



“Emami Limited Q2 FY 2017 Earnings Conference Call”

October 27, 2016



**ANALYST: MR. AJAY THAKUR - ANAND RATHI SHARES AND
STOCK BROKERS LIMITED**

**MANAGEMENT: MR. MOHAN GOENKA – DIRECTOR – EMAMI LIMITED
MR. RAJESH SHARMA – SENIOR VP, FINANCE AND
INVESTOR RELATIONS – EMAMI LIMITED**

Moderator: Good day ladies and gentlemen and welcome to the Emami Limited Q2 FY 2017 earning conference call hosted by Anand Rathi Share and Stock Brokers. 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 this conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ajay Thakur from Anand Rathi. Thank you and over to you Sir!

Ajay Thakur: Hi everyone and welcome to Q2 FY2017 results conference call for Emami Limited. From management, we have with us Mr. Mohan Goenka – Director, and Mr. Rajesh Sharma – Senior Vice President, Finance and Investor Relations. We will begin the call with a brief on the Q2 results and after that I will handover the floor to Mr. Goenka Ji for Q&A session. Over to you Sir!

Mohan Goenka: Thank you Ajay and a very good evening friends. I welcome you all to this conference call on Emami results for second quarter and first half ended September 30, 2016. Our consolidated revenue at Rs.585 Crores grew by 10% and volume also grew by 10% in this quarter. In H1 FY2017, our revenue was at Rs.1229 Crores, which grew by 15% with volume growth at 13%. We increased market shares across categories and reported steady growth in the domestic business delivering a healthy topline growth of 14% in value terms and 11% in volume terms.

For the first half of the year, our domestic business grew robustly by 17% in value and 15% in volume. However, due to sluggish business environment across MENAP regions, our international business degrew by 11% during the quarter and posted flat growth in H1 FY2017; however, international business excluding MENAP region grew by 18% in Q2 and 17% in first half.

In the domestic business during the quarter, Balms grew robustly by 19%, Boroplus grew by 16%, Navratna Cool Talc grew by 35%, and Kesh King grew by over 50% and Fair & Handsome fairness cream grew by 1%. However, Navratna Cool Oil declined by 3%. Healthcare range posted a flat growth during the quarter on account of a very high base of previous year when it grew by 43%. Healthcare revenue was impacted due to degrowth of 19% in Pancharishta, the base for Pancharishta being very high when it grew by over 100% in Q2 FY 2016. Ex-Pancharishta healthcare range grew by 31%.

In H1 FY2017, Balms grew by 12%, Boroplus grew by 19%, Navratna Cool Talc grew by 18%, Navratna Cool Oil grew by 4%, Fair & Handsome fairness cream grew by 1% and

Kesh King grew by over 100%. Pancharishta declined by 2% impacting the growth of healthcare range, which grew by 6% in first half of FY2017. Ex-Pancharishta healthcare range grew by 17%. New launches like Fair & Handsome Face Wash, HE deodorant and 7 Oils In One performed well in Q2 and H1 FY2017.

The company continued to gain market share in key categories in Q2 FY2017. Navratna Cool oil gained 210 basis points at 62.8%, Fair & Handsome gained 130 basis points at 64.8%, Kesh King Oil gained 160 basis points at 32.3% and Cool Talc gained 120 basis points at 27.8%. Boroplus and Balms maintained their leadership positions with volume market share at 73.1% and 54.3%.

In Q2 FY2017 our gross margins at 67% improved by 60 basis points year-on-year and EBITDA margins have grown by 130 basis points at 30%. Profit before tax at Rs.89 Crores grew by 20% and profit after tax at Rs.66 Crores grew by 9% during the quarter. Cash profit at Rs.145 Crores also grew by 10% during the quarter.

In H1 FY2017 our gross margins at 65.7% improved by 220 basis points year-on-year. Our EBITDA margins have grown robustly by 270-basis points at 26.2% despite high A&P spends at 253 Crores which increased by 30 basis points to 20.6% of sales.

To sum up, our organic volume growth is on track as envisaged despite muted market conditions, with the economy picking up and good monsoons having a beneficial impact coupled with increased rural and government expenditure, we expect to sustain double-digit growth in the future.

With this brief, I now open the Q&A and invite the questions. Thank you very much.

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

Abneesh Roy: Sir my first question is on the Kesh King range, so could you give us what is the split between the oil and shampoo and what is the growth rates also for each?

Mohan Goenka: Sorry Abneesh what was your question, between the sales, right? Between oil and shampoo. First, let me give you the growth numbers, so in oil, the growth was almost 73%, and in shampoos, the growth was about 15%.

Abneesh Roy: Why is the growth so different?

- Mohan Goenka:** Because, if you see our contribution, our oil contribution is high, our shampoo contribution is low, and our focus is also more on oil than on shampoo.
- Abneesh Roy:** What will be the split in terms of sales, you gave the growth numbers, broadly split?
- Mohan Goenka:** Split is about 80:20, 80 is oil, 20 is shampoo.
- Abneesh Roy:** Sir, now with the Rs.3 sachet being launched in shampoo, do you see this 20 increasing or you said focus was on oil?
- Mohan Goenka:** Our focus is primarily on oil, so I do not see that changing too much because as I said our oil is growing at almost 73% and shampoo growth is only at 15%.
- Abneesh Roy:** Last year in the base your Kesh King had a very favorable base, it was up 50% which is a good number optically but if I see quarter on quarter it is a growth of around 5%-6%, so I want to understand here 5%-6% is still a decent number but I do not know what is the seasonality here? So how do you see the real growth of Kesh King, are you happy with the growth, do not look at 50% because the quarter was not really the comparable quarter?
- Mohan Goenka:** First of all, we do not see much seasonality in Kesh King and secondly we are very happy with the performance of the overall Kesh King brand because now what we expected, the average sales to be in the range of about 75 to 80 Crores which is more or less reaching to those levels, that was our first target, so it is a stable brand, of course, it is an expensive oil and when we see the economic conditions, when we see the oil market, overall it is quite muted, so in a condition like this we are extremely happy with the way the brand has performed.
- Abneesh Roy:** But Sir with a very high gross margin, are you evaluating at some stage any further change in the pricing especially at the lower end?
- Mohan Goenka:** We will not talk of strategy at this point of time Abneesh, but we are not changing much in Kesh King, the brand is growing and even at quarter on quarter if the brand is growing at 8%-10% we are very happy with that.
- Abneesh Roy:** The gross margin remains at the same level, which was earlier when you had acquired on slightly a little lower?
- Mohan Goenka:** The gross margins are at similar levels.

- Abneesh Roy:** My last question is on Navratna, so Cool Talc has very high growth, oil has lower growth, so here my question is in you core-markets, say UP and Bihar, how is the penetration of Navratna cooling oil, do you think you have hit the ceiling at least from a medium term perspective, that is why seasonality plays such a big role in this number, Cool talc is still growing very healthy with a similar kind of a seasonality at least this quarter?
- Mohan Goenka:** I would not say that we have reached the optimum penetration in the cooling still there is a lot of scope.
- Abneesh Roy:** Any numbers you can share how you measure that?
- Mohan Goenka:** Of course, this quarter, because it was quite an aggressive good monsoon, we saw a little dip in the cooling oil which the last year because there was no monsoon, the cooling oil last year had performed well. So, overall I think there is good opportunity but as I said, on a holistic level, the oil market is on a weak wicket at this point of time, which has also affected the cooling oil.
- Abneesh Roy:** But is that because of downtrading?
- Mohan Goenka:** See, I am not very sure of downtrading but otherwise the sachet contribution in Navratna is also quite high but we have not seen any up stick in the sachets also.
- Abneesh Roy:** How much is a sachet now?
- Mohan Goenka:** Sachet is almost about 36%-37% contribution.
- Abneesh Roy:** In terms of volumes.
- Mohan Goenka:** Yes.
- Abneesh Roy:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Hi Mohan Ji, Rajesh Ji, and congrats on good set of numbers. My first question is on your gross margin. We have seen in the last few quarters on a YOY basis your gross margin expansion used to be 200-300 basis points, now it has come down quite sharply to just 60 basis points gross margin contribution, so what is happening here, is it that costs are

inflating or is it that low cost is now coming in the base or is it effect from increase of emotional activities, you can just give some flavor on what is the reason that the gross margin expansion has really slowed down?

Rajesh Sharma: Hi Percy, if you look at our gross margins which were expanding as you rightly said in three digit numbers in FY2015 and FY2016 also, so, two years back in FY2015, we were getting benefit of the lower menthol prices and then in FY2016, Kesh King also came in our portfolio. These two factors helped our gross margin expand in a higher rate but now as you rightly said, the raw material benefit is now part of the base and also Kesh King has also become part of the base quarter two. So hence looking at the raw material prices now, it is quite benign now. We are not seeing much inflation or much benefits in some of the raw materials have decreased slightly if I compare the FY2016 prices, we have seen inflation in others.

Percy Panthaki: But you are not calling out any sudden increase in promotional intensity or something, which is affecting gross margins?

Rajesh Sharma: There has been come promotions, which we have been doing but that is also part of the secondary promotions which we do, gets knocked off from the revenue itself.

Percy Panthaki: That would affect gross margins, right?

Rajesh Sharma: But that is not very material to speak of significant margins from cost side.

Percy Panthaki: Fair enough. Secondly I just wanted to understand that while your gross margin benefit is now very small, as you said there is no major inflation in costs. Looking over the next, let us say next four quarters, what do you think could happen in terms of pricing for your category in this kind of an environment where consumption is slow, do you see your ability to increase prices by 3%-4% as you normally do every year, is that ability still intact?

Mohan Goenka: Percy this year we have not increased our prices as we do in the past, but looking at the overall performance for this year, we will take a call only in the last quarter but we are confident that we would be able to increase some prices.

Percy Panthaki: So, Mohan Ji, typically the guidance that you give every year, is that in a normal situation where seasonality is normal, topline growth of 15% should be possible, do you think over the next four to six quarters, on an average that number is something that is achievable?

Mohan Goenka: That we still have to work out but for this year our first target was to get double digit volume growth and that is what we have been able to achieve, so if you continue with his momentum, then we have to study the overall market condition and on that basis we will decide on pricing, but of course our first target is to get the maximum volume growth.

Percy Panthaki: One more last question from me Sir, it is quite heartening to see that some of your new launches, that is 7 Oils in One and HE for the first half of this year they have grown by 50% YOY, so if you could give some idea on what are the initiatives that you are taking on these two brands as well as what are your thoughts for the next four to six quarter in terms of NPD pipeline I know it is competitive in nature and you cannot give an exact information but whatever broad idea you can give will be appreciated.

Mohan Goenka: On particularly these two brands we are happy with the performance of both the categories and we would keep investing on HE and 7 Oils in One. As far as the growth is concerned, now it has come in some base, so if they grow at 15%-20%, we would be more than happy.

Percy Panthaki: Any color you can give on the NPD pipeline over the next few quarters?

Mohan Goenka: We have lined up couple of new launches and they are mostly in brand extensions, Fair & Handsome and Boroplus. In Fair & Handsome, we have launched one more variant in face wash this month, that is 100% oil control face wash and in Boroplus cream, we have launched perfect touch which is a softer variant of Boroplus antiseptic cream.

Percy Panthaki: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Prakash Poddar from Anived PMS. Please go ahead.

Prakash Poddar: Thanks for the opportunity. Couple of things on 7 Oils in One , you know some sense on current reach and you know it is obviously done well a low base, so is this poised to become big in the coming years in the value added hair oil category?

Mohan Goenka: See oil is a competitive space and to attract large number of consumers overnight is a difficult proposition, so it has to grow gradual, and we have found an opportunity because it is a new kind of an offering for the consumers. We are happy with the performance and I think as I said 15%-20% growth is what we are looking at and we are confident to achieve that.

Prakash Poddar: Sir, if you could give some sense, you know, on reach, availability of 7 Oils in One?

- Mohan Goenka:** Reach and availability in the sense?
- Prakash Poddar:** In terms of how many stores you reach and how many touch points is 7 Oils in One oil available today?
- Mohan Goenka:** I will have to look at those numbers. I do not have readily available.
- Prakash Poddar:** Sir, on honey, you know what is happening, how much of our sales is through the chemist channel and what kind of sales number should we look at honey in the near term, because we were you know banking on a very differentiated product and the product is really good, so what is happening on honey, Sir?
- Mohan Goenka:** Honey, of course our pricing is very different and the season now is the season for honey and we would be aggressive on the honey side, let us see our product, our pricing is very different and not that we are expecting very high numbers from honey but we would be in the market.
- Prakash Poddar:** Sir, as of date, majority of sales will be through the chemist channel in honey?
- Mohan Goenka:** Not majority of the sales come from chemist channel, it is a mix of grocers and chemists.
- Prakash Poddar:** Sir lastly, last year we had laid out on plan to reach 5000 Crores of revenue by 2020, so just you know, wanted to get a sense of how much of this could be organic, inorganic and how that debt has come down, Kesh King has met our internal targets, are we geared for another acquisition, are opportunities available and have seller expectations come down in terms of, you know, the current slow down?
- Mohan Goenka:** See firstly we have not given any guidance in terms of 5000 Crores. Our guidance is simple of doing a double-digit growth of about 14%-15% and that is what we still maintain. As far as your question of M&A is concerned or expectations of seller is concerned, it is very difficult for me to say, it depends on opportunities, there are hundreds of factors.
- Prakash Poddar:** This was from I think, some media reports which had quoted this, you know, internal targets, I was referring to that.
- Mohan Goenka:** I do not which media report, presently our guidance is simple, and it is about 14-15% growth.

Prakash Poddar: Sir, on Kesh King, has it met out internal targets and would that also be in that 15%-20% growth rate in the coming few quarters.

Mohan Goenka: Absolutely, Kesh King has met our targets, rather it has exceeded our internal targets and as I said, it is a competitive space, the market is not very conducive right now for an expensive oil, so in these environments, I think it has done exceedingly well.

Prakash Poddar: Great sir, thanks and all the best.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Good evening Mohan Ji. Just a quick one on basically Navratna cooling oil, so basically last year the volume was obviously very flat, it is just because of prolonged monsoon, or is the rural being very weak, how do you see you know, ongoing growth in this category, because growth has been pretty patchy, sometimes there is a growth, sometimes there is not for a while now, so can you give us some sort of color, is there a specific issue with the category or something else going on, how do we see this?

Mohan Goenka: Amit, you are right, the growth has been quite muted in the rural areas and we also internally are evaluating. Firstly as I said, the overall oil market has been a little muted, and of course the Navratna base is also increasing but still we strongly believe the penetration levels are low, the need for this particular category is increasing, whether it is stress or headache, you know, the benefit that Navratna offers. So, it is too early for me to say that it is completely penetrated and there is no room for growth that is completely not how we look at. This quarter has been a little muted because of good monsoon across India, so you could see the benefit coming in the Balm portfolio where we are by almost 19%-20%, very high Zandu and Mentho Plus is quite significant in our portfolio, so we have those seasonal trends and you are right, so it becomes sometimes erratic for some categories, because we did not expect Balms to grow at 20% this quarter. So, I am sure that if market conditions improve, the next year if the summer starts with a good wicket we are very confident of getting 10%-12% growth in the cooling oil as well.

Amit Sachdeva: Pancharishta also surprised me a little bit this quarter, because as the base was very high. But was the base high because lot of penetration led gains last year and those gains are in the base and now is it more a reflection of the market condition. How should we see this when upcoming quarters are concerned, are you seeing, you know, some amount of channel filling picking up again in this at least we are one month away now in the next quarter, so

what should we expect from Pancharishta, because it has been a phenomenal growth story and suddenly it has come down a little bit.

Mohan Goenka: Absolutely, it has surprised us also to be very honest, because we expect a better growth from Pancharishta but if you exclude Pancharishta, of course, our growth has been phenomenal in other categories but again this quarter has been a little weak for Pancharishta and we are yet to devise a strategy and see yet the penetration levels for any of these categories are very, very low and the problem what it solves is very high, so we are finding out the real reason growth has not come for Pancharishta but overall in the first half the sales is almost flat. Let us see. I have not still seen still the demand picking up as much.

Amit Sachdeva: But are you still seeing some penetration led gains in terms of reach, in the number of outlets you reach and is there some channel issues or distribution led issues and even Pathanjali making inroads into digestive space or is there something else structural about it, you know, consumer is shifting to more other solutions for digestive problems or something like that?

Mohan Goenka: There is no competitive intensity that has increased our consumers overnight shifting to other categories, we have not seen that, but definitely, there is some you know, consumer base which has come in now to attract new consumers, we have to offer something more in terms of advertising, so that is what we are working on.

Amit Sachdeva: Now a very small one if I may just ask, just a very theoretical question though, when we are investing as a HE brand which is being built from scratch and obviously it will take sometime before brand can become 100 Crores, so one can be self sustaining in terms of advertising span. Do not you think if this would have been much more cost efficient to build a men's grooming portfolio with Fair & Handsome as an umbrella brand rather than having to invent a new brand because rub off would be humongous if more categories were launched in Fair & Handsome and not HE as a new brand?

Mohan Goenka: See, I have mentioned it in the past also that Fair & Handsome is mostly a face care brand and that has been our call and so when we look at body care for men, we wanted a new brand altogether, so HE is going to take care of body and hair and Fair & Handsome is mostly on the face care side.

Amit Sachdeva: Thank you Mohan Ji, thank you so much, all the best.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Hi Mohan Ji. Congrats on a good domestic number. The international decline you have seen which is primarily led by Middle East, so it looks like there is a very, very sharp decline in Middle East YOY, so do you see this situation continuing for a few quarters till the base catches up or are you going to see some normalization on the Middle East growth is the coming two or three quarters?

Mohan Goenka: Arnab, this quarter it looks that it would take another one or two quarters for at least Middle East to get settled because the demand side from Middle East is quite weak.

Arnab Mitra: Secondly, on your ad spend, given that demand is quite muted now, there are some companies which have taken a view that this is not the best time to launch a lot of new products and things like that, so I think you started the year with a thesis that you would increase the ad spend substantially this year, but given how the macro slowdown is playing out, any change in the thought process on how increase, how new launch pipeline should happen this year and ad spend should go up or not?

Mohan Goenka: Arnab, we are being aggressive on your new launches, overall the monsoon has gone very well and we are hopeful that markets would improve, when, it is very difficult for us to say, we are hopeful in the next one or two quarters it should improve. We have, if you see our first half numbers our ads have gone up by almost 30 basis points, so there is no way we are going to cut our ad expenditures, we have launched more products in this month and we would be aggressive in our new launches, we are still spending a lot of money on HE, 7 Oils in One, Fair & Handsome Face Wash, and if you see our domestic numbers, today, I think, we are extremely happy with those numbers, they are almost 14% growth in domestic, 11% in volume terms.

Arnab Mitra: Rajesh Ji, one question to you, in the balance sheet, the debt seems to have gone up in March and September and the cash has also gone up, so what explains that and the increase in the interest cost also between 1Q and 2Q?

Rajesh Sharma: We have done a good amount of capex this first half of the year and also we have disbursed the dividend payout of almost 190 Crores including taxes, so for these two major items, our debt has gone up by around 30-40 Crores.

Arnab Mitra: So, that is an increase from March to now?

Rajesh Sharma: Yes.

Arnab Mitra: Okay, the interest cost increased between 1Q and 2Q seems quite high, so is there is a reasonably high jump in the interest cost, could you just tell me what is the gross and net debt numbers?

Rajesh Sharma: If you look at other income also, other income has also gone up in Q2 versus Q1, so on a net-to-net basis, if you look at that, net interest has not gone up from quarter one to quarter two.

Arnab Mitra: Can you just give us the gross and net debt as of September and what kind of capex you have done in 1H?

Rajesh Sharma: Our capex is over 100 Crores in 1H and net debt is roughly around 570 Crores now.

Arnab Mitra: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Thanks for the opportunity. Sir, in the balms portfolio, did the new packaging help in the higher growth this quarter or it was more of a seasonal impact?

Mohan Goenka: It was of course driven by season, was more impact and the new campaign also worked for the balms.

Amit Sinha: Sir, when I do a back calculation, excluding the Kesh King from the domestic portfolio, I get to a volume growth of around 7.5% for domestic business, is that a right number?

Mohan Goenka: So, if you exclude the Kesh King completely, because last year Kesh King was in this quarter, so if you exclude Kesh King, the growth was about 7% in volumes and in value it is about 11%.

Amit Sinha: Sir, lastly how much would be the capex on the full year?

Mohan Goenka: It would be in the range of about 200 Crores.

Amit Sinha: Thank you. That is it from my side.

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 Mohan Ji and Rajesh Ji. I just wanted to know for last two to three years we have maintained new launches, have contributed 4-5% of growth momentum, so just wanted to know how the new product biplane is looking right now and how much you are confident that segment can help growth in coming years?
- Mohan Goenka:** Tejas, we are aggressive in your new launches, particularly extensions and we are confident that at least 2% or 3% should come from new brand. As I said, He has performed very well 7 Oils In One, face wash, these are some of the interesting launches happened in the recent past, this month also we have done two more launches and next quarter also we have lined up some more launches. So, very difficult to really say which one works but we are confident that at least 2-3% should come from new launches. We are launching these brands.
- Tejas Shah:** All these launches are in any particular category or across we are doing the brand extension exercise?
- Mohan Goenka:** Of course, these are brand specific, very recently we have done in Fair & Handsome face wash and Boroplus antiseptic cream.
- Tejas Shah:** Mohan Ji, what is our direct and indirect reach number as on half year FY2017 and what was the same number as on March 31, 2016?
- Mohan Goenka:** Our direct reach now I think has almost reached to 6.5 lakhs, our next two-year target is to reach to 800,000. We are in line with that. I think in the first six months we must have added about 40000 to 50000 new outlets.
- Tejas Shah:** Has the base kept so the growth or expansion pace is in line with what you thought in the beginning of the year or because of the slow down we are also going slow on this expansion?
- Mohan Goenka:** No, we are not going slow on this expansion, this I am very confident of touching 800,000 by 2018.
- Tejas Shah:** Lastly, Rajesh Ji, your guidance on tax rate for FY2017 and FY 2018 if possible?
- Rajesh Sharma:** Our tax rate for FY2017 and the next couple of years should be around 20% MAT, our tax rate has gone up this quarter on account of dividends which we received from our overseas subsidiaries and so in the consolidated numbers the profits were knocked off but on

standalone profits, tax has been provided for, so that is the reason it has gone up but on a yearly basis I think we should be able to maintain within 20%.

Tejas Shah: That is it from my side. Thanks a lot and happy Diwali to you all.

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

Jubil Jain: Thanks for the opportunity. I have two questions. First one is on the fairness cream category, so our growth in H1 has been just around 1% and in spite of that have gained market share around 140 BPS, so how is the category evolving, are you seeing any chances of revival in this category or will it take a long time for this category to recover?

Mohan Goenka: The category is not growing, the category is almost declining by 2-3%, and see there is a lag, when Nielsen gives data, there is a lag of almost I do not know how many days but that is what the Nielsen data shows we have grown in our market share, but I do not know when the category will get traction, presently it looks it would take sometime at least two to three quarters for this category to revive.

Jubil Jain: My second question is on the northern states, so can you throw some more light on some key northern states as to how they are behaving post monsoons and into the festive season, the key northern states?

Mohan Goenka: For us, the sales have come from across the region and because our brands are very different in different regions, it would be very difficult, just to give an example, our Balm sells mostly in west and south where we have seen a significant growth whereas oils which sell mostly in the north the sales have been a little low, so it is not really the market conditions but it is many other factors.

Jubil Jain: But are you seeing any difference in the overall FMCG growth rates for these markets, north and south?

Mohan Goenka: As I said, not really, it is very brand specific.

Jubil Jain: Rural versus urban?

Mohan Goenka: Rural has still not picked up, that is what our sense is, so let us hope I think when the monsoons have been so good, it should pick up.

- Jubil Jain:** Was the rural growth better than the urban this time or it lagged urban growth?
- Mohan Goenka:** Rural growth has been muted. It was not encouraging.
- Jubil Jain:** Below that of urban?
- Mohan Goenka:** More or less at the similar levels, but may be a notch lower.
- Jubil Jain:** Thanks a lot Sir.
- Moderator:** Thank you. Our next question is from the line of Chandrasekhar Sridhar from Fidelity. Please go ahead.
- Chandrasekhar S:** Mohan Ji and Rajesh Ji, just a bookkeeping question, what is the exact Kesh King sales this quarter?
- Rajesh Sharma:** Hi Chandrasekhar. Exact numbers would be difficult to share, so we have broadly discussed the growth data.
- Chandrasekhar S:** Okay, you stated 74 Crores last quarter, you were on track to reduce the debt to zero almost in six quarters and now basically you are still on track within the next five quarters basically to pay down the debt?
- Rajesh Sharma:** Yes, we are on track. So this temporary debt has gone up because of the dividend pay out but within next five quarters we should be able to repay it.
- Chandrasekhar S:** There is another question on Fair & Handsome. Is the lack of growth in the category is it cyclical or you feel there is some structural issue in terms of say, lack of recruitment of new customers, new consumers into other category?
- Mohan Goenka:** This is a discretionary category and of course the growth can only come if you can attract new consumers, which is what is not happening. So, this is a marketing challenge and we only have to solve it.
- Chandrasekhar S:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pavaskar from Sharekhan Limited. Please go ahead.

- Kaustubh Pavaskar:** Good evening Sir. Thanks for giving the opportunity and congrats for good set of numbers. My question is on the gross margin. Can you just make me understand the expansion of gross margin was about 70 BPS, so how much was because of the improvement in the revenue mix and how much was because of the benign raw material prices?
- Rajesh Sharma:** If you look at this quarter, everything was in the base, Kesh King was also in base, but slightly lower as we know, so I think mostly it was because of the 2% - 2.5% price hike and some because of raw material benign prices.
- Kaustubh Pavaskar:** Specifically about the raw materials, and key raw materials, what is the outlook building up, are we expected to increase in the coming quarters?
- Rajesh Sharma:** We have already seen some inflation in Menthol vis-à-vis last year but I think these are within controllable range and these are all factored in our numbers, so we do not really expect to date that something uncertain would happen in Menthol or other raw material price going ahead.
- Kaustubh Pavaskar:** My next question is on Boroplus antiseptic cream. In first half, you have seen double-digit growth, so seasonally Q3, Q4 is better for you, so we should expect a growth better than whatever growth we have achieved in first half?
- Rajesh Sharma:** First half is a very small proportion of Boroplus, so the actual season is starting from Q3 only, let us see how the season picks up.
- Kaustubh Pavaskar:** Thank you.
- Moderator:** Thank you. The next question is from then line of Prasad Deshmukh from Bank of America.
- Prasad Deshmukh:** Good afternoon Sir. A couple of questions on the international business, you highlighted in the presentation that Bangladesh has been pretty strong in terms of its growth. Could you just tell us, which are the key countries, which have grown well in SAARC, and what kind of margins if you compare with the company level margins you see here?
- Rajesh Sharma:** Hi Prasad, for SAARC, Bangladesh is the main region and in fact for the entire IMD, Bangladesh would be more than 25%-30% kind of revenue generating country. So, Bangladesh has grown by around 39% this quarter and the margins are similar, not significantly different from the domestic margins.

- Prasad Deshmukh:** In Nepal, what would be the situation there?
- Rajesh Sharma:** Nepal also we have done well, we have achieved 20% plus growth in Nepal also, that is slightly smaller, but Bangladesh is quite bigger than Nepal.
- Prasad Deshmukh:** So in Bangladesh, next year onwards, we will have the manufacturing facility operational, so do we see margins going up further from here?
- Rajesh Sharma:** We already have our manufacturing facility operational now for two years in Bangladesh, it is already there and we are getting the benefit.
- Prasad Deshmukh:** In terms of CIS countries again what kind of growth do you think should one build in from this geography?
- Rajesh Sharma:** I think we would be happy with around double-digit growth in CIS at around 10%-15%, because there also the economy has impacted because of currency volatility and devaluation. So, first half we have done well but there are challenges because of currency volatility over there.
- Prasad Deshmukh:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Minal Vora from Value Quest. Please go ahead.
- Minal Vora:** Good evening Sir. My question is in the Balms range. So, you have seen 20% growth during the quarter and you have relaunched and repacked, so what would be your strategy going forward and are you happy with the market share of 54% odd?
- Mohan Goenka:** So, our balm portfolio has done very well and we will continue with the strategy, if grown at 20% we would not change anything and we expect that balm should continue to grow at almost double digit.
- Minal Vora:** Any new promotions coming up?
- Mohan Goenka:** Not really, we are just continuing normally with the portfolio.
- Minal Vora:** Have you gained market share in Q2 over the last quarter?
- Mohan Goenka:** No, we have not gained, we have just maintained market share. Nielsen takes time, I think.

- Moderator:** Thank you. The next question is from the line of Ajay Thakur from Anand Rathi. Please go ahead.
- Ajay Thakur:** Just had two questions, one was on the winter side, I believe that, you know, there has been chances of early onset of winter or that is what I had read in few of the reports, any sense of that or early signs of you know good stocking with respect to your winter products?
- Rajesh Sharma:** The season has just started but also we need to factor the holiday season and festivals which are going on, so Diwali is yet to come, so once the holiday season and the festivities are over, I think then we would see the right momentum in the market side.
- Ajay Thakur:** Secondly, there has been report of tight liquidity in the rural market because of which we have not seen, you know, upstocking by few of the wholesalers and distributors to certain extent, so anything of that aspect that you are still witnessing in the market or how is the scenario at the trade level?
- Rajesh Sharma:** You are talking of working capital problem with the distributors.
- Ajay Thakur:** That is right.
- Rajesh Sharma:** No, not really, we are not seeing that as an issue.
- Ajay Thakur:** Neither at the wholesaler end?
- Rajesh Sharma:** No, not really.
- Ajay Thakur:** That is helpful. Mallika, do we have any other questions on the line. I shall request Mr. Mohan Goenka Ji to have a closing of line because we do not have any further questions on the line.
- Rajesh Sharma:** We thank you Anand Rathi and we thank you all the participants for attending this call. We wish a very happy Diwali to Ajay and all the participants.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of Anand Rathi Share and Stock Brokers that concludes this conference call. Thank you for joining us. You may now disconnect your lines.