bajaj CONSUMER CARE

August 14, 2024

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

Dear Sir/Madam,

Sub: Conference Call transcripts (Scrip Code: NSE: BAJAJCON BSE: 533229)

Please find attached a copy of the Conference Call transcripts in respect of Bajaj Consumer Care Limited dated August 9, 2024.

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

Thanking you,

Yours Sincerely,
For Bajaj Consumer Care Limited

VIVEK MISHRA Digitally signed by VIVEK MISHRA Date: 2024.08.14 10:49:01 +05'30'

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

Encl: as above

"Bajaj Consumer Care Limited

Q1 FY'25 Results Conference Call"

August 09, 2024

MANAGEMENT: **MR. JAIDEEP NANDI – MANAGING DIRECTOR – BAJAJ CONSUMER CARE LIMITED**
MR. DILIP KUMAR MALOO – CHIEF FINANCIAL OFFICER – BAJAJ CONSUMER CARE LIMITED
MR. RICHARD D'SOUZA – ASSISTANT VICE PRESIDENT, FINANCE – BAJAJ CONSUMER CARE LIMITED

MODERATOR: **MR. KARAN BHUWANIA -- ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Consumer Care Limited Q1 FY '25 Results 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 an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bhuwania from ICICI Securities. Thank you, and over to you, sir.

Karan Bhuwania: Hi. Good evening, everyone. It's our pleasure at ICICI to host Q1 FY '25 results conference call for Bajaj Consumer Care. From the management, we have today Mr. Jaideep Nandi, Managing Director; Mr. Dilip Kumar Maloo, Chief Financial Officer; and Mr. Richard Dsouza, AVP, Finance.

I'll now hand over the call to Jaideep sir for his opening remarks, and post which we can open it for the Q&A. Over to you, sir. Thank you.

Jaideep Nandi: Thank you, Karan. Good evening, everyone, and thank you all for participating in this Q1 FY '25 earnings call. So let me take you through the performance of the company for the quarter ended 30th June 2024 before we open the house for questions.

In the first quarter of the current financial year, stand-alone sales for the company stood at INR 236.9 crores on a sequential basis, the value growth was 3% and volume growth was 2.7%, while on a year-on-year basis, the value and volume saw a decline of 8.8% and 6.7%, respectively, due to high base of Q1 last year as well as a onetime market hygiene correction that we have taken up in the wholesale, which I'll explain later.

The top line for 4 years CAGR for Q1 is 5.5%. For the 3 years CAGR is 4%. The gross margin for Q1 FY '25 on a stand-alone basis stood at 55.2%, an expansion of more than 50 basis points, both on a sequential as well as on a year-on-year basis.

The quarter 1 FY25 EBITDA stood at INR38.4 crores with margin at 16.2% of sales, while PAT stood at INR38 crores. The PAT margin was 16% of sales for the current quarter.

In Q1 of the current fiscal, we implemented planned onetime correction in the wholesale channel in general trade. The discounts were rationalized to reduce overdependence on top end wholesalers during the quarter. This resulted in reduced buying from the top end of the wholesalers, thereby depleting their stockholding in the quarter. Hence while there was a temporary sales impact, the hygiene in the market has drastically improved and stabilized rates in wholesale across the country.

This correction has also led to broad basing of our wholesalers by more than 800 numbers, which translates to about 13% of the wholesale base. As a result, we expect the wholesale channel to perform well going forward now that the hygiene has got corrected.

Overall, if you look at in Q1, on the other side, the retail and rural remains steady. Retail loyalty programs which we've started about a year back for the top retailers continue to do well, and now we have reached about 12,000 outlets in Q1. This initiative along with increasing retail outlets will remain a focus area for the company in the coming period, as it has been for the last 2 years.

The company has undertaken an RTM Revamp plan Project Aarohan with a leading strategy consultant. This project aims to enhance distribution, particularly in high potential towns and villages while optimizing representation in lower potential towns. The project will help to expand our reach across India as well as improve servicing in high potential outlets, strengthen their distribution through the right channel partners and effective channel program management. The project is expected to deliver about 1.4x improvement in outlet reaching retail urban with increased fleet on street, and a targeted expansion of about 1.1 to 1.2x in high potential villages in rural.

The project has already been launched recently and is currently being piloted in two of our key states. The project after a 5-month pilot will be taken up across the country based on the recommendations that we see and the ones the initiatives that we see are working for this organization.

The company has also undertaken geofencing for all direct coverage outlets. This initiative includes geotagging of direct stores to enhance sales for efficiency, and more important to optimize cost to sales. All these initiatives are expected to enhance both our execution efficiency and drive sales growth going forward in general trade.

The organized trade business continued to deliver a strong performance, registering a growth of 12% year-on-year and 15% quarter-on-quarter. The saliency of organized trade including canteens and institutions stood at 26% for the quarter. Modern trade B2C business grew by 9% year-on-year, supported by growth in the independent chains across the regions. The B2B business in modern trade grew by 56% aided by opening of 150 stores under Metro Cash & Carry

E-commerce B2C registered a growth of 27% year-on-year. NPDs continue to scale up well in e-commerce channel led by Almond Drops hair and skin care range as well as 100% Pure Coconut Oil.

Quick commerce channels like InstaMart, Zepto and BlinkIt grew by 83% in the year, and this is something that will remain a focus area for the company going forward in next few quarters.

The international business registered a growth of 28% quarter-on-quarter while on a year-on-year basis, growth was modest on a high base. Last year, Q1, saliency to full year for your reference, was close to about 30%. And we expect in quarter 2 itself, the growth to come back very strongly being on a softer base. And by the end of the year, the growth in international would be a strong double digit.

The rest of world exports grew by 43% Y-on-Y as well as 55% Q-on-Q, with key markets such as Malaysia, U.S.A. and Canada performed well. Nepal registered a growth of 76% year-on-year, 20% Q-on-Q, driven by outlet expansion and infrastructure improvement. Middle East and Africa continued to perform well registered 45% growth Q-on-Q. UAE and Lower Gulf is scaling up well supported by consumer and retail activation spend. Key accounts combined with distribution expansion to 100-plus stores in UAE. Business in Qatar and Kuwait has also stabilized with new partners and are showing good traction.

In Q1, we completed our transition from national distribution to own distribution -- from a national outside distribution to our own distribution in Bangladesh with completion of distributors across all 64 districts in the country. ADHO consumer promotion was supported by digital print campaigns and digital visibility. The use of consumer research was also initiated to develop effective positioning and brand communication for ADHO, ATL and digital campaigns.

We will continue to monitor the current situation in Bangladesh, which at this moment remains volatile. For the company, though, this will not have any material impact in the near to midterm as presently the contribution of Bangladesh to overall consolidated business is only about 1%.

ADHO performance during the quarter was affected once again by the planned hygiene correction in general trade. However, sequentially, the brand still registered modest growth. Impact was primarily in sachet and to an extent in mid packs, which were affected in the wholesale correction, as detailed earlier. The large packs continue to perform well with close to double-digit growth on a 4-year CAGR basis.

The expansion of the 190 ml PET bottle, which we had converted from glass to PET, so which has seen extremely good traction. The 700 ml pack which has been introduced in general trade as well as OT-specific packs of 650 ml and 750 ml, all of them are continuing to drive performance. So the main decline that had happened is basically in sachet, with really speaking, there is no effective contributions. So wholesale stocks have gone down a bit in the Mid packs which we expect to recover in the second quarter.

During the quarter, digital media initiatives for ADHO to build reach and tap TV dark markets, YouTube and OTT top shows resulted in average incremental reach of 10% with 1.79 crores views and 89% view through rate. Social media efforts, including deployment of 84 Amazon affiliate influences, KOL and Micro influencers, coupled with trending content lead to improvement in engagement rate of 2.2%, which surpassed a hair oil benchmark of about 1.7% for organic posts.

The Almond Drop Hair & Skin Care Range registered a substantial growth of 77% year-on-year and 86% quarter-on-quarter in Q1 FY25, and it is filling up well. The portfolio saw the launch of its seventh product Almond Drop Ultralight Body Lotion for summers in April 2024 with key ingredients aloe vera, almond oil and vitamin e. This product has been listed in all major e-commerce platforms like Amazon, Flipkart, Myntra and independent retailers. The launch was implemented through on platform and off-platform activities affiliate influencer program and shelf-strips.

Almond Drops Shampoo and Conditioner witnessed increased offtake supported by Meta Targeting on social media, which garnered 1.6 million views along with FSU and multi-brand endcaps for visibility, we have clearly seen that Almond Drop Shampoo is showing good traction being hair care brand from the Almond Drop portfolio, one of the very good tractions that we are getting, and we clearly see a potential for that to be slowly launched in the later half of the year in the general trade channel as well.

Almond Drops Serum Sachet was launched in markets of West Bengal and Odisha in general trade with 100% GTM success. Influencer campaign to drive conversions and build awareness was conducted and promoter-led drives were held at 40-plus modern trade stores. Initial responses are encouraging with good uptake. Positive consumer ratings and reviews ensured good traction of the brand in e-commerce as well.

Almond Drops Soap saw robust offtakes in modern trade and e-commerce channel with focus on various bundle packs offerings based on retailers. We remain committed on building the brand awareness to search and display campaigns.

Bajaj 100% Pure Coconut Oil continues to scale up well with strong double-digit growth with consistent gain in market share in traditional Bajaj stronghold states. Market share has also seen improvement in Maharashtra, driven by media initiatives and distribution drives.

The brand was supported by TVC media and campaigns on OTT during the quarter, which led to an SOV of 40% in Coconut Oil category in Maharashtra. On ground activities such as deployment of canter vans engagements with 5,000 plus retailers resulted in significant increase in participation in distribution as well as consumer connect.

Digital media initiatives, including fully functional, social media page for Bajaj 100% pure coconut oil and campaign on Amazon and Criteo resulted in 3 crores view and a CTR of 0.86% with incremental reach of 20%. As the brand is scaling up and gaining acceptance, we have taken 2 price increases in June and July to offset interest situation in copra prices.

During the quarter, Bajaj Gulabjal performed well in general trade after its phased sales launch in Q3 and Q4 of last fiscal. The brand further expanded its presence through the B2B platform such as Walmart, Nykaa and Big Basket as well as independent stores across various regions. Presence of the brand is strengthened through product banners and POSMs. And this will also be one of our focus brands going forward.

We have made significant progress in our portfolio diversification with the non-ADHO portfolio, as I just mentioned. And now it contributes to 18% of our total contribution in Q1 FY25 and growing by 17% on a year-on-year basis.

For the quarter, the A&P spends stood at INR 37.2 crores, about 16% of sales. We are committed to investing in ADHO as well as our new brands with a strong focus on digital media to effectively cater to evolving consumer preferences.

As far as raw materials are concerned, in Q1, the price of LLP remained stable compared to the previous quarter owing to steady crude oil and base oil prices in Asia. On the other hand, prices of refined mustard oil saw a slight increase driven by higher purchasing by NAFED. This is basically National Agricultural Cooperative Marketing Federation of India, around the election period, despite a good crop. However, the global edible oil market has largely remained stable. We do not expect much price fluctuations going forward.

The company continued its cost saving and efficiency improvement initiatives, various measures such as optimizing specifications and developing alternate vendors using alternative packaging materials led to cost saving of nearly INR 1.5 crores in the quarter. Additionally, smart manufacturing and automation efforts boosted productivity by 6% in Guwahati, and 12% in Paonta compared to Q1 FY24.

The company remains dedicated to ESG by optimizing resources, leading to reduction in water and energy consumption at both plants. The company is also taking initiatives to become water positive in line with our stated ESG targets. These efforts highlight the company's commitment to sustainable practices and resource conservation.

The fiscal year is expected to see improved performance driven by revival in volume growth in rural markets, aided by increasing budgetary allocation for rural development and a favourable monsoon. Urban market demand is expected to remain relatively stable. Deeper market penetration through various channels combined with focus on product premiumization will further support demand.

Inflation is expected to remain soft on the back of benign commodity prices. These factors augur well for the overall demand conditions.

The planned hygiene correction in general trade along with the implementation of Project Aarohan will have a positive impact on our general trade business going forward. With the organized trade and international business continues to scale up as per plans. Our strategic objectives of broad basing of channels and geographies are well on track. Our diversification journey continues well with scaling up of products under the Bajaj Brands in hair oils, and excellent growth and planned expansion in Almond Drop hair and skin care range. With the above initiatives, we are confident of achieving sustainable and consistent top line growth as we have stated earlier.

With this, I end the opening remarks and open the session for questions.

Moderator: The first question is from the line of Rishi Kothari from Pi Square Investments.

Rishi Kothari: I have a couple of questions. First goes for the I recently read your annual report for FY24. And in that you just mentioned that we as a company want to diversify from ADHO brand to non-ADHO. So and the portfolio we are expansion you're looking at 30%, 40% out of it. So what's the current breakup of ADHO and non-ADHO product split in terms of revenue?

Jaideep Nandi: So I covered that in my opening remarks. The number was about 4 years back about 5%. ADHO was 95%, 5% was non-ADHO. By the end of last year, full year, the number has gone up to 17%. The number has now moved up to 18%. We're a little higher than 18%. And we are well on track to reach that 40% number that we are talking about in the next 4, 5 years.

Rishi Kothari: Okay. And also, 2, 3 years down the line, what are the top line numbers in terms of growth are we expecting for the company in terms of the product as well as the as we are diversifying the different, different product lines apart from ADHO. So what are the top line expectations do we have for the company?

Jaideep Nandi: So overall, if you look at -- we are clearly looking at ending this year at a mid- to high single-digit growth rate. So we'll be striving for closer to a double-digit growth rate. But clearly, mid- to single-digit growth rates is what we are targeting for the entire year with Q2 being obviously little higher than that.

The planned correction we deliberately embarked on because we are also doing this Project Aarohan, which is a complete revamp of our route-to-market strategy as far as general trade is concerned because we are looking at both revamping our urban where we want to increase our outlets by about 40% the number that is coming to, which is with the implementation of fleet on the street from the existing number that we have. We want to take it up. And that is the kind of scope that works.

We have done a detailed study of markets which have a high consumption where we have opportunities, where our sale is not high and those markets we are now piloting in 2 of our key markets, and that is something that we'll take up. So given that, we wanted to ensure that our hygiene is corrected so that at least when these projects are implemented, we should not get pulled back because of our hygiene factor.

In the marketplace, there are a lot of disturbances, not only in our company but across most companies because everybody trying to push sales. We see wholesale rates are quite disturbed. We wanted to correct it, get our hygiene correction. We knew that it will have an impact in this particular quarter, but we wanted to correct it because for the long term, we wanted a far more hygienically stronger organization, when we plan to implement all these changes.

So mid- to single digit is what we are looking at. And our stated objective for the long term would be a sustained CAGR of close to double digit, backed by 2 factors, both the new products that we are looking at as well as in terms of the international markets, basically the channel diversification.

Rishi Kothari: Okay. And in terms of the margin expansion, are we looking at any margin expansion because as we are growing in terms of the revenue targets that we have for the ADHO and non-ADHO brands. Sir, any margin expansion that we expect from the brands in the market?

Jaideep Nandi: So most of the products that we are launching under the Almond Drop extensions that is both the hair and skin care range, most of them will have close to ADHO kind of margins. Some of them may be a little lower. But clearly, very, very strong, good margins, which can be sustained over a period of time. Initially, we might be advertising for some of these brands. So there would be a little bit of a depletion. But overall, we'll manage the EBITDA directionally that we have taken between 16% to 18%. We'll maintain within that.

So our launches of these products in general trade will be in a phased manner, but we are very, very clear some of these products, which are large category products have good potential for us, are showing good traction because of the Almond Drops franchise, and we clearly see a potential for us to take scale them up quite well as far as the general trade is concerned, which is where basically size and money. And one of the first launches of one of the large category Almond Drop extensions will be by the end of either Q3 or Q4, and we will see it as it comes.

Rishi Kothari: Okay. And also, we will be a debt-free company eventually as whatever the planning -- expansion planning that you are having for the company? So we'll be -- a debt-free company as a whole?

Jaideep Nandi: So as of now, as you are aware, we are obviously not leveraged. That's why we went for a buyback so that we could basically give a higher return on capital and return on equity. But if you look at one of the other objectives, which is obviously not being stated because, I mean, we don't have anything concrete at this stage. We are obviously working with some of our consultants on the acquisition front.

Unlike larger companies, we'll not take on anything that we can grab. We are very, very specific as to where we are looking at. Our strategy team is continuously working on that. We're closely following some targets, and if it fits into our long-term goal, both in terms of weightage. We may or may not depending on the size of the pie, we may or may not look at leveraging ourselves. But in case we need to leverage, we will leverage with the overall math comes out.

Rishi Kothari: Okay. Okay. And any CapEx plan that we have for the year FY '25, and any number in mind?

Jaideep Nandi: Sorry, I didn't get that. Can you come again?

Rishi Kothari: Sorry. Any CapEx plan that we have for FY '25?

Jaideep Nandi: So as far as CapEx is concerned, we are not really looking at increasing our manufacturing facility with any significant investment in capacity building. So as and when the brands scale up, some of the brands which are outside hair oil, as and when they scale up, we might look at facility, but that's a little far away.

At this moment, it will still be under third-party controlled by us or third-party manufacturing for the other ranges. Hair oil, at this stage, we are not looking at capacity in a large way because capacity-wise, we are well covered. It is more in terms of investments that are happening in terms of automation, in terms of ESG. And those do not require the way we are going about it don't require significant numbers, which will move the balance sheet too much.

Moderator: The next question is from the line of Kaushik Poddar from KB Capital Markets Private Limited.

Kaushik Poddar: See, aside from this wholesale correction, what was the volume growth at the retail level? Do you have any data?

Jaideep Nandi: The retail level, we are just about positive. So retail level also just about positive and rural. So between retail and rural, just if you look at general trade, they were both tracking positive, on the quarter. While actually just flat on the YoY and QoQ the marginal growth.

Kaushik Poddar: But if that be the case, how can you approach that -- last time, if I remember correctly, in the last analyst con call, you had talked about a double-digit growth. I mean, is there something different that has happened since the time you gave that statement?

Jaideep Nandi: No. If you look at if you were to just break down our 4 quarter numbers, and you'll see that our quarter 1 last year. And that's how you see our CAGR is still very, very high. 3-year CAGR, 4-year CAGR Q1 even with this decline in sales is pretty high because last year in Q1, if you look at the number was extremely high. After that, it had actually declined in Q2, Q3, Q4. so if you just crunch those numbers, you will see it will bring back our wholesale numbers back. You will see the number to, let's say, a 6%, 7% growth seems to be little doable, we would be targeting a little higher.

Kaushik Poddar: 6%, 7%, you're talking of value growth or volume growth?

Jaideep Nandi: Value growth. Our numbers are all in value growth. Volume will typically be a little higher because anything that sells beyond ADHO pricing of lower than ADHO in terms of per unit. So the volume growth will be little higher. But in our case, the volume growth, it really is not that significant because unless you have a category which is just pure that product, I mean, if it was only ADHO, that answer even volume growth does make any relevance.

But when I'm comparing mu portfolio which is completely different volume growth would not be the same. I mean if my coconut was to grow much faster, the volume growth will be much higher. So really speaking, mentioning that we monitor it more from our value growth data.

Kaushik Poddar: And how is q-commerce scaling up?

Jaideep Nandi: As I said, it had gone up by about 85%. This year 83% to be precise. In fact, that is a clear focus for us. Two reasons: One is, obviously, we see that Flipkart coming into it. So all of them are, I mean, clearly getting traction, not only in Tier 1 towns, but even lower. So our focus in the last 2, 3 months have gone far higher, and it will continue to go stronger into that. While our category is not impulse category, neither food. So it may not have huge numbers, but we want to maximize our presence there.

In terms of our assortment, I think we are pretty well structured in most of, in some of our partners Zepto, Blinkit, Flipkart etc. So already we have said that. I think we want to scale it up really aggressively there. And a clear focus for us is that. The other fact also remains that these are more profitable channels using e-commerce. Profitable, let's say, retailers within e-commerce over the larger players. So obviously, our interest will also be to focus strongly.

Kaushik Poddar: No. Is the margin higher than q-commerce, you're saying?

Jaideep Nandi: Over the other larger retailers in e-commerce, yes.

Kaushik Poddar: Okay. And my last question, what is the share of your sales from e-commerce, you said?

Jaideep Nandi: Our sales of e-commerce, overall, if you look at it, is about 26% from organised trade. E-commerce is about 10%. Modern trade is about 11% and about 5% comes from CSD plus Institutions

Kaushik Poddar: Modern trade is 20%, you said, right?

Jaideep Nandi: Modern trade is about 11%, 10% is e-commerce and 5% is CSD plus Institutions so all put together about 26% is what we call the organised trade and General Trade contributes the balance.

Moderator: The next question is from the line of Nikhil Upadhyay from SiMPL.

Nikhil Upadhyay: Sir, just one question. Coming back to this -- the inventory readjustment or the readjustment and the GT level. If you can just help me understand a little bit better because so where I'm coming from is that if I map our GT sales from '22 onwards to '24, we were in the range of 180, 190. For last 3 quarters, our reported numbers were in the range of 170.

So last like 9 months, we were already looking at a drop in sales at the GT level. So on the inventory side, I think the channel was already not performing. So parallelly, they couldn't be having very high inventory at the GT level. So what is this change we have brought in?

Jaideep Nandi: No. So overall, if you look at, yes. If you are asking whether GT has remained subdued overall, I think for most companies, GT has remained subdued, as it is for us as well. So GT has been subdued. On the other side, the correction that has been done is basically in terms of our structuring of how we had our wholesale slabs, we were actually giving a higher schemes to the larger wholesalers. So stocking was happening mostly at the larger wholesalers where the lower end was falling off.

So there was market instability. I mean that is as we go through the market, you see that is there for quite a few companies. I'll obviously not say all companies, but many companies have this issue because it's much easier to sell to the larger wholesalers and get quick sale.

So that we wanted to correct our structural correction, which is what we embarked in May or end of April, May and then continue with that. Now it is still early. It takes about typically 2, 3 months to stabilize that. So the difference that had gone up between the smaller slab wholesalers to the higher wholesalers is about 3%, 3.5%, which typically ideally good ideal conditions should be between 1% to 1.5%. You still have to incentivize level and sell more. But beyond the certain point, then you will have the dynamic which will continue. They will become the distributors of it.

So that dynamics is got corrected. Now we have bought back difference between the larger wholesalers to those funnel and reduce that. And as a result, what has happened is holding that the larger wholesaler were doing, they depleted their stocks, and they are now operating. Now wholesale really doesn't impact consumer offtake.

So the consumer offtake is going on. So wholesaler stock has depleted and now they are purchasing as much, because they are not getting that large advantage, which suits us well because over time, that number gets neutralized and they will have to keep servicing for the we really don't want the wholesalers to put a lot of stock. So that's what where we are.

Nikhil Upadhyay: Okay. And just a continuation. And I just -- if you can just help me understand because see, we were looking at this issue on the GT side for almost last full '24. So why didn't we brought this change in the previous year itself? Because the channel was not performing and this dynamics would have been through last year as well. So I'm just trying to understand that like was this in process from like almost 6 months and the effect has come out significantly in this quarter?

Jaideep Nandi: No, no. So typically, what happens is this you'll see is a cyclical phenomena which happens every 3, 4 years. Gets actuated typically when the demand conditions are poorer. As I said, this is, if you were to go to the market, you will see that a few companies have this real wholesale instability in rates, which typically happens in the wholesalers need to offload their stock and are willing to operate it in much low margin and they will be at some time at a marginally negative margin just to ensure that the rotation of inventory, etc, goes up.

So this is exactly what has happened. I mean it's not a planned thing that we wanted to support the larger wholesalers or ensure that they become the mini sub distributors. So It's a question of when the market is slower, putting off inventory will happen at some point of time, you'll have to take that correction. So we have taken the correction of things.

When we have started about in 2021, I mean this is so cyclical correction do keep happening. The correction, and I'm assuming that for the next 3, 4 years, we'll have to -- required to do these corrections and if the market remains buoyant, the market become buoyant. Any way these corrections won't happen. So then the rotation of the inventory will be in the...

Nikhil Upadhyay: Okay. And see, what we are also hearing and this is a common theme across FMCG or smaller durable companies is that the rural growth is recovering. So -- and with GT being higher on the GT channel being prominent for us, if we have to understand how are things moving now month-on-month, like are these post this correction at those large wholesalers, are you seeing volume growth being coming from them year-on-year or just some sense on...

Jaideep Nandi: Got it. Sure. So clearly, rural that we had seen earlier, which was really struggling and was a laggard is clearly turned around. I mean rural is still performing better even for us as far as between the channels is concerned. The other thing that we have also identified is terms of rural, there is a clear opportunity for us to expand into villages where there are un-representation as far as we are concerned.

So why we are well distributed as a company, we just about cover about 66,000 villages. And when we are doing this project even earlier identified and now when we are doing this project a little more, let's say, analytical, we are seeing clear opportunity for us to have a 1.1 to 1.28 growth as far as the existing villages are concerned. So we're just matching our cost to sales as well as the number of expansion that we require to do.

Clearly, we see an opportunity for 6,000 to 10,000 villages getting added and this is obviously at the country level, not at the pilot level. So this pilot is happening on that, and we are finalizing them. So one is, obviously, the markets are improving. We are seeing traction in these markets, rather is our own internal effort that we are going to push as far as rural representation is concerned in terms of the number of villages that we want to go. So clearly, these two things we feel will aid to our growth track in rural.

Nikhil Upadhyay: Okay. And just last question. Last year, see, one of the parameters which we said -- if you look at the health of ADHO as a brand, the larger packs were growing better and the smaller SKUs were not growing, the smaller LUPs. If you have to see that trend sequentially and not from Q4 to Q1, but over the last 4, 5 quarters, just we plot the trend and you would have it. Are you seeing that changing for the lower LUPs? Or are they still degrowing and most of the growth is only coming in the larger SKUs. How is this split between the two?

Jaideep Nandi: So good question. And I will just explain it a little. As far as the larger packs are concerned, you are absolutely right. They are growing. That's where mostly the competition, we see like one competitor at an extremely discounted price as far as Almond is concerned, going at about 20%, 30% lower than us.

Yes, do making some dents in modern trades, et cetera, but I don't see them making the dent as far as general trade, which is our core function, which put One category where the market has actually reduced a bit, which is sachet pack. In fact, after COVID, there has been declined. We have arrested a bit of it, but that's a natural movement in the marketplace.

As far as the smaller packs are concerned, the INR 10 – 20 pack. I mean, as a company, we have always remained in the INR 10, INR 20 pack. And INR 10, INR 20 pack in the last 3, 4 years, have been gaining salience. I mentioned to you that last time that in the INR 10 pack, there are interventions that are happening, there are interventions in terms of packing, etc I don't want to talk of it because the launch will happen sometime in Q3. And when we launch it, we'll exactly say what intervention.

One of the interventions is to ensure that in terms of perception to the consumer as well as in terms of quantity, it is able to play with the other INR10 pack, which are there in the marketplace. Today, we are both perception-wise as well as in terms of its actual quantity, et cetera, we are far lower than that of the other cheaper brands and hence getting ruled out.

So we are looking at how to maintain so the work that has happened has been happening for the last maybe 7, 8 months, actually, a little bit more than that to ensure how our gross margins are protected and yet we are able to do that. So I get back to that exactly what work we have done, et cetera.

Before the launch, I don't want to talk about it. That should see Q3, and we can hope that in that LUP pack, we'll have a good number coming on because that's the intervention that is happening.

In mid packs, we have done some price interventions because in terms of the price, our prices have gone up I have already presented that earlier. We have had good- I will not say good, fantastic growth or something, but our decline that we were seeing earlier has got arrested, and this is something that will continue to push forward as far as the business is concerned. ADHO more or less I think we are well covered on. Yes, we will not react to very, very low prices that are being offered in the marketplace, but I do not see too much of an impact that is going to have especially for General Trade (GT)

Moderator: The next question is from the line of Prolin Nandu from Edelweiss.

Prolin Nandu: A few questions from my end. First is this onetime correction that you have taken in the wholesale channel. So is it fair to assume that from July onwards, things are back to normal in terms of sales momentum what we have seen in Q4 before this intervention has taken place?

And are there any such correction in terms of either product or channel, which can, in a way, have a temporary disruption of a quarter or 2 going forward. And if I were to probably look at your numbers, I mean, your guidance of high single digit kind of a growth for entire year for the remainder of the quarter 3 quarters, a double-digit value growth is possible? So yes, I mean that's my first question.

Jaideep Nandi: So let me answer that question right away. First and foremost, this was the only correction that was envisaged. There is no other corrections that are corrections, or interventions or any negative adverse any action that will be taken, which will impact the market. This was, in our minds, not very adverse in terms of adverse in terms of these numbers, but not adverse in terms of basic market practices. That has got developed, and we had to correct it. And as I said, it was not only our company. We have seen this happen for many other companies. We wanted ours to become much more healthier.

Two, your question was part two was whether we see that correction impacting and whether it is coming beneficial. As I mentioned, we are seeing more and more wholesalers as I said I called out the numbers straight away 13% of our wholesale base is strong numbers over Q4, we can see has added back in Q1. That direction is going to continue.

The larger wholesalers are still under wait and watch. More than wait and watch, they are now not holding stocks, which is okay for us. So really seeking numbers will not get impacted if we do not hold on. We really don't want to hold them up again and go back to the earlier part. So this is where it is.

As far as sales growth are concerned, as you rightly pointed out, Q2, Q4, it has to have a strong growth rate. I don't want to get into numbers, but we feel that these corrections that we have done, the projects that we have undertaken in GT. The way modern trade and e-commerce is building our focus, also stronger than -- the way our new products are scaling up.

I mean earlier, we would only talk of nearly the coconut and bit of amla, such as now we are seeing a whole range of Almond Drop extensions coming up. We have some plans in terms of our other products. Also taking some of these products into general trade. So I think we are very confident that we will be hitting the numbers that we have been talking about.

Prolin Nandu: My second question is on margins. Now you are -- I mean, if you -- if I'm not wrong, over the - near term or medium term, you're guiding for a 16% to 18% kind of an EBITDA margin. Now if I look at the history of Bajaj Corp right, from FY '13 to FY '21, on an average, our gross margins were in the range of 66% to 67%.

Our EBITDA margin was upward of 24%, 25%. So are these numbers too hard to look at in the next 3 to 5 years, does this number require some kind of a very drastic correction in raw material or the competitive intensity in the current market is such that it's very difficult to...

Jaideep Nandi: So I think you have answered most of thing in your question itself. The competitive intensity is something that we'll have to keep a watch out on. So we see one of the competitors being extremely aggressive. Not all of the competitors, but one of them. So obviously, we'll have to be cognizant of that. I mean, they operate at a net margin, which is far lower than most of the others.

But I think that is the norm today. We'll have to live with that and play counter to it till correction happen. Obviously, the other thing is given that the market has been subdued over time, I think that how most of these companies are reacting. Some of them more. So going back to that 23%, 25% EBITDA margin in the short term, seems unlikely also because at that point of time, we were a very low cost to serve single product company, mainly single-product company. Low cost to serve, I say this because it was more wholesale driven company with starting of retail contribution.

Now that we are looking at retailing as a big activity, which is also required because we would want to push our new product, etc. I mean our entire structuring of the company is to make it more diversified, more stronger in terms of not being only in GT, only in wholesale, or only in ADHO. So that in that exercise, we have some at this moment, the investments are happening. Some of the numbers are coming in, but the large numbers as we see as quarters go by, we are getting more and more confidence on more and more products succeeding. These investments will continue. So we would like that 16% to 18% to continue for some time where the scale builds up and then we look at improving the margin.

If we look at improving the margin beyond 20% or whatever, at this moment itself, I think the investment funnel will have to go down. Both the product investment as well as in terms of retailing, etc, all the other investments. That is not something that we want to do. It might look good in the short term, but on the long term, the company gets impacted, and that is not what we are going to do.

Prolin Nandu: And last question, Jaideep sir, to you would be if you joined sometime in July of 2020, you have completed 4 years at the helm of this company. What would be some of your few hits and misses in your tenure? And what would be your priority right for the next 3 to 4 years, right, so that's it from my side.

Jaideep Nandi: So let's start with the miss. The miss straightaway is the top line numbers. I don't think there is any question denying that as a miss, what would be the first miss to count out, it's clearly the top line. Bottom line-wise, I'm really not concerned because this is the bottom line, you would have to come to any way if you want to push that. So on the positive side, if you are to talk of the hits, etc

I think as an organization, we are far stronger today. Maybe the numbers do not reflect immediately, but yes, in terms of process systems, people, all that is geared for success.

We are building the company. We are building brands. We are building channels. We are building the international business. I think all of them are in a build mode and these are not the theoretical statuses. These are all things which are already starting to bear fruit and show results. So at this moment, I would these are clear positives in terms of people, in terms of process, in terms of automation, systems, etc. We are making those far stronger company, a company which can rub shoulders with the good companies in this industry.

Prolin Nandu: Sure, sir. So and just I mean, would top line be your #1 priority going ahead since you have highlighted that as one of your misses? Or if you can just give us some more priorities in the next...

Jaideep Nandi: Let's take us back in that as you said. So I'll take you back to the plus 4 years. At that point of time, it was building this organization. So this process building, etc etc. I think most of that has already been finished. If you ask me today, will we be building processor systems, people, etc, will still be a priority, I will say no, but maintaining it is my priority, but building it is not. Now it will be business as usual as far as those aspects are concerned. Building a portfolio of brands, supporting them, getting them into looking at how we look at innovation etc. I think that has also come in place. And now it's time that we start reaping in some of these benefits.

Have we seen overall top line numbers to move really well? The answer is no. But have we seen in specific strategic pillars, these top line numbers moving? I would say, it's a resounding yes, whether it be new products, international, channels, etc. Clearly, yes. And I think the work that we are now doing in GT as we improve that, I think, as a company, these top line numbers will also start rolling.

Moderator: The next question is from the line of Harsh Shah from Vera Holdings.

Harsh Shah: So we've only recently started tracking Bajaj Consumer. So apologies if I'm being repetitive with any questions. So coming back to this Channel correction, which we did. So in Q4, we had a distributor stock correction to the tune of around INR 12 crores, INR 13 crores. And then this quarter, we have, what we call it, a hygiene correction at the wholesaler end.

So I just wanted to understand the difference between these two. I mean is it a continuous activity that we are doing? Or there's something starkly different about both these correction? And at the same time, is this correction induced by the channel partners? I mean, were they -- they even came to you and complain about any high inventory? Or is it something that was initiated from your end?

Jaideep Nandi: So both are initiated from our end. The two are completely different. Distributor correction is little bit different between the primary and secondary, basically we wanted to ensure that distributor overall stocks go down. This now we are talking about is distributor wholesaler and wholesaler is stocking because the wholesaler stocks have gone up.

So finally, distributor is servicing the wholesaler we wanted to ensure. With the wholesalers it was not so much of stocking that we wanted to address. I mean, stocking, we know that stocking will get addressed, but stocking was not the primary purpose.

The primary purpose was to ensure the rate stability that has come up in the marketplace with the larger wholesalers hovering the marketplace with lower prices than what the smaller wholesalers were buying from the company that we wanted to correct. So that a smaller wholesaler would also participate with us, and we have a larger base of wholesalers to operate. Otherwise, we would be getting more and more squeezed by the top distributors.

And as I speak, you can go to the market and see there are companies where that is a large company where that is the issue today, much worse than us. The correction would require what I just did, and that's a call somebody will have to take. So this exists today.

And I don't know want to comment about how different companies should operate that we felt as an organization that this hygiene correction needs to be corrected now so that going forward, all those RTMs that we are wanting to implement across the country, we are in a situation where this does not bring it down. I mean we wanted to be in a much cleaner, more hygienically stronger situation with the -- so this is what has been done. So this is the wholesaler part of it. That was more correction of primary.

Harsh Shah: Okay. Okay. That makes it much more clear to understand. And second question is on the ad spend. Now if I look at last 10 years' data, we have cumulative spend nearly INR1,400 -- INR1,450 crores in ad spend. But at the same time, if we look at the top line growth, it hasn't -- it doesn't actually reflect the kind of spend that we have done on advertisement and marketing. So I mean, any brain storming on that part as to how we can increase the efficiency of this spend because 16%, 18% is a high number as a percentage of sales, and we have been doing this doing it for almost 10, 12 years.

So at some point, you expect that this number to taper down because a lot of margin is getting stuck because on one side, we are not able to improve the cost margin because of the competition. And then on the second side, we have this really sticky expense which is taking away a lot of money. So any thought process on how we can exhume the efficiency of this spend? And actually, how can it contribute to the top line?

Jaideep Nandi: It is a construct of the market. It is not so much efficiency. If you look at this particular brand, which is a premium brand with a higher gross margin. Typically, the way you measure your advertising spend is basically in terms of how much are you spending compared to it's always a related spend, right? So compared to the market, how much are you spending versus what is your share. So we call it a share of voice, which is basically how much you have advertised versus share of market, which is your market share.

So typically, for a premium brand like ours, we operate at a 1.4 to 1.5x. SOV to SOM, which means if you have a market share, let's say, around 10%, then you should do about 14% to 15% of the total overall spend as far as the marketing is concerned, because that is what is required to ensure that you can demand the premium pricing that you have with the gross margin of 65% or so that you are commanding.

So this is nothing to do with the efficiency etc. And if this the issue that you have over the last 10 years as we are talking about over the last, at least, definitely the last 8, 9 years is basically the hair oil category itself has not grown much. So this efficiency that you are talking about would have got translated into numbers. If your hair oil category would have, let's say, grown by high single digits, which has not happened. And hence, ADHO retained its market share position, but it has not been able to grow much.

Unlike now the others are not growing either, but this is a so really seeking the construct of the product, which requires this kind of investment. Now where we are going to now why the investments are going up is because you need to advertise because we have only advertising ADHO and nothing else.

So we have built only ADHO and nothing else. We need to change that as a company. We need to diversify our portfolio to become a stronger organization, which is the journey that we started 3, 4 years back. And now it is starting to show traction, not this quarter, for quarter after quarter. And this is something that we will continue to do. That will require investment because these also become the ADHO's of the future.

Harsh Shah: So going ahead, since we're expecting maybe a high single-digit kind of a growth for the next 3, 4, 5 years. So how do we look at the Ad spend? Will it remain in on absolute basis? Or do we plan to keep it same in terms of percentage of sales we're spending close to INR 160 crores, INR 165 crores. So will the absolute amount will be maintained? Or do we will we keep on increasing as our revenue also goes up?

Moderator: Ladies and gentlemen, Thank you for patiently holding. We now have the lines of the management reconnected. Over to you, sir.

Jaideep Nandi: Yes. So any further clarification, Harsh?

Harsh Shah: Actually, I had one question on the ad spend. I think the line was disconnected. So my question was going ahead, do we plan to see the ad spend at INR160 crores, INR165 crores that we spent in FY '24? Or do we plan to increase the budget as the top line goes up, I mean do you plan to keep it at 16% to 18% of sales going ahead as well? Or in absolute terms, you will keep our budget same?

Jaideep Nandi: That is what I answered earlier. If you were to if we were to take it even further more aggressively, I might have increased the ad spend further and taken up more brands as far as GT is concerned going forward. But we would like to be a little more prudent. We'll operate at 16% to 18% ad spend and keep introducing as the business scales up.

We'll keep introducing products in GT, 1 or 2 large products in GT, which we can develop and make it larger. So that is exactly how we are thinking about. One of the launches will happen in Q3 of this year, and this is what we will continue with. 16 to 18 is what we see the number at.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Jaideep Nandi: Thank you so much, and thank you for participating in this call. As you have seen in the last quarter, we have taken quite a few hygiene collections because as an organization, having done so many initiatives both as you can see in general trade as well as well as in terms of new product introductions, modern trade introductions.

We wanted to be in a position where we can actually take advantage of all these initiatives and have a strong organization with good, strong, consistent growth going forward. So this onetime correction had to be taken. We took it this quarter. Any quarter we would have taken, it would have taken this process. We have taken this correction and going forward we intend to deliver the numbers that we have been talking about based on the strategic pillars that we are taking. So thank you for participating, and best of luck. Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.