

bajaj CONSUMER CARE

July 22, 2019

DCS-CRD BSE Limited First Floor, New Trade Wing Rotunda Building, Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400 023 Fax No.2272 3121/2037/2039 Stock Code: 533229	Listing Compliance National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor Plot No.C/1, 'G'Block Bandra- Kurla Complex Bandra East Mumbai 400 051 Fax No.2659 8237/8238 Stock Code: BAJAJCON
--	---

Dear Sir/Madam,

Sub: Conference Call transcripts (Scrip Code: 533229)

Please find attached a copy of the Conference Call transcripts in respect of Bajaj Consumer Care Limited (Formerly Bajaj Corp Limited) dated July 16, 2019.

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

Thanking you,

Yours faithfully,

For Bajaj Consumer Care Limited


Makarand Karnataki
Head – Legal & Company Secretary
Membership No.: ACS 14509

Encl: as above



“Bajaj Consumer Care Limited
Q1 2020 Financial year Earnings Conference Call”

July 16, 2019



ANALYST: MR. VISMAYA AGARWAL – ICICI SECURITIES LIMITED

MANAGEMENT: MR. SUMIT MALHOTRA - MANAGING DIRECTOR -
BAJAJ CONSUMER CARE LIMITED
MR. DILIP MALOO - CHIEF FINANCIAL OFFICER -
BAJAJ CONSUMER CARE LIMITED
MR. KUSHAL MAHESHWARI - HEAD TREASURY - BAJAJ
CONSUMER CARE LIMITED

Moderator: Good morning ladies and gentlemen welcome to the Bajaj Consumer Care's Q1 FY2020 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vismaya Agarwal from ICICI Securities. Thank you and over to you Sir!

Vismaya Agarwal: Thank you Lizaan. Good morning everyone. It is a pleasure to welcome you all on behalf of ICICI Securities for the Q1 FY2020 Bajaj Consumer Care earnings conference call. We have with us today from the management side, Mr. Sumit Malhotra, Managing Director; Mr. D.K. Maloo, Chief Financial Officer; and Mr. Kushal Maheshwari, Head Treasury & IR. I now hand the call over to the management for their opening remarks.

Sumit Malhotra: Thank you. Good morning to all and welcome to the conference call for declaration of the Q1 results for the financial year 2019-2020 for Bajaj Care Limited. With me are Mr. Dilip Kumar Maloo, the CFO and Vice President (Finance) and Kushal Maheshwari who is the Head Treasury and in-charge of Investor Relations.

The company has closed the quarter with an operating income of 240 Crores. The growth in operating income vis-à-vis the first quarter of last financial year is 8.5%. The volume growth for the company during the quarter has been 4.7%. Our company by the volume and value growth the EBITDA to sales ratio is healthy 30.9%.

EBITDA for this quarter is 72 Crores which is a growth of 2% vis-à-vis the EBITDA of Q1 of last financial year.

The PAT and PBT for the quarter are 58.7 Crores and 74.8 Crores respectively, both of these indices have shown a 9.1% growth on a year-to-year basis.

This quarter has been the hair oil volume offtake growth slowdown vis-à-vis last quarter. First quarter volume offtake growth of this category is at 4.4% on a year-on-year basis, which is largely driven by growth in the low priced Amla category. This is in comparison to the 8.7% YoY growth that the hair oil category exhibited in the last financial year.

The slowdown in hair oils is led by moderation in rural growth. The volume growth in the regional area is now at 4.8%. The growth in the urban area has remained more or less constant at 4.1%.

The work undertaken in streamlining the international business vertical has shown improvement over the last couple of quarters. All geographies are now showing strong growth and secondaries for distribution have grown by over 60%.

Among the sales vertical, the biggest disappointment continues to be the Canteen Stores Department and this quarter has not seen any billing to canteen stores. The primary reason for this is lack of orders following the name change that was applied for with the canteen stores. We hope that the procedural issues will be solved in July itself.

The growth in turnover for the company if we exclude canteen stores is over 10%. Modern trade continues to leave the growth. There is a 21% growth in the turnover in this quarter.

Our first extension of Bajaj Almond Drops that is Cool Almond Drops has been well received by the market. In the first two months of the season it has clocked a market share of 1.3% in the cooling oil market. The advertising for the product using Ravindra Jadeja as a brand ambassador has been noticed and we expect a larger share in the mini-summer as well as the next summer season.

Our second launch Bajaj Nomarks Sunscreen has done well in modern trade and e-commerce segment. The product has been liked and with special promotions in these segments we are hearing and seeing offtake in excess of our expectation.

Our association with Bain has now entered the execution phase and the triple-pronged strategy of focusing on relevant communication, assortment and effective reach is now being implemented in the test state.

The execution has started from the July 1, 2019 after two months of data analysis and one month of planning on ground activities. We anticipate positive results of this brand focused strategy to come in by August 2019.

Success in our efforts of building brand equity in this state will give us confidence to use a similar strategy in other states also. Despite fluctuations in crude oil prices, the prices of LLP that was consumed in Q1 has not seen any major change on a YOY basis. The prices of other RMPMs have also not risen during the quarter as a result of this the CoGs have shown a decline of 112 basis points thereby increasing the gross margins.

The reduction in EBITDA is of 186 basis points is wholly due to increase in ASP of 230 basis points.

As announced in the Analyst Meet on May 6, 2019 our attempts at cost optimization has been actioned. The various areas that have been shortlisted for immediate action are production, supply chain, IT and manpower optimization. You will see more visible results in the Q2 of this financial year.

We are now open for questions.

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

Abneesh Roy: Sir thanks for the opportunity. My first question is on the CSD. You mentioned in July the recovery is likely with the procedural issues getting resolved, so it has already been resolved. Sir, my question is in the last three four years, CSD has been a recurring theme either due to one issue or the other, so do you see this has the final resolution or this channel can continue to see disruptions?

Sumit Malhotra: I think what is different, Abneesh between the last two or three years and this quarter is that this quarter is largely due to a procedural issue. Basically we changed our name from Bajaj Corp to Bajaj Consumer Care and typically CSD requires you to reregister the name change and that has taken a lot of time because the Chairman of CSD is not in office and therefore it just keeps dragging along. The last two or three years the slip is largely because of the way CSD wants to do business and as you would have heard and I mentioned in my previous calls they are trying to tighten this whole route to market for their jawans so that leakages and other forms of corruption really goes down and therefore what has happened over the last two or three years and this quarter are very unlikely to each other.

Abneesh Roy: Sir, this quarter your volume growth 4.6% was broadly in line with the growth which I think most FMCG companies are seeing, so my question is how will the competitive intensity in terms of promotions, I have seen Dabur offer 50% extra, so did that have any impact? And did you also have any counter to that kind of offer?

Sumit Malhotra: See, all of these are largely contained in the modern trade or like we call alternate trade channels in which deep discounting and all that happens. Normally, in general trade which are the Mom & Pop stores, you do not see such kind of deep discounting and if anything the consumer offers that were very, very prevalent three or four years ago has actually come down so you really see things like soap free or extra grammage and all that in many brands in the GT. In modern trade, yes you have one plus one free, you have extra volumes, you have add-ons, all these things are there, but in terms of general trade, I do not think the competitive intensity has gone up but the 5-10 modern trade is well and truly on.

- Abneesh Roy:** Sir, why I asked this is because the ad was there in the mass media, so you are seeing the product was available only in the modern trade essentially?
- Sumit Malhotra:** You are talking of Dabur Almond, right?
- Abneesh Roy:** Yes. Dabur Almond, yes 50% extra.
- Sumit Malhotra:** That is largely in modern trade because their distribution in GT is fairly low and their market share in GT is just around 1.2%. It is doing much better than modern trade.
- Abneesh Roy:** Final question you have tried the cool product earlier also, so this time, of course the branding etc., is different versus earlier. So, would you say that this time finally it seems that the positivity can continue in terms of scale up?
- Sumit Malhotra:** I think it is too early to make that comment, but we are quite confident that. Thanks to it coming under the Bajaj Almond Drop umbrella, you should see a better performance this time.
- Abneesh Roy:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Percy Panthaki:** My question is on the other expenses line which even excluding advertisement has grown at about 25%. So just wanted to understand the reasons for the same?
- Sumit Malhotra:** Actually other expenses largely include the overheads and all the costs in terms of supporting your sales. For example, all the consultant costs, all the rents that we pay, the new factory in Guwahati, the rent is added on and so on and so forth. So it is probably a mixture of everything, but these are largely sales and administration overheads that you see.
- Percy Panthaki:** Sir how long do you think it continues at this growth level of 25% before it arises and sort of comes back in line with the sales growth?
- Sumit Malhotra:** Like I said in my opening address, we are looking at cost optimization. There are certain parts of it, things like rent or legal expenses and all that which will continue because this is not a one-off. It is a continuing thing, but there are a lot of expenses, we will be containing and therefore I think it will fall in the coming quarters that we go along.
- Percy Panthaki:** This cooling oil, can you give us some idea in terms of how do you plan to take this forward? Right now I think it is in certain geographies, right?

- Sumit Malhotra:** Yes, by the end of this season that is as we are speaking, the season is about to end. We will be there in the whole Hindi speaking area. Of course, south we are not yet touching, but it is largely in the Hindi speaking area and the first response has been good in terms of distribution and even offtake. There is 1.3% market share within three months of launch, which is quite good, and like I was saying in the opening address that the ad has been really appreciated and therefore we should see further traction in the mini-summer that comes in the central part of India October and also the next summer season, which will start from March of 2020.
- Percy Panthaki:** Right Sir and I joined a little late, so I am sorry if this was dealt with earlier, but could you give us some idea about how you are progressing on your plan, which you spoke about in the Annual conference? You basically said that you wanted to become a general player in the entire hair oil space and not look at only cooling oils, so if you can give us some more idea as to what are the sort of steps you are taking towards achieving that goal? What are the subcategories, you have had already entered cooling oil, is there something else on the anvil that you plan to enter?
- Sumit Malhotra:** I did talk about this in my opening. So you did not miss much, but the plan was basically building the hair oil portfolio that we had and keeping that in mind, we had sort of worked with Bain and after two months of data analysis and one month of planning on ground activity, we had actually launched the plan in the test state. The plan includes three parts. One is effective communication that means that how do you communicate the benefits that are required in the hair oil space. Second is assortment which answers your question that what are the sizes and what are the products we would like to push. So, that analysis has been done. New products have not yet been launched, but they will be launched as we go along. Third is to look at increasing our reach and despite we being the most distributed hair oil in the country today, we still can increase the reach and that has been shown in the data analysis that we have done for that particular state and we are moving actively towards increasing our reach in that state even further.
- Percy Panthaki:** Sir on this reach point, you are approximately about half a million direct outlet, right. What is your goal on a one-year, two-year, three-year kind of horizon?
- Sumit Malhotra:** I think direct reach is not the goal. The overall reach is the goal, because you should realize the delta that will happen in terms of reach will actually come from the rural areas and there indirect plays a bigger role as direct does. So, direct actually is more to do with better kind of outlets, which are largely in the larger cities and the semi-urban areas whereas the increase in reach will largely be from the rural area. So, yes we are looking at our overall reach going up substantially. It is already at around 40.1 lakhs, I think, you should be seeing a much bigger increase as the whole plan evolves.
- Percy Panthaki:** Thanks and all the best.

- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. I had two questions, Sumit. One is on your employee costs are down year-on-year, and on sequential basis. You did mention about rationalization, so if you could give some more light and is it fair to say going forward the employee cost growth will be lower than sales growth? Secondly on the variable pay implementation, if you can throw some light that will be helpful?
- Sumit Malhotra:** First on the employee, you have just seen the start of the reduction in employee cost. To give you numbers, we have approximately 570-odd employees on our roles. We are aiming to rationalize these and we are looking at a reduction of around 100 of them all over the country partially due to outsourcing and also due to rationalization of the number of people in the support functions. In terms of variable cost this was something we started around five years ago in which we have been consciously taking this variable pay concept down to the lower levels. We started only for man count around five years ago. Three years we had variable pay only for the man count. Last year we got more managers in and all the managers were covered. This year we had moved to the lower level of the sales office or the officer cadre. The whole idea behind this is participation in growth and profitability. So, the way we look at variable pay is we have a percentage for individual performance and a percentage for the company's performance and company performance is measured by the turnover growth and the profitability growth. So ultimately down to a sales officer level there is a percentage that he gets for the overall growth of the company both in terms of turnover and profitability.
- Prakash Kapadia:** So, going forward it is fair to assume employee costs will be lower than sales growth?
- Sumit Malhotra:** In the immediate you should possibly see a further reduction in employee cost to sales and as we go over larger period it should be lower than the sales growth.
- Prakash Kapadia:** Do some of these expenses on the outsourcing be part of other expenditure that is why it is?
- Sumit Malhotra:** It is part of what we call legal expenses.
- Prakash Kapadia:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Just wanted to draw your attention on slide 17 where we have given the category trend. So, first question is what explains the deceleration in the offtake growth rate in your opinion and the second

question is until last year we had this strong offtake growth and we were expecting support primary growth to eventually flow in, so from that angle are there any changes in thought process in your observations would be really helpful?

Sumit Malhotra: Just one thing, which I have been repeating on and on. Please do not compare a quarter or a month growth versus the year because there are certain parameters because these like I keep telling you are from Nielsen and Nielsen in a smaller area over a smaller period can go wrong and therefore do not base your understanding of what is happening on hair oil just by comparing the first quarter of this year versus the annual growth over the past few years. That is point number one. Point number two, what is happening in this quarter basically is that again the low cost products are doing better than the premium products and this was what was observed around a year ago. The last two or three quarters have been good for the value added perfumed oils which are largely more expensive than the coconut oil, so what we have seen now is the lower priced products doing better and this normally does happen when there is a strain on the rural areas because then conversion from unbranded oil largely moves into low cost products and not the more premium products that we see. So one thing that you can take is this is just a trend. I do not think you should base too much on just comparing a quarter to a year. Second thing is this does show a little downtrading into the lower priced products both be it the low cost Amla or the coconut. Third, it also shows the strain on the larger part of the consumption that happens in the rural areas.

Pritesh Chheda: And your thoughts that eventually the primary growth will pickup considering we had a fairly strong secondary market offtake that we saw all throughout last year?

Sumit Malhotra: In the long run primary will be equal to secondary will be equal to offtake, right? Because you cannot buildup stock over a long period unless there is a data error, because they are three different sources of information; one is our sales to distributors, second is distributor to the retail and third is retail to the consumer. So they are three different sources of data, and therefore if anyone is off and the first one that could be off is the Nielsen offtake data because this is a sample based data analysis and not the physical movement of stocks.

Pritesh Chheda: Just one more question on the margin side, until we had this whole new product launches that were slated. So, if I recall in the analyst meet you were of the opinion that it will not impact the margins. So, just looking at the slightly elevated cost that we are seeing in Q1, is that an indication for throughout the year or there would be some one-off bunch also in this cost and which would subside eventually? So, your thoughts on the two cost lines?

Sumit Malhotra: I think, if you look at the costs, the margins have actually expanded, the gross margins. What has gone up is the expenses and the expenses that have really gone up are the other expenses, like we

discussed which would include rent, legal expenses, and also advertising, etc., etc. What has gone down is the employee cost. I do not think margins have gone down. It has actually gone up.

Pritesh Chheda: The EBITDA it is down, so which is a function of other expense line and the advertisement line?

Sumit Malhotra: That is largely and both for brand building and also support that is required in the overhead space.

Pritesh Chheda: So, is it safe to assume that we remain at these elevated, slightly higher levels than what we were doing?

Sumit Malhotra: These are something that we will have to control as we go along to match competition. Other expenses would go down as a percentage of sales as we go along.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Dhagash Shah from CD Equisearch. Please go ahead.

Dhagash Shah: Good morning Sir. My first question is that what is the business growth in ADHO?

Sumit Malhotra: By business you talk about value growth, turnover growth?

Dhagash Shah: Sir, volume?

Sumit Malhotra: Volume growth is around 5.3%.

Dhagash Shah: All right Sir. Sir, could you give us the revenue mix for rural and urban for ADHO?

Sumit Malhotra: Revenue is still around 41% rural and 59% urban.

Dhagash Shah: Sir, what is the growth in rural and urban, if you could give us that?

Sumit Malhotra: I gave that in my opening address. These are offtake growth, which are 4.1% in urban and 4.8% in rural for ADHO.

Dhagash Shah: Sir just wanted to understand what is the price differential of ADHO with let us Patanjali and Dabur for similar volumes?

Sumit Malhotra: I did not understand. Price difference for similar volume? You mean the SKU. Patanjali is not a major player. To give you an idea our 100 mL is now priced at Rs.65 and Dabur Amla is now priced at Rs.45.

- Dhagash Shah:** Sir that is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Good morning Sir. Just wanted a small clarification basically this is on slide number 5, you said, strong penetration increase in ADHO with the 22% increase in households. So, I mean what exactly is happening. If you could just please explain this?
- Sumit Malhotra:** You want to know what this penetration mean?
- Shalini Gupta:** I mean, where are we getting that 22% increase in households.
- Sumit Malhotra:** We are getting because more and more people are using that product.
- Shalini Gupta:** So, I mean we are reaching out to that many more people in the rural areas?
- Sumit Malhotra:** Not necessarily rural. It could be urban also. This is the overall increase in penetration of Bajaj Almond Drops.
- Shalini Gupta:** So, essentially there has been a substantial increase in the distribution?
- Sumit Malhotra:** No. This is commission. This is by consumers from the retail outlets. It has got nothing to do with distribution. Penetration is not distribution. Penetration is number of households that have Bajaj Almond Drops. To give you a marketing 101 lesson, you have what you sell the distributors which we call primary. Then what we sell from the distributors to the retailers this is secondary. What we sell from the retailers to the consumer which is basically offtake and what the consumer consumes, which is consumption or penetration. Basically how many households you are getting into.
- Shalini Gupta:** Sir actually my question was that suddenly how is it increasing so much?
- Sumit Malhotra:** It is not sudden. If you take five years ago, we were just at around 9%-odd penetration. Consumers do not suddenly start buying your products. They buy over a long period. So over one year the penetration has gone up by 3.2%. This is not very, very high, but it is not low also. It is a very good performance for the product. Now remember a distinction between penetration and the volume you sell is the consumption per household. So the mathematics work in consumption per household into number of households, this will give you the amount of total consumption by people in India.
- Shalini Gupta:** Sir, I just wanted to understand your thoughts on this, see, the cool oil is right now it is very new, and it is a smaller market, as in it is like 1000 Crores market with very strongly entrenched players

especially in the Hindi belt. So, I just want to ask and you yourself have also launched in the Hindi belt so, I mean, over say like the next three years what kind of market share do you see for yourself and how largely you see this becoming?

Sumit Malhotra: Yes you are right. You have many entrenched players in cooling oil so do you have in coconut oil, Amla, light hair oils and that is the peculiarity of the hair oil industry. The reason you have these strong entrenched players is that there has not been a launch which can create differentiation. That is why should I buy you when I am happy with my existing brand. And what we are trying to do in Cool Almond Drop is create that differentiation for having a light cooling oil from the staple of the largest hair oil brand in the country today.

Shalini Gupta: Sir, vis-à-vis the market leader, or vis-à-vis your closest competitor, where would you be priced in cooling?

Sumit Malhotra: We are at the same price as our competitor. We are not playing on pricing.

Shalini Gupta: Sir, one last question, again like Sunscreens who would be your close competitor and how is the market itself growing?

Sumit Malhotra: Market is growing well. It is growing at 20% plus, but the market has not yet been established. We have got a lot of players all over the spectrum or with lot of fragmented market shares, so we have brands from Himalaya, from Joy, from Lotus, we have a lot of brands in this but since the market has not stabilized so you do not have big leaders or laggards in this whole space, which is normally what happens in consumer, because as the market becomes more established, the consumers will start displaying their preferences for one or the other products.

Shalini Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Shri Kishore from Cholamandalam MF. Please go ahead.

Shri Kishore: Thanks a lot for taking my question. I just want to understand what is the split between wholesale and retail sales in terms of volume as well as value?

Sumit Malhotra: Wholesale retail only happens in the general trade and the figures that you have if you see the presentation you will see that we are also giving you splits of general and modern trade. If you take the general trade, currently around 33% to 34% both by volume and value comes from wholesale and the remaining comes from retail. Again, qualification this is only for GT. And this is largely urban because rural you have a different split.

- Shri Kishore:** How is this trend expected to be going forward?
- Sumit Malhotra:** We would like to maintain it at this for the coming few quarters at least because the only reason this should go up is when your direct reach or the number of outlets you sort of tackle directly either stagnate or start going down as a percentage of total reach because the difference between direct and the total reach is what we call indirect which is the wholesale component of the total.
- Shri Kishore:** Sir, one other bookkeeping question. What is the breakup of your other income because there has been a definite spike, I just want to understand.
- Sumit Malhotra:** It is all the investment we have in our treasury. We operate and invest in only AAA rated bonds and therefore a large part of this is basically with AAA rated bonds. There is a very small amount in mutual funds and a little more in FDs.
- Shri Kishore:** But does that actually give you treasury income of 5.97 Crores?
- Sumit Malhotra:** Under the new accounting laws, we are supposed to mention also mark-to-market gains or loss. So these are not realized profits or whatever. This includes realized profits and also mark-to-market profits and losses.
- Shri Kishore:** One last question, I just want to understand how good or how bad is the fragmentation in the hair oil business?
- Sumit Malhotra:** I do not know how to answer that. Diplomatically, I can tell you this has been worse and there have definitely been better times that we have. This is a qualitative question. I think everybody will answer it in a vague manner. Yes, it is not the best we had seen and even if you look at the figures that we give, we give much more data than everybody else in this industry. You can see that this is definitely not the best times that we are in.
- Shri Kishore:** Fair enough. Thanks a lot for taking my question. Thank you.
- Moderator:** Thank you. The next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.
- Arshad Mukadam:** Good morning. My first question is regarding the impact of appointment of Bain. What is the impact on the income statement?
- Sumit Malhotra:** At this moment, like I said, implementation has started from July 1, 2019. So, impact on appointment of Bain in the first quarter is zero.

- Arshad Mukadam:** Okay. And would we get a figure of like how much it is going to effect us going forward?
- Sumit Malhotra:** We will have a figure, but I doubt we will share it with the investors on the call.
- Arshad Mukadam:** Okay. Another thing is previously you have given the split of raw material to the percentage of revenue. So, is it possible to get access to that split for this quarter?
- Sumit Malhotra:** Yes, if you can send a mail to Kushal, he will send it to you.
- Arshad Mukadam:** We will do that.
- Sumit Malhotra:** You are talking of the line wise composition of our costs, right?
- Arshad Mukadam:** Yes, like LLPs, the mineral oil, the glass bottle as a percentage of revenue?
- Sumit Malhotra:** You have Kushal's mail ID. Please send it to him.
- Arshad Mukadam:** Yes I will do that. My third question is regarding the glass bottles used. So, if I look over the last three or four years, the prices of the amount spent on glass bottles have been pretty stable. So is that because of the prices of glass being stable or could that be because of shifting to plastic bottles in smaller SKUs?
- Sumit Malhotra:** We took a price hike of around 6% last year, and the difference that you see is also on of course the weight of the glass we use and we have been doing reengineering on our glass bottles that has brought down the quantity of glass being used and therefore even though the price hike is there, we do not see it in the P&L.
- Arshad Mukadam:** Got it. Could you give a possible guidance on how do you see the gross margins going forward? Do we expect it to come back down or any comments on that?
- Sumit Malhotra:** As you would know and if you have been following us, we do not give guidance. I do not have any guidance to give you at this point of time. All I can say is that our biggest raw materials which is light liquid paraffin we are covered till October, so the coming quarter you should not see any decrease in gross margin because of LLP going up.
- Arshad Mukadam:** Thank you. My last question is regarding the pledging of shares. So I think in the meeting you have said that the pledging of shares is going to come down and from the March quarter it has reduced, I think. So, can I have the latest figure for the June quarter end?

Sumit Malhotra: If you were there in the Investor Meet, I did not say this. This was said by the Chairman because the pledging of the shares is outside my purview and therefore I cannot and will not talk about pledging because I am not directly responsible or in control of what is being pledged by the promoters.

Arshad Mukadam: Okay I understand. Thanks so much.

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

Harit Kapoor: Just two questions; firstly the hair oil growth that you mentioned for the quarter. How have you seen that, I mean, has that been slowing as the quarter has gone through or it has been fairly steady at this 4.5% that you spoke off. We just wanted to get an understanding whether the market is slowing as the quarters gone by?

Sumit Malhotra: Yes you are right. April was good and May and June have been bad sequentially. So, if you talk about monthly growth, I would say it is after a good April this was more or less the same growth as we had in the fourth quarter of the last financial. May and June have been going down.

Harit Kapoor: Second question was on the pricing. So you took a 4%, 3.7% odd price increase at the start of the year, given that you are covered for LLP for half the year and the other cost inflation is not significant as well as the fact that you know the market environment is a bit challenging, do you expect pricing to be fairly stable now for FY2020 at least as it stands right now?

Sumit Malhotra: It is not 4% because ultimately this depends on the price of crude and the fluctuation in crude is the only driving factor and I do not see that being too up and down during this year. That is my estimate, but like you know, there are very few analysts let alone professionals who can actually predict the price of crude but I do not expect it to go up drastically.

Harit Kapoor: That is it from me. Thanks and all the best.

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

Tejas Shah: Thanks for the opportunity. Sir, last time, when you presented at the analyst meet, you shared a broader outline of the new Bajaj Consumer Care. Now it has been two months. Can you share some more details on the same on two key aspects? The first growth plan for Almond Drop in the sense what are we planning and what states have we outlined, where we will be focusing more and the whole NPD outlook, which needs to change under the new plan that we have?

Sumit Malhotra: Tejas, in terms of growth plan, currently what is on-ground is the kind of relook at Almond Drops and therefore how do I change the communication, how do I change the tax prices and how do I

change the distribution setup in Almond Drops. What will happen as we go along is you will see the second part, which I called in my opening address, which is assortment that which product do we launch and how do we take it forward. That will happen. That in my opinion will take at least six more months if not more. We do have an NPD pipeline. Most of it on hair oils, but I do not think I can share anything at this point of time, because we first need to see whether our brand growth strategy that we are using in one state works and then only can we start trying out different kinds of hair oils.

Tejas Shah: Sir just a followup on ADHO. Sir, are we entering new states or we are digging deeper into existing markets as you had highlighted that there are pockets within the existing regions also?

Sumit Malhotra: At this moment, we are trying it out only in one state and as we go along, you will see it moving into other states.

Tejas Shah: Thanks. All the best.

Moderator: Thank you. The next question is from the line of Ekta Mehta from Vallum Capital. Please go ahead.

Ekta Mehta: Thank you for the opportunity. Sir, most of my questions have been answered. Sir, just I had one more question that it has been highlighted that there has been the weighted and numeric distribution is at an all time high. Sir, I just wanted to know whether this distribution is concentrated more in the urban or the rural area?

Sumit Malhotra: It is there both ways and the figures that we have given is a consolidation, which is urban plus rural. So, yes typically numeric would be higher in the rural areas because we have a widespread and smaller kind of outlets whereas weighted would be higher than urban areas. But this is typical for any product in India, but the figures that you see are summation of urban plus rural.

Ekta Mehta: Sir, even going further distribution would be more focused for like Tier II kind of cities or like more for the fully at rural. What is the plan for the same?

Sumit Malhotra: It depends on the states. There are states and this rural is very, very high and therefore if you were to gain any market share in that states we would have to focus on rural. There are other states where you have a higher composition of the urban sales of hair oils and there maybe urban growth would be. So, it is a mix. You cannot have a strategy across India. Like I said, and like we said in the Analyst Meet, India is a continent and therefore you cannot have one colour paint in India and therefore you will have to identify areas that behave similarly and try a strategy for that area. For other areas which do not behave similarly we will have a different strategy. So, saying that the

push in distribution will be only rural, would be a wrong thing to say, but yes rural is a very important part of the overall growth strategy that we have.

Ekta Mehta: Thank you Sir. Sir, one more thing the ad spends have been increasing recently since you have been having new launches, so is the ad spend going to increase over this year as well or is it going to be at the same level as of the last year?

Sumit Malhotra: Ad spend will be high but you would not see too many new launches in the next one or two quarters. So, the ad increase will happen largely on what extra we spend on Almond Hair Oil.

Ekta Mehta: Thank you so much.

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

Jinal Sheth: Good morning Sumit. Hope all is well. Just wanted to touch base on the growth path that you mentioned that May, June saw some slowdown compared to April sequentially, so just wanted to understand that from your experience do you believe that right now it is a wait and watch to see that whether the slowdown can worsen further or it is not as bad, so any thoughts on that?

Sumit Malhotra: Jinal, if you look at it, after so many years of experience, you realize that bad times and good times come often on. The thing is that if you really want to build a strong brand it is what you do in bad times more that matters because what happens is most companies try and reduce advertising and sales promotion expenditures and therefore open a gate for you and that is what we did last time this slowdown happened that is what we are planning to do now that is spend in building brands at this point of time. Like saying neither good times nor bad times last and we strongly believe in that and I think that it will turn. It is only when will it turn is the question that we will have to wait and watch.

Jinal Sheth: Secondly, on our relationship with Bain, I mean, how is it that that is moving forward where we are constantly tracking, we are moving forward with them and developments are happening, any insights on that how are we kind of keeping track of that and whether we are moving in the right direction?

Sumit Malhotra: I think you should understand Bain is not a consultant alone. They are actually partners in progress and therefore there is a whole group of Bain employees and partners who sit in our office and work with all our heads on a daily basis. In fact, once the implementation has started there is another group sitting in that test state office and monitoring progress on a daily basis. So, it is not that at the end of the month, they come and present and go away. So, we do have steering committee meetings every 15 days but you have literally a meeting every day that they are here in the office, so we have a whole area quadrant off for them and they are free to speak to any of the departmental

heads or the way the group members of finance, supply chain, marketing, sales obviously and any company and any company employee base issues be.

Jinal Sheth: So, is there an incentivization structure that will be in certain milestone if yes how will it be compensated?

Sumit Malhotra: Not yet. This was an experiment that we are trying, but as the partners should become larger and larger they will obviously be partnering in progress concept will be built up.

Jinal Sheth: Lastly, I think you mentioned this in the earlier call as well that in such a period that we are seeing downgrades to the low end Amla category but I presume based on when I look at your market share that it is not hurting us to that extent that we have lost market share, right?

Sumit Malhotra: Not really.

Jinal Sheth: Thanks a lot.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Good afternoon. Congratulations for the explanation. I have only two three questions. One is the CSD business you said that is under consideration. Can you share what is the CSD contribution last two three years for the company?

Sumit Malhotra: It has been coming down over the period. Three years ago, it was 5%, it dropped to 3.5% and last year was around 3.5%. Currently this quarter it is nil.

Shirish Pardeshi: You are very confident within the next one quarter it will get resolved?

Sumit Malhotra: Yes what happens is this may not cover up for the loss in sales for the Q1. So, if you see on H1 basis it will be down.

Shirish Pardeshi: My second question is on slide 17. You have given some numbers on AC Nielsen coverage which is about 4 million outlets in terms of penetration? If I compare your direct distribution between 2016 and now is about 371000; however, the AC Nielsen number shows only 2.62 lakhs outlets, which has gone up?

Sumit Malhotra: Which slide are you talking about?

Shirish Pardeshi: Slide 12, where you are showing Nielsen coverage and direct coverage?

- Sumit Malhotra:** So this is direct and you are comparing direct to Nielsen. So what is your question?
- Shirish Pardeshi:** Sir, my question is that right now we cover almost 13% of the outlets under penetration. And you just mentioned earlier in the call that you are going to improve this 4 million to maybe something more, and before that we also read that wholesale has come down from 60% to 33%. So what are the activities which are driving on the ground?
- Sumit Malhotra:** Increasing efficiency of our field force and adding to field force.
- Shirish Pardeshi:** Yes, but you also mentioned that there is 100 people is going to come down.
- Sumit Malhotra:** Did I say it will be in sales? I clearly said that in support functions, we are trying to do manpower optimization and if you read the transcript, you will see that I mentioned it was from support. I think you assumed it would be from sales, because logically the largest number of people are in sales.
- Shirish Pardeshi:** So, when you say that this 12% which is right now the measure, do you think this 12% will move also in tandem with your indirect distribution?
- Sumit Malhotra:** It will go up as we go along.
- Shirish Pardeshi:** Any thoughts on wholesale? Which part of India you are seeing the severe issues of wholesale?
- Sumit Malhotra:** Largely in our biggest areas which are the north and Hindi speaking areas. They are also our largest biggest wholesale markets, so things like Delhi, Punjab, UP, MP, these are the wholesale mandis for our product because obviously when your market share is very high, wholesale requirements also go up.
- Shirish Pardeshi:** I would presume that wholesale would be driven, I mean, in wholesale only sachet and may be Rs.10 to certain extent would have gone?
- Sumit Malhotra:** No way. The largest product selling in wholesale is actually 100 mL.
- Shirish Pardeshi:** 10 mL.
- Sumit Malhotra:** Yes. And it is the largest salient product for Bajaj Almond Drop. Sachets is not the biggest.
- Shirish Pardeshi:** But sachet is also contributing?
- Sumit Malhotra:** Obviously yes. Any size contributes, but it is the third largest.

- Shirish Pardeshi:** Last one question, on Nomarks we have done this Sunscreen and probably if you could share what is the distribution of Sunscreen?
- Sumit Malhotra:** It is too early to say. Shirish, basically it is a very new launch and this is not a very widely distributed segment also, so I do not think distribution is unlike I said in my opening address, the current growths are basically coming from modern trade and e-commerce, which do not contribute to the distribution as such.
- Shirish Pardeshi:** Got it. Just one last if I squeeze in. What is the modern trade contribution in this quarter?
- Sumit Malhotra:** 7.5%.
- Shirish Pardeshi:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Manav Vijay from SL Finance. Please go ahead.
- Manav Vijay:** Thank you for the opportunity again. Just want to ask a couple of questions; first of all, all my questions are from the annual report. In the annual report, you mentioned that you have eight manufacturing plants including third party operations. In the customer site you are doing consolidation all across the company whether in terms of warehouses, sales and everybody, does the work with Bain also includes consolidation in the manufacturing plant as well?
- Sumit Malhotra:** Currently, Bain is only working on brand building. So, they have a process, which is called BBA or Bain Brand Architecture. This focuses on building brand. Currently, they are not working on that working and where to place the production and so on and so forth.
- Manav Vijay:** My second question is you also mentioned in the annual report that you intend to put up a Greenfield facility in Vadodara, so what would be the capex for this plant and what is the timeline?
- Sumit Malhotra:** Since the time of annual report we are relooking at that and when I talked about cost optimization we are relooking at the model that rather than we put up a plant, does the third party outsourced manufacturing process creates more sense. So, currently that project is under hold and therefore the question of how much it will take in terms of capex is something that we will answer along the way.
- Manav Vijay:** Sir, my third question is that you have already reduced the number of warehouses that you or the depots that you had from 28 to 20. Now you intent to cut two more in FY2020, so this will have impact on the balance sheet in terms of reduced fixed assets or in the P&L with some reduced rentals?

- Sumit Malhotra:** These depots do not belong to the company and therefore the effect on fixed charges will not be there. And therefore because these are not our depots, what it will do is fixed expenses of these depots will come down because whether you sell one case or sell 100 cases from a depot there are certain expenses like rent, manpower, etc., which are passed on to you by the third parties P&L. So you see it largely in overheads and not to give you a simple answer you see it in P&L and not in balance sheet.
- Manav Vijay:** My last question is that you have also mentioned that you have started now tracking I would say batch tracking has been implemented in ERP for the products to actually identify slow moving inventory, so what kind of let us say benefit you intent to see from this step? And what kind of timeline you have so that you can say that let us say all the efforts that you made towards this process are bearing some fruits for you?
- Sumit Malhotra:** This kind of process is ongoing. It is not a start by and end by process. So the reduction in slow moving or expiry goods etc., is something that we keep on tracking. So having said that we do not have a very high incidence of slow moving and/or expired goods but we still are doing this so that we can reduce it even further. In terms of our total thing, our dandled stocks or the slow moving and expired stock is around 0.3% or 0.4% and you can expect 0.3% or 0.4% is the scope for massive reduction is really not there.
- Manav Vijay:** My last question is, is it possible to share what kind of capex plan you have if at all for FY2020?
- Sumit Malhotra:** I just said that capex in terms of the factory is not there. Once we get all our approvals maybe there will be some capex for the office building we have in Worli, but I think we are still at least six months away from deciding how much the capex will be and how it will be executed over the next one and a half to two years.
- Manav Vijay:** Thank you and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.
- Arshad Mukadam:** My question was on dividend payout. Is there a policy that will pay a certain percentage at least to the shareholders?
- Sumit Malhotra:** We have stated that we would be giving one-third of our PAT minimum to our shareholders.
- Arshad Mukadam:** That is very helpful Sir. Thank you.

- Moderator:** Thank you. The next question is from the line of Shri Kishore from Cholamandalam MF. Please go ahead.
- Shri Kishore:** Thanks for taking my question again. I just want to understand what is the latest shareholding pattern and how much does the promoter hold?
- Sumit Malhotra:** 60%.
- Shri Kishore:** That has not changed since March?
- Sumit Malhotra:** He has not sold anything after March.
- Shri Kishore:** Thanks a lot. That is it. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.
- Sumit Malhotra:** Thank you all for logging on to the conference call. I think coming quarters you will see a lot of more activity happening and therefore there will be a little more to share with all of you. Thanks for logging and staying on with our company for so long.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.