terms of market share. So if you could tell us

what is driving this market share gain and when do you see this brand being profitable on its own.

Jaideep Nandi:

In fact, if you look at what we said, we look at Amla as a strategic investment for us and we see that on the brand coming to about 60-70 Crores it will turn at EBITDA neutral. As of now, our investments in the brand itself has been restricted. We have been also playing with the assortment so that where the more profitable assortment is where we have played. The lower size packs where the margins are far lower we are very, very under index and that is why we have only played in the markets where the larger packs are operating. So at this moment we are really not too much with a negative as far as Amla is concerned and that is what we will keep on calibrating. We will keep the EBITDA at those levels so as we scale up the brand we will keep industry backing with the brand itself so not too much of drain on the EBITDA. We would like to keep it neutral so that at least we are able to balance the portfolio. So that is what our approach towards Amla is. So 60 - 70 Crores is when we should be looking at a breakeven kind of in Amla. Our target is to reach about 100 Crores in the next two years or so.

Abneesh Roy:

Last question on your coconut oil foray so now almost three months have happened since the launch so are you seeing some level for repeat purchase and second because copra raw material prices are coming down have you also cut prices so that you continue to remain competitive versus the market leader.

Jaideep Nandi:

So we have not cut prices, as you remember when we had launched in July we have kept our prices about 10% lower than the largest player and we continue to get our main objective as far as coconut was concerned which was basically get some specific markets of south and Maharashtra is getting our distribution present. It is more of a little bit of a mid to long-term because of the kind of launches that we are planning as far as GT is concerned in the next two three quarters we wanted to get some foot hold in the southern markets where I would say that the response is still mixed but in the western markets we see good presence happening as far as coconut entry is concerned. We are getting some good foothold in these markets and that is something that we hope to exploit in the next two three quarters. So far we have kept quite a tight leash on the primary sales of coconut because we do not want too much of this thing but we are getting good encouraging response so we will see how that pans out. The initial response is very good both from the consumer as well as from the trade.

Abneesh Roy:

That is all from my side thanks and all the best.

Moderator:

Thank you. We have next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: First question on the Nielsen slowdown in rural just wanted to understand how much of this is because of the base effect because the slowdown might just be that last year people were sort of recovering from COVID first wave and that is causing some kind of anomaly so can you give me some information on what is the two year growth rate as per Nielsen and rural and whether that has slowed down or not.

Jaideep Nandi: So if you look at there are two ways to look at in terms of obviously there is a bit of a base effect we are seeing compared to urban because last year you see urban had absolutely collapsed in the first quarter and there has been not too much of recovery as well as urban is concerned in that sense rural last year had a far higher growth so this year that growth has not got replicated. Some part of it is back even internally if I look at our own data I mean for the first time we are seeing rural overtaking the business and rural contributing to about 55% of the business while urban is just about 45% in terms of markets. So, if you look at, I just get you the two-year CAGR for that. So this is what we are looking at so rural in terms of numbers for us is still higher but in our case as I said because our wholesale had collapsed the numbers are bad. If you look at half year results, retail for us is about 23% growth, wholesale is at -15% and rural markets is about a 4% growth and that is because of direct rural that we are doing which is with the van sales etc. So that is what we are seeing as far as the market is concerned.

Percy Panthaki: But even if I look at your own reported growth on a two year basis for the quarter I am not talk about rural urban but just the total growth on the two years basis it is not I mean it is not a very great number so just wanted to understand how much of this is a general FMCG sort of growth being lack luster issue and how much of it is got to do with light hair oils underperforming the overall FMCG sector.

Jaideep Nandi: See if you look at the overall hair oil in two years CAGR that you saw rural is still better than urban on an overall basis that was the question that you are asking.

Percy Panthaki: That is as per Nielsen sir or for you.

Jaideep Nandi: As per Nielsen for us rural has been doing better so rural is on a higher growth than urban. Now urban this quarter if you look at specifically we had a double digit decline as far as the wholesale is concerned. Wholesale really went down it was over 20% decline in this particular quarter and as I said for the half year about 15%. So this is where our decline is coming which is also part of it is from the rural market. Overall it is flat.

Percy Panthaki: Sir second question is on the input cost inflation your gross margin is down almost 700 basis points YoY so just wanted to understand what is the inflation trends and if you have

taken any price action to offset this and just some understanding on the gross margins going ahead.

Jaideep Nandi: So gross margins will I think remain under pressure because as far as Q3 is concerned we do not see any softening of prices either in LLP or RMO nor packing material. That is why we have taken a 2% price increase in November. Also given the way the consumer trends are with the so much of downtrading happening we also need to protect our brand and hence we will also look at how competitive action is and hence calibrate our price increase. Ideally we would have liked to take a much higher price increase but given the market scenario and the economy I do not think we will be taking more than 2% at this stage but we will keep monitoring the prices and in case we need to take it take a further price increase maybe in the next quarter we will look at another price increase if it is so required. But at this stage we will take the hit on gross margins.

Percy Panthaki: And how much is the cost inflation as it stands today versus what we have already seen in your Q2 results because even after whatever charge out is there in your Q2 P&L the average cost of that versus the average input cost basket today that itself would have gone up further right.

Jaideep Nandi: Sorry can you repeat that question Q2 versus what.

Percy Panthaki: So as the input cost stand today versus what input cost was charged out in your Q2 P&L there would be a further inflation. So if I look at the short prices today versus what you had in your Q2 P&L charge out how much would that inflation be.

Jaideep Nandi: The question is consumption versus purchase right so what consumption we have booked in Q2 versus what are the purchase and current prices and hence...

Percy Panthaki: What are the current prices versus what has been charged out in to Q2 P&L.

Jaideep Nandi: I have got your point. So consumption charges as it will come in Q3 material cost versus what it was in Q2 because it would have carry forward of Q1 so that if you look at will not be too significantly different because while we see RMO prices hardening we also see LLP softening so overall the impact even between Q1 and Q2 you did not see too much. The thing is that what we were expecting with the RMO hoping to soften has not happened and LLP has also not really softened to the extent that we expect. As a result we do not see too much of difference between even a Q2 and Q3 prices it will be a 1% or 2% plus minus here there so not really that much.

- Percy Panthaki:** Crude going up sir in the last two three months crude going up and LLP being a derivative of crude do not you see an upside risk to the LLP prices.
- Jaideep Nandi:** I mean while obviously it is a derivative of crude and hence LLP prices it will. Also we have supply demand situation, yes LLP prices have hardened a bit as I said but at this moment we do not see it materially making any impact on our overall LLP prices itself. It is not a direct correlation that you see between crude and LLP. So going forward as I said we will monitor in case we feel the prices had really gone up so much then maybe we will take another price increase which I alluded to in quarter four. As of now we are well covered for Q3 so really speaking for Q3 consumption there will be not too much of difference whichever way LLP behaves.
- Percy Panthaki:** Thank you sir.
- Moderator:** Thank you. We have next question from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.
- Deepan S Narayanan:** Firstly I want to understand how has been this retail offtake growth and when do we expect overall this wholesale chart growing with the festive season coming up and also economy opening up.
- Jaideep Nandi:** Well okay if you look at in terms of October business itself clearly we see some bit of recovery than that we have seen in August and September but given that it is the festive season etc. we do not see kind of that real uptick that we expect to happen. I do not think that has been seen across the markets in categories that at least we have been operating in or we have been monitoring. So having said that the certain markets where we see the recovery to be still a little slower especially markets of Bihar, Madhya Pradesh, Uttar Pradesh but other markets of the north, east, west, south etc. we see markets becoming a little better.
- Deepan S Narayanan:** So in that case ,this current Ad and sales promotion run rate of 15%, 16% will it continue for next two to three quarters or it will go back to 18%, 11% or so.
- Jaideep Nandi:** We will keep it at between 15% to 18% and we will operate tactically between that so 15% to 18% is where we will operate and as we launch our ecommerce brand we might also look at a little bit of a upside on that. So you would like to invest for the future so some bit of investment will also happen.
- Deepan S Narayanan:** Thanks a lot and all the best.

Moderator: Thank you. We have next question from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Sir my question pertains to gross margin so we are almost tracking at the lower end of our historical margin trend. So will you want to operate at this lower end of the margin and try to push growth or we will try to go back to our earlier margin as per the intervention that we are planning to make in next three to six months.

Jaideep Nandi: See with this unprecedented price changes that has happened in our key raw materials I do not think we are in a position, I do not think the market economics also would support a full-fledged passing out the price increases. We also see that most of this price trends will always be cyclical historically and if you were to take most of the price increases then one is we are not sure whether how priced will be from the market place because the market place is also a competitive place and on the other side if you were to take a price increase and the prices do drop we would not be able to roll back the price drop so that is exactly why we are taking them in a calibrated manner. We have just taken the third price increase for the year and keeping it open for us to have a price increase if and when necessary so at this moment we will have to bear with this but we expect that in the next two quarters or so the prices to start softening I will just take this opportunity to get the numbers for the two years CAGR which is basically that we saw for the urban two year CAGR is -2.9% while for the rural market the CAGR is 2.9% positive with a overall CAGR of -0.3%. These are the Nielsen numbers.

Tejash Shah: Sir the second question pertains to our direct-to-consumer brand strategy so two years back it use to be novelty. Now it is like everybody is doing the same thing so how do you stand out in that crowded market and what is our value proposition which will click versus all the brands which have been launched and then now right from startup to establish companies everybody is going by that.

Jaideep Nandi: Yes, absolutely and I think there will be not too many choices left for most organizations if they are not already jumped into the band wagon. In ecommerce space as you remember last year about five quarters back our contribution to ecommerce was about 0.5% which was far more under index than most of our competitors now we have bridged the gap a bit at 4% and we think that we have enough within ourselves to push for this strategy I mean today we are launching Natyv Soul. I will not be able to talk of some of the other launches that we are planning which you will see sometime about in Q3 end. We will be talking of another brand but I think for us as far as our company is concerned both with the traditional portfolio that we have as well as the new D2C brand that we are launching we have enough and more fight in this space. One of the things that we keep saying is that this is a far more democratic space and given the equity of Bajaj we can use in our traditional portfolio and

any other hair oils that we launch as well as some of the niche category that we can get into where I think it is a function of how good we are in terms of our digital and influencer marketing skills I think there is enough and more for us to be playing in this portfolio. I think in terms of skill set, infrastructure we have built it up and I think like most of the other large players who are getting into. I think there is enough and more for us also to be play in this space and given that it is an absolute number that we are chasing as a percentage to our turnover I think we have a better success rate possibilities than most of the larger players who will be looking at similar numbers in a similar part.

Tejash Shah: Let us say then both our D2C brands it has also launches we are not leveraging Bajaj name at least that is what appears from what we checked on Amazon so how does it work then.

Jaideep Nandi: So this is in an absolutely nascent stage I mean this is just a prelaunch if I were to use such a word it is a soft launch maybe that is a word I mean you will be saying by about quarter four Natyv Soul having a full range of its own we are looking at about 20 to 30 products under the Natyv Soul brand itself which is basically in the hair care personal care space as well. As we will get into both digital and influencer marketing that we are talking about parallely we are also looking at another range which we think might be relevant for our Bajaj name itself which we will be parallely putting it across along with the traditional portfolio that we have. So with that we feel that as a comprehensive ecommerce strategy can be built up which in fact in the other range that we are talking about the Zero Grey Oil will actually amalgamate into that space itself and as an overall strategy I think this is what we would have enough and more to play with.

Tejash Shah: That is all from my side and sir happy Diwali to you and the team.

Moderator: Thank you. We have next question from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: On a slightly different note and if I put report card not exactly report card but at the time we have taken over and when I look at the journey you started saying the wholesale dependent sales is very high and then we were trying to improve our footprint we did try to do van sales operation to improve our coverage and then we focus to the two quarters before from one brand Almond Drops to your coconut and then in-between we also have Amla and now we are also talking about D2C now you always if I refer last four con calls you have used strategy, processes, people senior management I think my candid view is that you have all the ingredients to show a better performance however the market conditions are not supporting now if I go back four years before wholesale was the key component and when we consciously cut the wholesale and now we are coming back wholesale is our key important channel so one the question is around how we should look at this country being a

single category from the hair oil we have single brand now we have three brands now how do you see this company growing next two to three years I mean that is the first question.

Jaideep Nandi:

So Shirish firstly I do not think this attempt to come back to wholesale will be something that we will be pursuing very, very aggressively. The overall strategy that we have stated upfront about six seven quarters back and that it will absolutely continue I do not think there is any shift in our strategy in spite of this stupendous increase in raw material prices as well as the demand slowdown that we have if we have to restructure some of these attempts to make a wholesale heavy single brand company into something which we are little more multifaceted and we think it will take some time and that journey is what we are monitoring. So the entire objective of retail initiative, penetrating directly into deep rural, broadening our portfolio, getting into ecommerce where we think the space is a little more democratized, getting international business which will take up next year. These are all in fact with the way we wanted this to pan out yes obviously the financial numbers have not backed us given what we have seen as I said in both raw material prices as demand conditions so this is something that I think we will continue with. I do not think we will change our journey or do any kneejerk reaction based on how the market conditions are but having said that wholesale has been one of our key pillars etc. we are not going to just give up on wholesale I mean that is something that is all that I was alluding to. Wholesale we will ensure that whatever decent work that has happened in wholesale over a long period of years that is retained and we will not give up on wholesale which is one of the pillars and then start building other pillars. We are not demolishing the house to build another new house it is something that we will continue to maintain while we scale up retail rural and all the other things this is how we would like to look at our business.

Shirish Pardeshi:

Wonderful so you are sticking to the whole strategy but one follow up here I mean while discussing with the channel partners and wholesale what we also have the hypothesis which we tell as over last two to three quarter is the wholesale is becoming a very, very opportunist and traditionally they were selling top two or three SKUs however the cash and carry is also affecting so somewhere the sense which I have gathered around last two three quarters is that consciously wholesale is cutting the inventory which at some point of time by giving maybe 1% percentage or 2% we could lowered the wholesale but then consciously the wholesale has come down and because the retail channel is now getting more digitized or maybe cash and carry is effecting so is it a part and parcel that these trade also having a structural inventory correction and which we do not know whether it will stop it at this stage or maybe going forward it started from us so because we try to split the channel like the pandemic the retail customers has moved from modern trade to ecommerce maybe physical short end will come back but consciously the trade has cut the inventory to what level you agree or you would have seen or witnessed this phenomena in the trade.

Jaideep Nandi: So partly agreed I think you have stated right I think in terms of trade reducing the inventory especially in the wholesale channel is clearly seems fine, but having said that some of the markets where wholesale is a predominant and a very, very obviously way to do the business let us some our hinterlands of UP, Madhya Pradesh, Bihar, etc. I mean you really cannot do without wholesale which is where you did it like to retain our strength while we build a direct rural as well as in terms of urban like most of the other competitors we have been far more over indexed in wholesale that is something that we would like to reduce while maintaining the wholesale saliency in UP, Bihar, that is more of a given and nothing else but yes inventories have gone down in the wholesale channel and I think that is how the future will also pan out I do not think that we can change that.

Shirish Pardeshi: Just one last follow up on this question to what level we are joined the wholesale contribution today and at what level you are comfortable.

Jaideep Nandi: I am sorry can you come again please.

Shirish Pardeshi: What is the current contribution from wholesale for us.

Jaideep Nandi: So as of now if you look at Q2 itself the wholesale saliency has come down from the mid 30s to about 23% so if I have to give you a exact number it is about 22.5% each for retail and wholesale and about 55% as far as the sub stockiest are concerned. This is how the numbers have panned out whichever typically about if you remember last time we had discussed we were talking of 30% which was wholesale, 20% was the retail and 50% rural so that is how the numbers has changed I mean rural or a little more but yes so this is how it is. Ideally we would preferred a retail and a wholesale in urban to be split to be more or less similar which is what it is today but not this way where wholesale has collapsed and retail has grown double digit. We would like the retail growth to be much higher and the wholesale to remain about a single digit or mid single digit or low single digit growth so that at least we are able to get this nice balance not the way it has happened today that we would like to look at in the future.

Shirish Pardeshi: My second and last question on the price increase as you mentioned that we have taken about 5% so far and another 2% is going in the month of November so cumulative it would be 7%.

Jaideep Nandi: That is absolutely correct in the year.

Shirish Pardeshi: Thank you. I have more questions I will come back in the queue.

Moderator: Thank you. We have next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just one quick question in terms of our value growth and volume growth so if I look at it the value growth is even lower than the volume growth of Q2 whereas we said that we have taken a 5% kind of a price increase in the ADHO part of provisioning so just trying to understand then why is the value growth lower than the volume growth for the quarter.

Jaideep Nandi: Yes two simple reasons one is obviously as you have seen that there is a inferior mix that has happened which is where Amla and coconut has been scaled up and that is what will continue to happen where we will be putting volume growth a little higher so as of now for example ADHO has a saliency about 90% again not the ideal way we would like to with ADHO going down as a business generator but that is how it has turned out to be ADHO is at 90% against salience which typically was about 92% so this is one part the other part that has happened is and this is a conscious strategy that we have taken where we have been selling more of the larger packs of ADHO all of them have been growing right from 100ml, 200ml, 300ml, 500ml, 650ml all of them have been our focus because that is where we make more money but obviously per ml cost of that product is much lower as far as the smaller packs are concerned. The smaller packs we have taken a bit of a under indexing so that has also had a positive impact on the volume and a negative impact on the value.

Rahul Ranade: And just in terms of gross margin so what would be kind of sustainable level of gross margin obviously if we look at it in the past we have done significantly higher gross margins levels of 65%, 67% also but now with let us say Amla and coconut being a meaningful part of the portfolio going forward what would the gross margin look like on a sustainable basis let us say once the LLP and RMO prices cool off to more desirable kind of levels but on a sustainable basis how should we think of gross margins.

Jaideep Nandi: So that is what we have been looking at so originally stated the way we had planned out is basically looking at a gross margin coming to about 22%, 23% which is actually what it is today because of the LLP and RMO but we were looking at the gross margin coming to about 22%, 23% and then slowly scaling up because the other thing that will also get scaled the up is the expenses the other expenses etc. will get start flattening out as our topline keeps growing. So we were looking at a gross margin coming to about 22%, 23% and then slowly sitting back to 24%, 25% but 24%, 25% is the kind of gross margins will playing with EBITDA margins that we would like to be playing with on a overall basis.

I would rather look at EBITDA or rather than just pure gross margin play as such because if you look at even ecommerce brands that you have you have very high gross margins but then EBITDA will be lower because the cost that we will be putting in promotion and so on

and so forth so really speaking it is better to look at the EBITDA margins rather than just whichever gross margins because if it is a single brand single category gross margins on a linear basis is easier to look at but moment you are looking at a play and a portfolio it is where EBITDA margin that would rather be comfortable.

Rahul Ranade: And just the ADHO what would have been the volume growth for the quarter I think last we had a base of around 2% if I am not wrong and the current numbers would be on that basis.

Jaideep Nandi: I am sorry can you come again what was that.

Rahul Ranade: No in terms of volume growth for ADHO what would that number be because I think September 2020 quarter was a 2% kind of a growth if I am not wrong.

Jaideep Nandi: Yes, so it is actually if you look at the overall numbers itself with a -4% ADHO is also nearly exactly the same because there is not too much of difference that happens so ADHO is just a little higher than that number so not really material difference as far as ADHO growth versus overall company. But significantly if I have to just give and add a little bit of flavor to that I think what we are seeing is all the larger packs 100ml and above as a group has been doing pretty well those are all positive while the smaller packs is where the stress is and that is also borne out by the fact that UP, Bihar smaller pack markets the UP markets as well as the wholesale have been in boarder term. So the smaller pack is where we have lost out a bit while the larger packs have still stood up well on a two year CAGR as well as on a one year growth basis as well both on a quarter basis as well as on a YTD basis.

Rahul Ranade: And the price increase like when we talk about a 5% as price increase through the year it can be understood as a weighted pricing increase right but it will be across the SKU.

Jaideep Nandi: It is a weighted price increase unfortunately where the price brands are fix like a Re.1 sachet etc. you cannot really go down further on the packing or sachet. I mean with a 2.5 ml you cannot really bring it down further so there we have not taken the price increase so in the larger pack the price increase is more which ways if that to the percentage that we talked about.

Rahul Ranade: Thank you.

Moderator: Thank you. We have next question from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: I have two questions in this turn on the base of 5% we have shown a decline of 6% last year while I see that next two quarter our base is also going to be stronger I am not saying the guidance but would you help me to understand how one should look at the performance because the three things which we have spoken is distribution expansion led by rural and sales operation direct reach wholesale might come back after the festive season if there is a demand condition which is going to improve which is external while we also see that you have done from one brand to three brand and you know your expansion streak in the west and in the south so maybe if you can help us whether now already if you consider 7% price increase which is there but if you indicate what will be the volume growth and what is your inspirational level and where we can see this year end.

Jaideep Nandi: So, Shirish just to as I said I would not be able to give you guidance but I think some of the strategies that we put up in the month of October itself seems to be bearing fruit and we see a pretty decent jump from what we saw in August and September as far as our performance is concerned I think more or less we also are clear how to be reacting to the market place in the months of November December as the season comes up so I think I am pretty quietly confident that wherever the gap has happened in terms of the deep decline as far as wholesale is concerned that will get neutralized to quite a extent where all the other initiatives continue on their own, so I am expecting a far better Q3 in that sense.

Shirish Pardeshi: My second question is that you alluded saying that the dream stands you and Africa we have seen some pressure while Nepal and Bangladesh has done better so could you spend a minute how one should look at the second half for the international market and I am expecting that this lockdown issues and other things should be different from India.

Jaideep Nandi: See our base is so insignificant most of the business has happens more by default rather than by design there is no intervention as such that is there in the international market as of now just now in the last one, one and a half months we have started working in these markets and that is why in my opening statement I said that you will see something of products we are talking about as far as international markets in the next year or so at this moment it is more ground work that is happening and the reason for that is simple because with a company which has been till now is only focused on one brand as you are looking at expanding we are also need to be able to chew that we put on our plate so how much we take on our plate is something that we need to be completely conscious of and ensure that those initiatives that we have taken up are actually starting to fructify. We have taken Amla, we taken up coconut, we have taken up ecommerce, we have taken urban and rural initiatives as I said. I think and with coconut we are looking at even the west and south so this itself is something that we would like to stay on with for the next two three quarters, have some positive signs that we are already seeing in some of these markets while ecommerce also keep showing traction and then we will start looking at further more. We

do not want to take too much on our plate not only from the balance sheet and cash flow point of view but also from our own bandwidth point of view I think we need to be a little careful on that we do not want to make too many changes to certainly.

Shirish Pardeshi: My last question is on again Nielsen and I was sitting on in the month of November I am sure you would have September numbers with you what is the Amla growth rate in terms of volume value for the quarter if you can help me to understand and what is our growth rate for Amla.

Jaideep Nandi: See I have given you our growth rate as well as the market shares I mean that will be picking in some of the numbers we have grown by volume of about 70% and our market share has gone up from 1.7% to 1.3% market share so you can do the math backward.

Shirish Pardeshi: Alright thank you and all the best Jaideep and team thank you.

Moderator: Thank you. We have next question from the line of Rohan Samant from Multi-Act. Please go ahead.

Rohan Samant: On the margins like in the past the commentary that you have given was basically focusing on improving the absolute EBITDA rather than focusing on the percentage margin so do you still hold on to that guidance over the next two to three years that your focus would be more on absolute EBITDA rather than the percentage.

Jaideep Nandi: Absolutely I think given the directional changes that we are trying to do and the initiatives that we are talking of I think the overall play has to be where all the other cost elements of the company get neutralized like if you look at our company one of the key discussion points that we always keep having is why is our employee cost so high and that is mainly because while as a company you need to be able to fight and have strategic thinking capabilities the way some of the larger players have but in terms of our size when you put that as a percentage to a sale obviously we will always look higher. That if you have to neutralize and along with that the manufacturing and the admin and everything else we have to neutralize we will have to look at the company being broad basing the organization. Now broad basing the organization if you have to develop brands which bring in gross margins of the kind that ADHO brings that would mean about a decade of investment in these kind of our brands now because that is the kind of equity you will have to build up so that you can pull in that so ADHO focus needs to remain. ADHO needs to be build in fact one of the first questions that was asked is ADHO focus cannot go on now that is something while there has been a bit of dropping of the ball in this quarter. ADHO focus will have to continue across all forums I mean for example in this particular case as I said the low unit packs, the smaller packs have actually lost a bit and that is something that we will have to

bring back very, very quickly and that is what the focus has been other than that I mean the ADHO focus will have to remain here we get our EBITDA margins from but overall if you look at as a percentage we would not want to keep at a margin which is at 28%, 30% or 35% EBITDA because then you will not be able to reinvesting anything else that you are looking to develop so over the next three to five years that EBITDA margin of 23% to 25% is what we will target it might be a 23% but that is on a neutralized and a normalized LLP, RMO as well as in decent market condition so I am not talking of a very, very good market conditions but at decent market conditions where the market in hair oils is growing at mid single digit to a mid single digit.

Rohan Samant: And so basically if we are looking at a 23% EBITDA margin and in the past the base that we started with was much higher so essentially your topline growth has to be at a very healthy cliff as compared to what we have seen in the last two to three years so that is something that you are looking at right in terms of...?

Jaideep Nandi: See again you will have to compare the basis in a little more normalized manner with a kind of unprecedented price increase that we have seen in LLP and RMO, the 23% that you are seeing today itself would have looked 28%, 29% that is because we have not really made any big time investment in some of the larger brands. So our own investment will also remain calibrated because of a pressure that we see in LLP and RMO. We will also calibrate our investment so that we do not have a big hit on our EBITDA margins as such so there will be some dilution but yes in a normalized situation these are the kind of numbers you would have looked , at a 23% to 24%.

Rohan Samant: Thank you.

Moderator: Thank you. We have the last question from the line of Arvind Datta, an Investor. Please go ahead.

Arvind Datta: My question is related to long-term strategic plan from a three to five year perspective are there any plans to enter in other personal care segment or you want to remain a single product company and the second part of it is that today we are a 1000 Crores company and if we have to scale up to 2000 Crores or 3000 Crores over the next five to ten years we will need to have a portfolio other personal care products or you have the distribution network why not leverage by launching other personal care products especially on an ayurvedic theme this is my question.

Jaideep Nandi: Absolutely right question and this is something that we have been anyway exploring and some work has already happened in this area I mean if you have been include in to our commentary we have been looking at some of the extensions of using our almond drops

portfolio itself I am not sure still whether Ayurveda is somewhere we will have the requisite trend to get in and whether our theme would bring in that kind of an equity as some of the other larger well known brands do bring in so that is something that anyway we will keep exploring but yes getting into some of the personal care adjacent spaces is something that we are looking at along with some of the completion of our hair oils as well as close adjacent hair care portfolio. So in the next two three quarters you will see some of the more graded launches now why we have not gone too aggressive in launches etc. because we believe that we will have to invest in the brands rather than let us just the distribution network take care of the brand itself. We have seen some of the large competitor has launch a Plethora of brands and I am presuming that the expectation is the distribution itself will picking up I do not think we have the wherewithal or the skills to do that. We would rather do it in a more calibrated manner as we see some of the other larger peers. We do it in a calibrated manner and we would like to stay invested in some of the brands so we have launched Amla, we have launched coconut, we have launched ecommerce range and there will be another few launches that we will see and we will like to remain there and keep grading our self based on what kind of money we make out of ADHO.

Arvind Datta:

Thank you and all the best for the future.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you Sir!

Jaideep Nandi:

Thank you so much for patiently bearing with us I think as I said this has been a challenging quarter both from the demand conditions perspective as well as in terms of where the demand has been distributed in. We have seen some bit of recovery happening in October and we have also now also reacting to the market place to see where the declines are and what can be done as far as we are concerned so in terms of execution excellence our focus has been there while on the long-term we are not going to really change any of our strategies going forward so building of the team is already more or less in place as well as in terms of the areas that we have talked about I would not like to repeat them but those three four initiatives that we have put in for ourselves those will keep monitoring because we think as a company we have to if we have to derisk ourselves with a single product on a predominant wholesale channel we will have to build these things over the next two three years and that is the direction we will continue to follow and I think we will see results coming in slowly as the quarters go by. So thank you so much for patiently bearing with us and thank you for showing confidence in us thank you Happy Diwali to all of you and your families on a very, very great festive season to you all. Thank you.

Moderator:

Thank you very much sir. Thank you to the members of the management. Ladies and gentleman on behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.