

Zydus Wellness Ltd.
Investors/Earnings Conference Call
(October 14, 2009)

Moderator: Good afternoon Ladies and Gentlemen. Thank you for standing by. This is Fatima, the moderator, for your conference call today. Welcome to the conference call of Zydus Wellness Ltd. We have with us today Mr. Pankaj Patel from Zydus Wellness Ltd. At this moment all participants are in a listen-only mode. Later we will conduct question and answer session. At that time if you have a question please press * and 1. I would now like to turn the conference over to Mr. Pankaj Patel, please go ahead sir.

Pankaj Patel: Good afternoon and welcome to our first ever post-result Q&A and discussion session.

Before I take you through the financial highlights of the second quarter of 2009-10, let me tell you that it was a very good quarter, which witnessed all-round performance from all the three brands. Extended summer due to deficient rains in some parts of the country resulted into an increase in demand for summer oriented skin-care products, while temporary shortage of the leading butter brand in the market caused spurt in demand for our table spread Nutralite, which is a healthier alternative to butter.

Sugar Free, India's largest selling sugar substitute with 82% market share, continued its growth journey. Sugar Free Gold, our aspartame based variant, and Sugar Free Natura, the Sucralose based variant, maintained their respective market shares and growth rate levels in spite of aggressive actions from the competing brands, especially the new entrants.

EverYuth range of niche skin-care products also continued to grow rapidly. Golden Glow Peel Off mask, Face Scrubs and Face Washes maintained their respective market shares and growth rate levels. Recently launched Menz, the skin-care range for men, is also doing well on expected lines with increasing acceptance from the consumers.

On Nutralite front, shortage of premium range butter in the retail segment gave us an opportunity and it was encashed promptly. In the institutional segment, low priced butter substitutes continued rate wars, which we continued to fight to maintain our market share.

Now let me take you through broad financial highlights.

During the quarter ended 30th September, 2009,

- Sales grew by 37.5 % year-on-year to Rs. 649 Mio. from Rs. 472 Mio. last year. All the three brands contributed to this performance.
- Increase in marketing and other expenses, which was mainly due to heavy promotional expenses for new product Menz and other products, got more than offset by improvement in gross margins, which increased by 7.2% - from 61.1% last year to 68.3% mainly due to better product mix and reduced material rates for some of the products.

- This has resulted into increase in Earning Before Interest, Depreciation and Tax, which was up by 51.2 % year-on-year to Rs. 142 Mio. from Rs. 94 Mio. last year. EBIDT margin as % to sales increased to 21.9% from 19.9% last year.
- Profit before tax and exceptional items was up by 64% to Rs. 151 Mio. from Rs. 92 Mio. last year.
- Net profit was up by 41 % to Rs. 85 Mio. from Rs. 60 Mio. last year, and in line, EPS also grew by 41 % to Rs. 2.18 per share from Rs. 1.55 last year.

For the six months ended 30th September, 2009, sales grew by 32.7% to Rs. 1290 Mio. from Rs. 972 Mio. last year, and net profit grew by 37% to Rs. 135 Mio. from Rs. 99 Mio. last year.

We are well poised to grow on our strong foundations of aggressive brand building and market creation to achieve our objectives in the FY 2009-10 and our vision of Rs. 500 crores by FY 2013-14.

Thank you and we will now start the Q&A session. We have with us Mr. Ganesh Nayak, Executive Director, Zydus Group; Mr. Anand Deo, Managing Director, Zydus Wellness Ltd., Mr. Amit Jain, CFO, Zydus Wellness Ltd. and Mr. Vishal Gor, DGM – Investor Relations. Over to the co-ordinator for the Q&A.

Moderator: Certainly sir. Ladies and gentleman we will now begin the question and answer session. If you have question please press * and 1 on your pushbutton phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. We have a first question from Mr. Ashish from Sharekhan. Mr. Ashish, please go ahead.

Mr. Ashish: Yeah hi, just wanted to understand what would be the product wise performance in the good results for Q2 that you have give, if you could throw some light on the three main products that would be good?

Pankaj Patel: Usually we are not providing detail for product wise but we can tell you that all the brands are growing at good pace. We have not been giving product wise details for commercial reasons.

Mr. Ashish: Okay. Sir can you just help me out in understanding if not that, how the margins fair between each of the products, can you tell me?

Pankaj Patel: The margins are almost similar in Sugar Free and EveYuth, while for Nutralite they are on comparatively lower side.

Mr. Ashish: Okay. And what is the reason for the gross margin expansion on a year-on-year basis?

Pankaj Patel: That is mainly because of better product mix and some of the raw material prices which has been reduced this year.

Mr. Ashish: Okay. Sir you said that you gained something because of Amul having some issues on the distribution front probably. So that would not be a continuous thing so how do you see your top-line growing as far as contribution of Nutralite is concerned?

Pankaj Patel: Actually what we said is that, we could do better than the butter as far as Nutralite is concerned, the reason is that there was shortage of butter in the market.

Mr. Ashish: Yeah but how is the same as far as competition is concerned especially Nutralite and Sugar Free are related?

Pankaj Patel: Going forward in the next quarters we do not see any problem with our growth and we should be able to maintain similar growth trajectory.

Mr. Ashish: Okay. And how about new product launches and Everyuth you have launched some Menz range and what do you see the way forward for the other product categories that you have been into?

Pankaj Patel: Yeah we are expecting to launch some additional products during the next 6 months. We have launched Menz range and it is performing very well in the marketplace as per our expectation.

Mr. Ashish: Okay. And would this be beyond the three categories that we have into or it would be an extension of these?

Pankaj Patel: It will be within the categories with brand extensions.

Mr. Ashish: Okay fine. And sir can you tell me what is the Capex plan for next year and after that?

Pankaj Patel: This year and next year put together our capex plan is about Rs.30 Crores and this is mainly because we are planning to build up a new manufacturing facility at Sikkim for which construction is expected to start.

Mr. Ashish: So when is it likely to come up?

Pankaj Patel: This facility is being constructed in Sikkim and we are expecting that this facility should be functional by 1st Quarter next year.

Mr. Ashish: Okay fine. Sir what is the exceptional item that is appearing in the results this time, 2.2 Crores I guess?

Pankaj Patel: These are the amalgamation expenditure.

Mr. Ashish: Okay fine, I will come back with more questions if I have any. Thank you so much.

Modeator: Thank you sir for your questions. We have a next question from Mr. Anubhav from Aadhar Securities. Mr. Anubhav, please go ahead.

Mr. Anubhav: Yeah hi, we would highly appreciate if you could, somehow you know give us the results before the con call, it is really difficult to find the results, it is nowhere to be available whether it is on the BSE or the company website.

Vishal Gor: It should be available on BSE and ...

Mr. Anubhav: BSE it is not there and on the company's website we have a lot of problem signing the, I mean they were not available basically.

Vishal Gor: No the website is under some maintenance, but we will be putting it as soon as possible.

Mr. Anubhav: Yeah but should convey it to the investors, you should probably communicate or ...?

Vishal Gor: Well the results have already been sent to the interested parties through mail

Mr. Anubhav: Yeah so could you give us the contact of the concerned people then?

Vishal Gor: Yeah it is vishalgor@zyduscadila.com. You can write to me.

Mr. Anubhav: And sir secondly my question was what are the kind of product pipeline going forward and is there any plan for the company to diversify into other ranges?

Pankaj Patel: Currently we are planning to launch this year brand extensions into existing categories, long term we have plans to enter some other categories, but I would not like to share those specific information at this moment as and when it will happen we will inform you.

Mr. Anubhav: And how is the market share in the Sugar Free segment vis-à-vis last year?

Pankaj Patel: We are maintaining our market share. We are at same market share as per ACNielsen report.

Mr. Anubhav: Okay, I will come back with more questions?

Pankaj Patel: Yeah.

Moderator: Thank you sir for the questions. We have a next question from Sneha Venkatraman from HDFC Securities. Please go ahead.

Sneha Venkatraman: Good evening sir. Sir basically if you see our other expenditure, Q-on-Q you have seen a dip why is that so?

Vishal Gor: That is because of the advertisement spend which is the main portion of other expenditure. Advertisement spend in Quarter 1 was higher and it does not remain uniform across the quarter. It depends upon the advertisement bursts which we carry out in a period. So in 1st Quarter it was higher in 2nd Quarter it was lower.

Sneha Venkatraman: And sir basically do we see any seasonality in sales like you had mentioned that in the festive season you will see improvement in the performance so which are basically the best quarters if you could tell us?

Anand Deo: We have 3 product lines. In Everyuth we have summer oriented products. In case of Sugar Free it is all year uniform product. And as far as Nutralite is concerned that takes peak a little bit in winter. So overall put together you will see that our total sales will remain more or less constant over the quarters.

Sneha Venkatraman: Okay. And sir you mentioned rise in OPM is because of the better product mix and the raw material prices falling down, now if we see like quarter-on-quarter there has been some like fluctuations in the OPM mix. So why is that so?

Vishal Gor: The main reason which I said was that it is because of the fluctuation in the advertisement spends. The advertisement spend does not remain uniform across the quarters as you would have observed in the 1st Quarter it was higher, in this quarter it was lower in the 3rd Quarter there could be some fluctuation but what we say is that we would protect our overall annual OPM of about 20%+..

Sneha Venkatraman: Okay. And sir what would be your full year tax rate?

Vishal Gor: This year we do not expect any reduction so it could be at the same level of 34%

Sneha Venkatraman: Okay. And sir the second plant which you mentioned that is for the manufacturing of Nutralite?

Pankaj Patel: No this is for the manufacturing of Sugar Free and Everyuth.

Sneha Venkatraman: Thank you so much sir, that is all from my side.

Moderator: Thank you for the questions. We have a next question from Anirudha Joshi from Anand Rathi. Please go ahead

Anirudha Joshi: Hello sir, congratulations on excellent set of numbers. Just wanted to know what are the market shares of various players in all three segment and that of competitors?

Anand Deo: In case of Sugar Free we are leading with 82% market share. And the next number comes is Equal with 9% market share. In case of Everyuth it is a different mix of products, in case of Orange Peel Off we have 96% to 97% market share. In case of scrubs we are at 69% market share. In case of Face Wash we are at around 11% market share, these are all three main pillar products which we have in Everyuth category. In case of Nutralite, we are at almost 75% market share in the Margarine category but if you take it along with butter than we would be at somewhere around 10% market share.

Anirudha Joshi: Okay. And what is the institutional and FMCG kind of mix in Nutralite?

Anand Deo: It is 30% to 70%, 30 towards retail and 70 towards institution.

Anirudha Joshi: So what we sell into institution does not carry our brand?

Anand Deo: It does carry our brands but they are supplied to in a larger packs.

Anirudha Joshi: Okay. So the institutions would be?

Anand Deo: Institutions would be airlines and all the restaurants and hotels who use our products and all hotels.

Anirudha Joshi: Okay. Sir how has been the market growth over last 3 years in all these three categories?

Anand Deo: We do not have the data in front of us, maybe we can give, if you contact Vishal, he will give you offline this data.

Anirudha Joshi: No, maybe last year then probably?

Anand Deo: That we can provide you, yes. Over last year we are growing at 20% plus rates in all of the categories. And that would be the category growth also so far as Sugar Free and Everyuth Peel Off and Scrubs are concerned because there we are market leaders.

Anirudha Joshi: Okay, sir regarding Sugar Free how big is the market in let us say other developed countries where again diabetes or a blood pressure kind of problems are pretty much common?

Anand Deo: Currently we are not focused on exports of this product...

Anirudha Joshi: No, I am not saying about export but roughly what would be the penetration level, let us say Sugar Free consumers and total people with diabetes or kind of ratio in similar countries?

Anand Deo: We are afraid that we do not have the information to give you on this.

Anirudha Joshi: Okay, but if Sugar Free kind of a category is pretty popular in other countries or?

Anand Deo: They are very popular in other countries as well.

Ganesh Nayak: If that is the question, this is the Ganesh Nayak here, in other countries it is far more popular than what it is in India. In fact the potential I think we have just kind of scratched the surface. If you talk vis-à-vis to developed countries like Europe or the US then in Europe and the US earlier it was aspartame which was selling, now is sucralose which in India we launched about 2.5 to 3 years ago as Sugar Free Natura and today Sugar Free Natura is ramping up very well.

Anirudha Joshi: Okay. And what are the initiatives we are taking to expand the markets like Nestle sells its product, infant products through doctors, or even Colgate ...?

Ganesh Nayak: You know we have that but that is part of our strategy and we would honestly not like to make public statements on that but we are absolutely on the spot as far as the point which you have made and there are opportunities there which we are working on, because you must understand we have a very strong franchise with the doctor population thru pharmaceutical formulations business of our flagship company Cadila Healthcare Ltd..

Anirudha Joshi: Okay. And very lastly on distributions front, how do we distribute the products because the requirement of each product is different?

Anand Deo: We have a standard system of consignee agents and then distributor and then service to retailers. And we have two different teams, one team handles Sugar Free and Everyuth and the second team handles Nutralite.

Anirudha Joshi: Okay Sugar Free and EyerYuth is handled together? Okay, and for Nutralite you have completely separate teams?

Anand Deo: Yes.

Anirudha Joshi: Okay. And whether the distributors are also common or they are also different?

Anand Deo: Different.

Anirudha Joshi: They are different distributors?

Anand Deo: Yes.

Anirudha Joshi: Okay. What would be the current total distribution network or the final number of retail outlets we would be touching direct plus indirect?

Ganesh Nayak: We service about 1.5 lakhs outlets directly but our total product availability is in more than 5 lakh outlets.

Anirudha Joshi: So any plan we would be expanding this 5 lakh by maybe 1 lakh per annum or 2 lakhs per annum kind of plans?

Ganesh Nayak: As the need arises we will be taking care of that, because we are the leaders in the categories and we determine the distribution levels.

Anirudha Joshi: Okay, but what would be roughly the indicative breakup in metros than Tier I and Tier II cities and then maybe absolute rural areas?

Ganesh Nayak: I do not think that we will be able to provide that right now.

Anirudha Joshi: Okay sir, very lastly what is the cash on the balance sheet as of September?

Amit Jain: Rs.72 Crores.

Anirudha Joshi: 72 Crores and any plan with the excess cash?

Pankaj Patel: No plans except we are going to build up a new facility and we are going to use the capex worth Rs. 30 Crores which we expect between this year and next year which will be utilized out of this cash.

Anirudha Joshi: Okay. And what is the current excise rate, we are paying out, I guess Nutralite does not have any excise right?

Amit Jain: Right.

Anirudha Joshi: And excise on Sugar Free and Everyuth?

Amit Jain: 8%.

Anirudha Joshi: 8%.

Amit Jain: But we do not pay any because most of our products are made in Himachal Pradesh.

Anirudha Joshi: Right now also?

Amit Jain: Yeah.

Anirudha Joshi: But then we do not have any tax, income tax because it is a rented?

Pankaj Patel: We are basically using a third party manufacturer so no income tax benefit is there currently.

Anirudha Joshi: Okay.

Anirudha Joshi: Okay. So from next year we expect...

Pankaj Patel: We expect that tax rate should come down.

Anirudha Joshi: Okay, sir thank you very much.

Moderator: Thanks for this question. We have our next question from Mr. Ritesh from Dolat Capital. Mr. Ritesh, please go ahead.

Ritesh Paladia: Good afternoon sir, my question is if we can have growth done during the quarter for all three products, if not the absolute size?

Pankaj Patel: In Sugar Free we achieved about 39% growth, then in Nutralite we had about 14%, in case of Everyuth we had 73% growth.

Ritesh Paladia: Sir my next question is on advertisement, FY2009 as a whole pure advertisement expenses is about Rs. 44 Crores what would be this first half?

Pankaj Patel: In the first half the advertisement expense was about Rs. 37 Crores.

Ritesh Paladia: And what would be the same number for the last year first half?

Pankaj Patel: Rs. 24 Crores.

Ritesh Paladia: So, do we see the same growth to continue even second half and the next year?

Pankaj Patel: Advertisement will increase but we cannot say exactly by what percent it would increase.

Ritesh Paladia: Okay, but the more of our margin would be somewhere at 20% on the yearly basis.

Pankaj Patel: Yeah.

Ritesh Paladia: Okay, because I guess Q1 we had 11% margin and this time it is about 21% margin so yearly basis we will have about 20% to 21% margin?

Pankaj Patel: Right.

Ritesh Paladia: Okay. And sir a little broader question, almost all our products we are like market creator so how do you see the competition each of the categories especially Sugar Free?

Anand Deo: Continuous competition will be part of our life. For the last 5 years we have been attacked every year by one competitor or the other. It will continue in future because everybody looks at the total market size and looks at an opportunity of garnering at 10% market share for making money. So these attacks will continue and we will continue to fight with them.

Ritesh Paladia: Okay, anything you are witnessing that in Sugar Free now, price is coming for competition?

Pankaj Patel: Any new entrant can only offer price advantage and till date we have maintained our prices but we have not succumbed to discounts and that will be our policy in the future also.

Ritesh Paladia: Okay. Even now there is some established player like Wipro has come, you do not see much competition coming in the Sugar Free?

Pankaj Patel: As I said competition will come and we always welcome competition because the entire industry will grow so we have absolutely no problem with competition coming.

Ritesh Paladia: Okay. Sir we had about two parallel line of distribution, one is of pharma related and one is general trade which has started off late, how do you see the growth in both the categories?

Pankaj Patel: We have two teams - one handles Nutralite and one handles Sugar Free and Everyuth.

Ritesh Paladia: Okay.

Pankaj Patel: We do not distribute through pharma network.

Ritesh Paladia: Okay. So we do not use any network from parent company?

Pankaj Patel: No.

Ritesh Paladia: I had that misunderstanding, this is why. That is all from my side thank you very much sir.

Moderator: Thank you for the question. We have our next question from Mitul Mehta from Lucky Securities. Please go ahead sir.

Mitul Mehta: Yeah good evening sir, congratulations on good set of numbers. Sir can you enumerate more on the ad budgets going forward as we scale up our overall business to 500 Crores?

Pankaj Patel: You would appreciate that these are all very important things, if this information is going in the wrong hand of competitions can affect our future strategies. As a result as a policy we are not providing it, but we can give you an overall guideline that our annual margins which remain at 20% plus, that is what we can provide you on details but more specific about what we do to spend on advertisements we will not be able to provide, obviously for the commercial reasons.

Mitul Mehta: Sir you did mention that we are the market creators and competition is a very welcome thing, have you done any internal analysis of how big this market could expand going forward each of the market that we are addressing?

Anand Deo: We have looked at it and we expect that the market will grow at more than 15% to 20% every year.

Mitul Mehta: Each of them.

Anand Deo: Each of the market.

Mitul Mehta: And going forward the EBIT and the tax rate will fall any particular number, number in the sense that currently we are paying full tax?

Pankaj Patel: Yeah it will come down now exact numbers we cannot provide you but we will move into a range of tax which is little higher than MAT because Nutralite will be still produced in non-tax free zone and the other two products will be produced in tax free zone. So there will be a weighted average tax, so we do not know exact numbers, but our tax rate should come down by about 10%.

Mitul Mehta: And sir is there any payout policy on the part of management as the business will throw a lot of cash going forward?

Pankaj Patel: Our payout policy as a company is that $1/3^{\text{rd}}$ of the profit we will basically like to distribute as dividends and $2/3^{\text{rd}}$ we would like to keep it for our future growth and expansion of the business.

Mitul Mehta: Thanks a lot sir.

Moderator: Thanks for the questions. We have our next question from Mr. Alok Dalal from MF Global. Please go ahead sir.

Alok Dalal: Yeah thank you, thank you for taking my questions. Just wanted to understand your take on the inorganic opportunities we see in the sectors going forward?

Pankaj Patel: We are open to any good opportunities that are going to come in front of us and currently we are not looking at any these moments but in future we are definitely going to look at opportunity for inorganic growth as well.

Alok Dalal: Okay. So sir your vision of 500 Crores by FY2014...?

Pankaj Patel: That is organic.

Alok Dalal: That is all organic growth?

Pankaj Patel: Yeah.

Alok Dalal: Okay thank you sir.

Moderator: Thank you for your question. We have our next question from Neha from K.R. Chowksi. Ms. Neha, please go ahead.

Ms. Neha: Hello sir, congratulations on good set of numbers. I just wanted to understand if you could give in percentage terms the revenue mix between Sugar Free, Everyuth, and Nutralite for the quarter and that same how do you see when you are targeting 500 Crores by FY2014?

Pankaj Patel: As we told you before in the call that for commercial reasons we are not providing specific sales of a specific category or brand, so if we give percentage anyhow we have given you the numbers so it is not possible for us to give you the numbers. We believe that going forward for the 500 Crores we will be growing all of the current businesses at rate between 15% to 30% and the contribution will remain almost same.

Ms. Neha: Okay. And just one more question I had, just wanted to understand as I am aware all of the three products cater to the urban market and there is an huge potential for us to grow in the rural markets, so could you just throw some light on it?

Anand Deo: Well you are absolutely right that our products are more urban oriented, today we are covering 850 towns. And I think we have reach at very reasonable levels but as far as rural demand is concerned it is less than 5%.

Ms. Neha: Okay so going forward also you will continue to concentrate on the urban market, have I understood correctly sir?

Pankaj Patel: Yeah you are right.

Ms. Neha: Okay, thank you so much, that is all from my end sir.

Moderator: Thanks for your question. Our next question comes from Karthik Metha from Daiwa Securities. Mr. Mehta, please go ahead.

Karthik Mehta: Yeah hi, just two things, what would be the amount of exceptional sales that you have done for Nutralite I do not want the number but any percentage number that you think would have actually one off affect?

Anand Deo: As we have shared that our growth of Nutralite is 14%, we have already shared in the earlier talk.

Ganesh Nayak: But to find out the one off effect is difficult, because some of this would continue to remain for us.

Pankaj Patel: 14% is not certainly exceptional growth which cannot be maintained.

Karthik Mehta: And could you share what is the amount of debt in this company's book?

Amit Jain: It is a zero debt company.

Karthik Mehta: Okay thank you.

Moderator: Thank you sir for your questions, we have our next question from Mr. Yogesh Bhatt from ICICI Prudential Mutual Funds. Mr. Yogesh, please go ahead.

Yogesh Bhatt: Good afternoon sir, this is the question regarding the availability of your Everyuth product in the specific places, we have been observing that the availability is not there, so can you just throw a light on that please?

Anand Deo: Yeah this is regarding, the last time we met you said about Big Bazaar in Lower Parel area, right?

Yogesh Bhatt: Correct.

Anand Deo: There is some problem in computer system coding in that shop because in all other places we are there. We are taking care of the issue.

Pankaj Patel: These are all electronically controlled processes at these type of places and that is where the issue is.

Yogesh Bhatt: So we can expect that it will be solved soon?

Pankaj Patel: Yeah. Because we are dealing with in all other outlets with them.

Yogesh Bhatt: Okay, thank you.

Moderator: Thank you sir for the question. We have a next question from Sonal Kohli from AIM capital.

Sonal Kohli: Thanks for talking my question, you mentioned in that call that certain portion of sales comes from institutional sales, could you elaborate a bit, my line got disconnected?

Anand Deo: It is 30%-70%, 30% is retail and 70% is institution.

Sonal Kohli: This is for which category sir?

Anand Deo: Nutralite.

Sonal Kohli: And as far as your Sugar Free is concerned?

Anand Deo: Almost 99% in households.

Sonal Kohli: Okay thank you.

Moderator: Thank you for the question. We have a next question from Deepen from Brics. Mr. Deepen please go ahead.

Mr. Deepen: Yeah hi, just wanted to know you had about 51 Crores of cash on your books at the year end?

Amit Jain: Yes.

Mr. Deepen: Has that position increased decreased significantly?

Vishal Gor: Yeah currently we have about 72 Crores of cash.

Mr. Deepen: Okay. This was the least important of my question the other one was that if I look at your other expenses that is the most significant component of your entire cost breakup as reported quarter-to-quarter in fact for the half year it is up to 62.5 Crores roughly now what is the advertising component on this and corresponding half year last year it was 40 to 40.5 Crores so could you give me the corresponding advertising component there as well?

Amit Jain: Yeah advertisement spends in the first half this year was Rs.37 Crores and last year the corresponding period it was Rs.24 Crores.

Mr. Deepen: Okay. This includes sales promotion as well?

Amit Jain: No sales promotion is different this is pure advertising spend.

Mr. Deepen: So 24 has gone up to 37?

Amit Jain: Correct if you take total marketing then it was Rs.34 Crores last year and Rs.52 Crores in this year.

Mr. Deepen: Okay. So it was 34 last year and about 52 this year so that would include the advertising, I mean the sales promotion spend?

Amit Jain: Yes.

Mr. Deepen: Yeah I have got all answers actually, thank you.

Moderator: Thank you for the question. We have a next question from Mr. Ujwal Shah, Independent International Investment. Mr. Ujwal Shah, please go ahead.

Ujwal Shah: Hello sir, thanks for attending this. I just wanted to know what has actually resulted or helped our cost of materials that has gone down over the past 6 months by nearly 25% and can we expect this to sustain going forward?

Vishal Gor: See as we have shared the growth in Nutralite was 14% while the growth in Sugar Free was 39% and Everyuth it was 74% and we had mentioned earlier that among the three brands, Nutralite has comparatively lower margins. So it is clearly a case of better product mix which has helped us achieve higher margins and plus on Nutralite front also we have had some reduction in the raw material prices. These were two factors behind the improvement in the gross margins.

Ujwal Shah: Okay. Sir can we expect to sustain this going forward?

Pankaj Patel: Oil prices are difficult to predict and normally around December the oil prices tend to go up. We have taken cover for ourselves in the future, but it will be very difficult to predict right now, because we do not answer speculative question, just because oil prices are like that.

Ujwal Shah: Okay. And sir last one was we are actually facing some intense competition with new entrants and going forward we will have to resort to higher advertisements and also price competition would eat out into our markets. So how do we intent to manage our margins going forward sir?

Anand Deo: We will be maintaining our margins of around 20%. And growth is giving us additional muscle power to fight the new entrants.

Ujwal Shah: Okay sir. So it is basically the revenue which will help us tide over this?

Anand Deo: Yeah.

Ujwal Shah: Okay thank you sir.

Moderator: Thank you for the questions. We have a next question from Ravi Mehta from IND SEC Securities. Mr. Mehta, please go ahead.

Ravi Mehta: Hello, good afternoon.

Pankaj Patel: Good afternoon.

Ravi Mehta: My question was on the CAPEX the 30 Crores CAPEX which has been planned how much of it is being spent and how you intent to spend it in the next?

Amit Jain: No we have already spent about Rs.4 Crores till September and the entire money would be spent by the the last quarter of this year or the 1st Quarter of next year.

Ravi Mehta: Okay. And the facility will be operational from the end of 1st Quarter next year?

Amit Jain: Yes.

Ravi Mehta: Okay. And the other question was on the exceptional item of 2.2 Crores, is this kind of some recurring in nature, can we expect such kind of thing or?

Anand Deo: It relates to the amalgamation which happened last year, some of the expenditure we had to incur this year, but this is not recurring in nature.

Ravi Mehtal: Okay. And actually a feedback our interactions with nutritionist and dietitians they perceive Sugar Free as a brand which is only making the aspartame based sweeteners and they are actually comfortable recommending Splenda so what would be your action on educating this particular segment of people?

Ganesh Nayak: Thank you for the feedback, I mean well it is not across the board, but you are right to some extent and that is changing fast because we have a task force which is attending to that.

Ravi Mehta: Okay. And sir any foray on export planned?

Ganesh Nayak: At this point in time, no. Once our new factory starts then we will look at because the requirements of export markets call for proper dossier submission and all that. So I think at least for the next 1 to 1.5 years you can safely say that we are not going to be doing anything on that front.

Ravi Mehta: Okay. And for that export acceptability you need to go through certifications and other such things for your products?

Ganesh Nayak: Sorry.

Ravi Mehta: Before starting the export markets, do you need to have certain certifications for your products in place or something?

Ganesh Nayak: Not certification we have to submit the appropriate dossiers.

Ravi Mehta: Okay. So that would take time according to you?

Ganesh Nayak: Yeah, that is why I said 1.5 to 2 years, because till then we want to strengthen our brands, there is so much to be done on the Indian front.

Ravi Mehta: Okay fine. Okay thanks all the best.

Pankaj Patel: Thank you.

Moderator: Thank you sir for the question. We have a next question from Mr. Richard from JM Financials. Mr. Richard please go ahead.

Richard Liu: Sir, thanks for taking my question, just wanted to know in terms of if you were to look at your top 3 raw materials if you can guide us through how the cost trends have behaved in the past couple of months?

Anand Deo: Look normally what we do is we take annual contracts on these products. We do forward cover because it affects our bottom-line so significantly. So we normally do annual contracts for all our three key raw materials that is oil, aspartame and sucralose.

Richard Liu: Okay. And if you want to look at for comparison purpose I mean how did this swing in the first 6 months of this year and what was the nature of the swing in the, in the larger view we would look at FY2009 annualized, I mean what were the kind of swing you saw in these raw materials between the 2 periods?

Pankaj Patel: It will be very difficult to give it offhand but it has been reported we have made some savings especially in oil and to some extent in aspartame over last year.

Richard Liu: Okay. If I may ask what, out of this various volume growth number that you spelt out a couple of while back, what would be the volume growth component in those?

Ganesh Nayak: There was no major price increases so you can safely assume that the volume growth was almost same as value growth.

Richard Liu: Okay. In that case if I were to look at the increase in your COGS lines I mean against a 37% kind of a sales growth you have seen the cost growth of only 12%, assuming we take some kind of advantage as far as this Nutralite and the total mix is concerned that looks like a substantial saving that has come out of a cost reversal or let us say softening input cost, would that be the correct assumption?

Ganesh Nayak: No the basic factor was product mix and then the second factor was some reduction in the oil prices.

Richard Liu: Okay. So a large part of that let us say 25% point lower growth in COGS versus the top-line growth would be on account of the better product mix?

Ganesh Nayak: No that we cannot share how much was the share of reduction in the COGS because of product mix, because that would basically mean sharing the gross margin of each and every product.

Richard Liu: Okay, but it would be safe to assume that the 720 basis points of gross margin expansion that you have seen in the 2nd Quarter, the majority of it would be due to the products mix advantage?

Ganesh Nayak: Yes.

Richard Liu: Okay. And what is your outlook if any on, I know you have answered this a while back but how many more quarters can we expect the cover on this raw materials to last?

Pankaj Patel: The cover will continue till the year end, but the product mix will change season to season. And it is very unpredictable, as somebody asked about seasonality of the products, so it will change. We do not take on the annual cover as far as individual prices are concerned, but the contribution of different products in different quarters will be different.

Vishal Gor: See in the current quarter the share of EverYuth was highest because we have summer oriented products there. In winter season that is Quarter 3 end Quarter 4 we would have higher contribution coming in from Nutralite. So you may see some dip in the gross margins in those quarters. And top of that our advertisement spends are also not uniform quarter-to-quarter and that is why we have been saying continuously that we would be maintaining the overall annual OPM of about 20% plus but quarter-on-quarter it would be very difficult for us to guide you anything.

Richard Liu: Okay I take the point. And just last one on the margin part of business I mean if my numbers are correct I think the growth last year of full year FY2009 was somewhere in the region of 19% in terms of sales...?

Ganesh Nayak: No it was 27%.

Richard Liu: Okay 27% and you mentioned something with regard to?

Ganesh Nayak: You are saying sales growth or what?

Richard Lui: I am talking about the sales growth...?

Ganesh Nayak: The sales growth in FY2009 was 26% to 27%.

Richard Lui: Okay sure. And you mentioned something with regard to the other competitor of butter brand not being available in the market, but in spite of that we have still, we have just seen I would say, if I can use the term relatively muted growth of just 14% in this particular business?

Ganesh Nayak: Hello you are asking about FY2009 Nutralite growth or overall growth?

Richard Lui: FY2009 Nutralite growth.

Ganesh Nayak: Yeah it was 19%.

Richard Lui: Yeah sure, so what I was saying is you know I mean for a full year picture you see a growth of around 19% for this particular brand and for this particular quarter, I mean you mentioned at the beginning with regard to the penetration of one of the competitor butter brand being of shortage in the market, but in spite of this kind of benefit being available, the growth has apparently tapered off from 19% full year to 14% this quarter, what could that be attributable to?

Anand Deo: I think we had already mentioned that there are low priced competitors also active in the market. And bulk of the institutions have gone to those low priced competitors that is why you will see that differential of 19 and 14.

Richard Lui: Okay but is that a given or do we expect a reversal of this kind of an attack from the low price competitor, I mean is there significant reason to believe that this kind of an attack can be reversed in the near term?

Anand Deo: I think low price competitor is a part of life. We will have to live with it.

Richard Lui: And sir what would roughly you know at the MRP level be let us say if the price differential between your product and one of such low price competitor?

Anand Deo: About 30%.

Richard Lui: 30% premium for you.

Anand Deo: 30% premium, yeah we are more than them.

Richard Lui: Okay sure, right, thanks and all the best.

Moderator: Thank you for this question. Now our next question is from Nikhil from IDFC. Mr. Nikhil, please go ahead.

Mr. Nikhil: Hi, there are couple of things, one is you have mentioned a few times over the last few months about the targets of reaching 500 Crores over the next year 4 years period or I am just wondering where does that numbers really originate from given that means 15% compounded growth over that time period, which given the nuances of each of the brands that we are in most of the segments that we are, it seems to be fairly conservative so if you can just throw some light on that?

Ganesh Nayak: In FY2009 we had Rs.195 Crores sales, 500 Crores in 5 years would translate into more than a 20% growth.

Mr. Nikhil: Okay. I have been looking it from the current year onwards but anyways okay, but you feel pretty comfortable with that actual number or you were looking beyond that, because I presume these numbers just pertain to the existing portfolio or also take into account any addition that we do over the time period?

Ganesh Nayak: See what you are saying is right at this point in time the way things are going and if this continuous we should be meeting the target of 500 Crores in that particular year, we should be bettering that, to what extent, I do not think we would like to hazard a guess, but it will suffice to say that numbers will positively be achieved.

Mr. Nikhil: Second part is on the product category which is well I guess you have done pretty brilliantly in terms of establishing our brands in each of the spaces, but incrementally as the space becomes relevant and large, would not the core category guys come back in the space for example say Nutralite, Amul has already made some noise about Amul Lite and on the skincare side Garnier and L'Oreal of the world so incrementally would the space now given that the size of the businesses have increased from what it was say 2 to 3 years back and so on, would not the larger players come back and thereby put some more premium on getting the sales space for us, just wanted your thoughts on that one?

Anand Deo: Competition is part of life, you cannot wash it away so we will be there to fight the competition. All we can say that yes it is a growing category, there will be more brands coming in and we will have to keep maintain our shares and space.

Mr. Nikhil: Okay. I just wanted to get some thoughts for example say Amul getting into the Nutralite space, given that there is only a limited shelf space available what does it really take does it mean that we also move into other categories or does it mean that we obviously develop some more feedings in our product and so on, it is the cost of now growing from year on, going to be higher than that we have done in the.....?

Ganesh Nayak: Now there are three things we have, one it is that the Amul space then second is you said expansion of that and third you said is the cost. Now Amul Lite has been there it is not that they have just got into it they have made some more noise now but it has been there for several years, because their focus is on butter their focus is not on table margarine. So to that extent I do not think they can kind of fudge around with you know their focus. Coming to your second point it is obvious considering that we have business in the last three years so first phase was to establish and get an understanding of the margarine market. Now obviously we will be doing a lot of product expansions in that area if we have to grow that category and that applies not only for Nutralite but also for Everyuth as well as for Sugar Free as it is evident from our Sugar Free D'Lite and also the Menz range which we have launched in Everyuth. And coming to the cost when you launch a new product the cost is very high but when it comes to brand extension it can ride on the overall advertisement cost of that particular brand. So cost wise, margin wise I do not think there is going to be any issue.

Mr. Nikhil: Okay good, I want to congratulate and all the best to you.

Ganesh Nayak: Thank you.

Moderator: Thanks sir for the questions. We have our next question from Ravi Mehta from Ind Sec Securities, Mr. Mehta please go ahead.

Ravi Mehta: Just follow-up, if you can share the kind of launches under the brands, or does it mean that the launches which we will see would be more of the brand extensions?

Ganesh Nayak: No we cannot honestly tell you what kind of new products we would be launching for competition reason.

Ravi Mehta: And one thing, as far as the margin in Sugar Free is concerned can you share the differential between sucralose based and aspartame?

Ganesh Nayak: By and large there is not a big difference.

Ravi Mehta: Okay which would be more profitable?

Ganesh Nayak: We would hesitate to give you that information because see the competition is now watching us very closely and I do not want to weaken our pitch.

Ravi Mehta: And the other question was on the Sugar Free D'Lite, it was more of a visibility strategy but is the kind of response you are getting and you are planning it as a business, so what is the action on that front like?

Ganesh Nayak: I think you will have to wait for another 3 months and what unfolds in the next 3 months that I think you will get the answer yourself.

Ravi Mehta: And would that product continue to be aspartame based or you are planning sucralose based even in that Sugar Free D'Lite?

Anand Deo: It will be continue to remain aspartame based.

Ravi Mehta: Okay. And lastly on goodwill front, last year there has been some kind of adjustment from reserves, what is your guidance on that going ahead?

Vishal Gor: No Ravi we had already discussed this, we are not going to write-off any goodwill. So as a part our corporate policy of not to write-off the goodwill every year would continue. We would test it for impairment and if there is any impairment we would provide for the impairment loss.

Ravi Mehta: Okay, fine thanks.

Moderator: Thanks sir for this question. We have our next question from Sonal Kohli from AIM Capital. Please go ahead.

Sonal Kohli: I just wanted to recheck you mentioned that in the first 6 months of the year your ad spent was 27 Crores?

Amit Jain: It was Rs 37 crores.

Sonal Kohli: So what would be the corresponding number last year?

Amit Jain: Rs. 24 Crores.

Sonal Kohli: Okay thank you.

Moderator: We have our next question from Mr. Shreyas from IDFC. Mr. Shreyas please go ahead.

Mr. Shreyas: Hello this is in terms of cost item, there was an item on purchase of trading goods, it has been almost 25% of COGS what is that and in which category does it go?

Vishal Gor: See we do not have the manufacturing facility for Sugar Free and Everyuth so we get it manufactured through an external manufacturer and that is basically the cost of purchase on trading goods.

Mr. Shreyas: Okay fine.

Moderator: Thanks for your question. We have our next question from Anirudha Joshi from Anand Rathi. Please go ahead.

Anirudha Joshi: Hello sir, just one follow-up question, where do we see the revenue mix changing after maybe 3 year for after 5 years, means do you see the same revenue mix remaining there or it would be more in Everyuth kind of rather than Sugar Free?

Anand Deo: It will remain same more or less.

Anirudha Joshi: Sorry.

Pankaj Patel: It will remain same and we said that the growth rates of the categories are virtually 15% to 30% so our product mix will remain more or less the same.

Anirudha Joshi: Okay so you do not see much changes in the revenue mix also and accordingly no major changes in the margins also?

Pankaj Patel: Yeah.

Anirudha Joshi: Okay thank you.

Moderator: Thanks for this question. As there are no more questions I would now like to handover the call to Mr. Pankaj Patel. Mr. Patel, please go ahead.

Pankaj Patel: Thank you very much for joining for the call and wish you all a Happy Diwali and see you at the next quarterly results.

Moderator: Thank you sir. Ladies and gentleman this conclude the conference for today. Thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect your lines now. Thank you and have a great evening.