Zydus Wellness Limited
Post Results Conference Call
(January 25, 2010)

Moderator: Good Afternoon, Ladies and Gentleman thank you for standing by. This is Manoj, the moderator for your conference call today. Welcome to the conference call of Zydus Wellness Limited. We have with us today Mr. Pankaj Patel, Chairman from Zydus Wellness Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a 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 the post-result Q&A and discussion session for third quarter of 2009-10.

We had another quarter of all-round performance from all the pillar brands, which helped us, strengthen our position in the wellness segment, improve business health and post better results.

Sugar Free, our flagship brand, continued to tread on the growth track. We have been successful in withstanding against the competing brands and both Sugar Free Gold, our aspartame based variant, and Sugar Free Natura, the Sucralose based variant, maintained their respective market shares and growth rates.

EverYuth range of niche skin-care products also continued to grow with decent contributions from all the variants in the category. Nutralite, India's largest selling table top margarine, continued to witness surge in demand due to shortage of premium range butter in the retail segment and also due to our promotional campaigns, which helped Nutralite post robust growth.

Now let me take you through broad financial highlights.

During the quarter ended 31st December, 2009,

- Sales grew by 42 % year-on-year to Rs. 751 Mio. from Rs. 530 Mio. last year. All the three brands contributed to this performance.

- Increase in marketing and other expenses, which was mainly to promote new variants and existing ones, were more than offset by improvement in gross margins, which increased by 4.6% - from 63.1% last year to 67.7%. This was achieved mainly due to better product mix and reduced material rates for some of the products.

- This has resulted in an increase in Earning Before Interest, Depreciation and Tax, which was up by 92 % year-on-year to Rs. 207 Mio. from Rs. 108 Mio. last year. EBIDT margin as % to sales increased to 27.5% from 20.3% last year.

- Profit before tax was up by 105% to Rs. 217 Mio. from Rs. 106 Mio. last year.

- Net profit was up by 105 % to Rs. 143 Mio. from Rs. 70 Mio. last year, and in line, EPS also grew by 105 % to Rs. 3.67 per share from Rs. 1.78 last year.

Thank you and we will now start the Q&A session. We have with us Mr. Nitin Parekh, CFO, 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: Ladies and Gentlemen we will now begin the question and answer session, if you have a question please press * and 1 on your push button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and if you wish to withdraw your request you may do so by pressing the # key. Our first question comes from Mr. Ashish from Sharekhan. Please go ahead sir.

Ashish: I just wanted to know other expenses have been fluctuating quite a bit I think the base quarter last year. That was pretty higher compared as a percentage to sale. So can the management provide us some outlook on how this item of cost is going to turn up going ahead.

Pankaj Patel: Look these are because of the advertisements. We do not have all quarters equal so far as advertisement costs go. So this could be changing depending upon the seasons of the business.

Ashish: But on an annual basis we would be having some kind of target that we would maintain it at this percentage of sales.

Pankaj Patel: That we have been repeatedly saying that you at the end of the day that overall we would be maintaining the EBIDTA margins of last year of over 20%.

Ashish: Can you give us some sense of how our three brands have done as far as the growth is concerned in the concerned quarter Q3 FY10.

Pankaj Patel: All the three brands have grown well that is what I said in my opening remark. For commercial reasons, we are not giving any specific brand sales volume or growth. But all of them have grown at high rate inline with our sales growth

Ashish: And on the material cost what is the outlook, it continues to remain benign for us.

Pankaj Patel: At this moment material cost continues to look benign.

Ashish: And what about the competition that is coming in. We have seen lot of new brands that have come as competition to Sugar Free and Nutrilite. So can you give some sense of how the pricing differential or the quality differential between the new products that have entered the market and your products so that our growth rate remain the same.

Pankaj patel: I guess more entrants have actually helped us to expand the market because of visibility of the segment as the categories have increased tremendously and we are seeing clearly that we are benefiting most out of that if you look, our growth are better than the market growth and that clearly helps us to consolidate our market position and market shares. We believe that we have a brand which has been nurtured for very long period as far as Sugar Free is concerned and also has lots of variants which is significant advantage to competition. When we look at Nutrilite, we have a product which is much better than any of the competitive products available currently in the market and you will appreciate that the taste and texture are very important factors. We believe we have a superior product than all the other products available and that all actually is helping us to fight the competition.

Ashish: And the new product that was launched EverYuth Menz and D'lite. What has been the status of these two products? Can you tell us what the growth traction is there and what is the plan to take them forward?

Pankaj Patel: They are in very niche category and they are doing well as per trend expected. We are not able to share the exact numbers and the growth rate etc., but they are doing well.

Ashish: Okay, what is the kind of traction that we are seeing? Are they going to be major part or these are going to be add-on to the entire portfolio product that we have?

Pankaj Patel: It will be add on.

Ashish: Okay what is the cash on book as of now?

Pankaj patel: Rs. 101 Crores.

Ashish: On the CAPEX, we were setting up facility in Sikkim, so what is the status on that?

Pankaj patel: We have started construction of the facility and our target is to commission the plant in the next financial year.

Ashish: FY11, by when second half of it?

PankaJ Patel: We should be able to commission by the end of first quarter.

Ashish: At the end of first quarter by FY11? Okay. What is the CAPEX plan for that sir?

PankaJ patel: We expect CAPEX of about 40 Crore Rupees.

Ashish: This will have the fiscal benefits.

Pankaj Patel: Yes.

Ahish: That will lead to some savings in Excise and tax for us?

Pankaj Patel: That will lead to mainly saving in income tax.

Ashish: I will come up with other questions afterwards.

Pankaj Patel: Thank you.

Moderator: Thank you for your questions Mr. Ashish. Our next question comes from Ravi Mehta from Indsec. Please go ahead sir.

Ravi Mehta: Good evening sir.

Pankaj Patel: Good evening.

Ravi Mehta: Good set of numbers, congratulations. Just wanted to understand that you do not share generally the business mix and the growth rate because of your trade secrets sir, but having a look at the numbers and kind of increasing margins which we see consistently, is it correct to read that there is lot of growth in the Sugar Free and EverYuth brands which are high margins compared to Nutrilite or may be the mix which you started with this thing more towards the Sugar Free and EverYuth. Is it correct to read this or..?

Pankaj Patel: I do not think so. I think the mix remains pretty much similar. All the 3 brands are growing equally well. I cannot give you exact percentage. I guess this is basically effect of both the product mix and also reduction in the raw material cost and that is basically seeing the margin improvement.

Ravi Mehta: So, the reduction in raw material cost is also being seen for Nutrilite?

Pankaj Patel: Yes.

Ravi Mehta: Something you can share about like the incremental margins which you are gaining. What you can attribute to raw material savings and what you can attribute to change in mix or something if would be..?

Pankaj Patel: I do not have specific number in front of me to give you. I think Mr. Vishal Gor will be able to provide you offline.

Ravi Mehta: Thanks sir, all the best.

Pankaj Patel: Thank you.

Moderator: Thank you for your question Mr. Ravi. Our next question comes from Sangam from Alfa Advisors-Bombay. Please go ahead.

Sangam: Good evening sir. Congratulations on a great set of numbers. My question is pertaining to when we spoke about the raw material costs reducing this quarter and contributing to the margin expansion. Could you comment on the outlook for the raw material prices? How they are been in the month of January and going forward, what should one be looking at?

Pankaj Patel: I think we continue seeing the raw material benefit being available and we have visibility for at least next 2 to 3 months, there is no change in the raw material costs, we see.

Sangam: Sir, is there any seasonality impact in any of your product segments which one should be aware of?

Pankaj Patel: I have to spoken repeatedly that we have main three pillar brands and they have their own different seasons. Like Nutrilite, the winter season is the highest season. Sugar Free is all round the year same season. There is no seasonality and EverYuth has some seasons which are as per the festivals and other things. It is very difficult to say that the company has any seasonal variations.

Sangam: In terms of your new product launches like one of my colleagues earlier asking you could you share with us what are your plans for the coming quarters in terms of new product or anything?

Pankaj Patel: We have plans to launch new products but you will know only when we launch the product because of commercial reason we are not going to tell exactly when we are launching a product and what we are launching?

Sangam: I mean in any particular segment that you are looking at anything else?

Pankaj Patel: We have 3 brands, so we will be basically launching products in all the three categories.

Sangam: Thanks a lot.

Moderator: Thank you for your question Mr. Sangam. Our next question comes from Mr. Richard Leve from J Organisation. Please go ahead sir.

Richard Leve: Hi, thanks to you. My question is I just wanted kind of book keeping record, if I remember correctly I think you mentioned in the last quarters call that the cash on hand was around 72 Crores which is around 100 Crores at this time, against which you had a cash profit of roughly around 17 Crores this quarter? Where is the incremental amount coming from?

Pankaj Patel: Basically, the cash increases because of the cash profit as well as the negative working capital because we do not require any working capital in this business. We get the money from the customer in advance while we get some credit from the suppliers. So, the differential amount between the cash increase and the cash profit is mainly because of negative working capital.

Richard Leve: Okay, got it, so that is now 10 Crores of cash that the business threw up on their own through working capitals and I mean considering your reluctance to share the category wise growth, but one thing I just wanted to find out and more also coming from last quarters call where I remember there was this Amul Butter shortage in the market even last quarter, then but in spite of that, I think Nutrilite sales growth was relatively muted to 14% , if I got my numbers correct. Is the growth this time in the same range or they have substantially improved?

Pankaj Patel: It has improved from that number. I also mentioned our overall business grew by about 40% and all the brands I have grown in the similar range. I cannot give you exact number. We definitely have benefited because of shortage of the butter in the market. I guess, a couple of Crore Rupee sale would have been extra in the quarter because of the shortage also.

Richard Leve: Okay, but what is the difference between last quarter and now? I mean the butter shortage was there even if last quarter, but you have a relatively better growth this time with the situation remaining the same. So, what is really changed between the two quarters?

Pankaj Patel: I do not think the kind of butter shortage we saw this quarter was there last quarter number one and second is all our brands have shown a better growth. I think the competition coming in the market is expanding and we being the leader are benefiting the most out of it.

Richard Leve: Okay, got it and I mean again arising from last time, I remember you mentioning on the call that a part of the gross margin benefit that we have seen on a comparative basis was because of your Nutrilite sale being relatively lower as compared to the base year. Now considering that the gross margin level is more or less intact quarter on quarter. What was the extra kicker that has come in during the quarter in terms of gross margin benefit?

Pankaj Patel: I think product mix again basically because the high margin SKUs have sold more. Also reduction in the raw material prices have helped us achieve higher margins.

Richard Leve: Would you able to share with us the market share detail for the various products?

Pankaj Patel: I think that should not be a problem and Sugar Free, we are the leader with about 81% market share and what was the truth in the last quarter is continuing. So, in spite of competition, we have maintained market share. Same thing is true in case of EverYuth in all the 3 brands that is face wash, scrub, and peel-off; we have maintained our market share and Nutrilite as we have seen that we have only improved our market shares.

Richard Leve: And how much will that be?

Pankaj Patel: Look for Nutrilite market data is not available. So, we only go by judgment, so I do not have sources to confirm. Sugar Free and EverYuth, we have source.

Richard Leve: And how much would be the EverYuth share number?

Pankaj Patel: EverYuth, we have different categories. In peel-offs, we have 97%, in scrubs, we have 70%, while in face washes we have 15% market share.

Richard Leve: And just last one if I may, just wanted to know your advertisement and marketing cost, the one that corresponds to the 52 Crore number that was there for H1. How much would that have been during the quarter?

Pankaj Patel: Advertisements spend for the third quarter was 16 Crore rupees.

Richard Leve: And does it include marketing?

Pankaj Patel: Marketing is separate. Total marketing cost was 24 Crore rupees. Out of which, advertisement was 16 Crore rupees.

Richard Leve: And more from the strategic perspective, just want to know if competition coming into your category, is it better or adverse for you?

Pankaj Patel: I guess the competition coming in is actually helping the category because it has a lot of opportunity to actually expand and competition is actually helping us to expand the overall category and visibility.

Richard Leve: What do you think kind of some of the large guys, talking about personal care from getting aggressive into this category because I mean if you are talking about 96% market share in Peel-offs and the kind of numbers even in the other sub-segment, what in your view is keeping the big boys away from playing in this field?

Pankaj Patel: I think we are in the competitive world, so we cannot keep anybody away. That is not the way we work. So, we basically create product innovations. We will keep on nurturing the brand through various activities and that should ensure that even if competition comes, we should be able to continue growing.

Richard Leve: Sure and the last one is out of this 42% odd sales growth, how much would have been volume driven?

Pankaj Patel: It is all volume driven. We have not done any price change during this quarter.

Richard Leve: Alright. Thanks and all the best.

Moderator: Thank you for your question Mr. Richard. Our next question comes from Mr. Ashish from Sharekhan. Please go ahead sir.

Ashish: Just wanted to check any acquisitions that we would be having in terms of brands or smaller companies?

Pankaj Patel: Currently, none of the acquisitions is in active consideration.

Ashish: On expansion of our products basically just wanted to understand where are we in terms of reach as of now and what is the scope to grow in terms of reach as in metros and tier II and tier III cities. Where are we placed right now?

Pankaj Patel: Right now, we are catering to about 850 towns. Now that means that we are covering towns up to 50,000 population. I think yes, as the demand grows, the requirement grows, we will be growing, but 850 towns is a very good number.

Ashish: Okay, that is from my side. Thank you.

Moderator: Thank you for your question Mr. Ashish. Our next question comes from Mr. Ritesh Poladia from Dolat Capital. Please go ahead sir.

Ritesh Poladia: Good evening sir. With 100 Crore have you formulated any dividend, payout policy?

Pankaj Patel: As a group, we have a dividend pay out policy under which we are usually declaring a dividend which costs to companies about one-third. So one-third goes to dividend and two-third remains with the company for future plans. We follow this policy up till now and we intend to follow the same policy for the end of 2012 as well.

Ritesh Poladia: And we had passed some postal ballot in September for the financing business. What could be the status of that?

Pankaj Patel: That postal ballot processing is over. As I mentioned last time, this was basically the enabling amendment. Since we are going to have cash on hand and we can deploy it into some other assets which can get us better return. So, that is why we have made that enabling resolution. However, we have not invested anything in any of these areas yet and the money is currently in the bank fixed deposits.

Ritesh Poladia: That is all from my side. Thank you.

Moderator: Thank you for your question Mr. Ritesh. Our next question comes from Mitul from Lucky Security. Please go ahead.

Mitul: Good evening sir and congratulations on a very good set of numbers. Sir, my question is on your tax rate since bulk of production is going to come out from Sikkim, what would be the tax rate then because currently we are paying full tax, so how much would it?

Pankaj Patel: We will be in the MAT, what will be the tax rate only will know when the budget is out on February 27, 2010.

Mitul: And sir on introduction of future products in the same line, how much money we would be spending that point of time?

Pankaj Patel: I think our growth on spending will be inline with the growth of the business. So, we do not expect significant jump in expenditure because we had this advantage. We have three capable brand names with number of products under that. When we actually advertise one of the SKUs, automatically it benefits the whole category. So, basically as a result we have synergies in terms of advertisement and as a result our advertisement expenditure would be growing in line with the sales, but not abnormally growing up.

Mitul: What would be your total strength at this point of time in terms of number of employees and can you break it up between the sales and marketing?

Pankaj Patel: I do not have the number in front of me. I would request Mr. Vishal Gor to provide you that information.

Mitul: Okay.

Moderator; Mr. Mitul, are you through with your question?

Mitul: Yes, i am through.

Moderator: Thank you sir. Our next question comes from Mr. Amit from Mangal Keshav Sec. Please go ahead sir.

Amit: Thank you very much. Just taking three of our key products, Nutrilite, Sugar Free, and EverYuth. If we have to look at the capacity utilization that we have, can you give us a sense product wise please?

Pankaj Patel: Currently, these products are produced on a third party as far as Nutrilite is concerned, we have our own plant and we are building a new plant in Sikkim which will significantly increase the capacity as far as EverYuth and Sugar Free is concerned. So, I think I can give you that is much information at this moment.

Amit: Okay and appreciate that. Now just in case I was trying to understand what is our ability to ramp a production in case demand moves up short term. I mean how flexible is that production schedule for us?

Pankaj Patel: We have capacity to actually produce 50-60% more from current level without investment and then if we have to do more then we might have invest to in facility to produce more, but our contract manufactures are capable of doing that.

Amit: Okay, thank you very much.

Moderator: Thank you for your question Mr. Amit. Our next question comes from Mr. Balaknath from Edelwise. Please go ahead sir.

Balaknath: I want to know what is the market size of Sugar Free and what is the growth rate sir?

Pankaj Patel: I currently do not have the information with me.

Balaknath: Can you just say in past what is the growth rate sir?

Pankaj Patel: Sorry growth rate?

Balaknath; Yes.

Pankaj Patel: Category growth rate is about 25%.

Balaknath: Thank you sir, that is all.

Moderator: Thank you for your question Mr. Balaknath. Ladies and gentleman, if you have any further question, please press * and 1 on your pushbutton phone. Our next question comes from Mr. Gaurav Jain from Alok Capital. Please go ahead sir.

Gaurav Jain: Sir, in your presentation you mentioned that the target is to be 500 Crores company by 2013. Category is growing at 25%, 30%, and would not you hit 500 Crores much earlier?

Pankaj Patel: We hope to do so, but currently our guidance remains that we will hit 500 Crore in 2013-14.

Gaurav Jain: Your 500 Crore target is organic growth, this is without….

Pankaj Patel: Pure organic growth.

Gaurav Jain: What would be your margins at that level because you will have some operating leverage, some SG&A efficiency, your marketing as a percentage of sales will come down. Is that the right way to think about it or your margins might go down because raw material costs will go up.

Pankaj Patel: No, I think it is fair to assume that our margins should improve as we grow. I think if we grow and if we do not improve our efficiency, then we would not consider ourselves as a good manager.

Gaurav Jain: Somebody asked the question earlier about whether your business is seasonal, if it is not seasonal then are you suggesting that the revenues that you have reported this quarter is the new base of your quarterly revenues going forward?

Pankaj Patel: To some extent, I would agree with you, but I cannot exactly say that it is, but it is going to remain in that range as far as base is concerned.

Gaurav Jain: What are your biggest raw material costs drivers, is it oil based or?

Pankaj Patel: Basically, chemicals and oil-based products. Packaging material is plastic.

Gaurav Jain: Will you not benefit in terms of excise duty when you move to Sikkim?

Pankaj Patel: No, not really because we were anyhow producing Sugar Free and EverYuth in the excise-free zone.

Gaurav Jain: So, you will lose the benefits in the current zones that you have?

Pankaj Patel: Sorry.

Gaurav Jain: When do you lose the benefit in the excise-free zone?

Pankaj Patel: We are moving to the Sikkim now, so excise benefit will be available subsequent to there for the next 10 years as per the guidelines.

Gaurav Jain: Okay, thank you.

Moderator: Thank you for your question Mr. Gaurav. Our next question comes from Ashish from Sharekhan. Please go ahead sir.

Ashish: Sir, on the second facility I just wanted to understand is it going to be only for EverYuth and Sugar Free or is it to the entire production will be carried out from there?

Pankaj Patel: No, only EverYuth and Sugar Free will be produced there. Nutrilite, we already have a facility at Ahmedabad.

Ashish: So, this Ahmedabad facility does not have any fiscal benefits.

Pankaj Patel: No, there will not be any fiscal benefit for Ahmedabad facility.

Ashish: Sikkim will have those benefits, so the blended rate on income tax will come down because of that.

Pankaj Patel: Yes. Weighted average.

Ashish: The excise benefits will also be there. Does the company plan to retain them or how does it work?

Pankaj Patel: Depends on market element because we are already producing this product in excise-free zone so as such we have no excise so that is going to be neutral, I would say.

Ashish: So, our third party manufacturers are already producing them in excise-free zones.

Pankaj Patel: Yes.

Ashish: So, that benefit is being passed on to us that way.

Pankaj Patel: Yes.

Ashish: And sir, just wanted to understand on the distribution network. Are we using the network of the parent company for our products?

Pankaj Patel: No, we have an independent distribution network.

Ashish: Okay, thank you.

Moderator: Thank you for your question Mr. Ashish. Our next question comes from Mr. Richard Leve from J M Financials. Please go ahead.

Richard Leve: Just a followup, if I would look at the A & P spend including marketing of about 24 Crores for the quarter that is roughly quite the same as the run rate that you have clocked in H1 of this year, but I think the second quarter in particular had some spends relating to new launches with respect to Menz Skin Care. Was there any significant large launch in this quarter as well?

Pankaj Patel: No.

Richard Leve: So, I mean on a like-to-like basis spends have actually gone up.

Pankaj Patel: We advertised products in different time zones based on the festival seasons and things like that so something will be advertised during Diwali period because there is a period where a lot of consumption will be there, so you will see in some quarter that the advertisement will be higher and some quarter the advertisement will be lower.

Richard Leve: Okay and what would be the corresponding number for the same quarter last year?

Pankaj Patel: That is what I was about to explain that you should not be looking at the advertisement spend quarter-on-quarter, but year-on-year because last year corresponding quarter the advertisement spend was Rs. 11 Crore, so that was also higher compared to the first and second quarter of last year. So, advertisement spend fluctuates from quarter-to-quarter. So, 16 Crore versus 11 Crore of last year is about 50% growth and that corresponds to our sales also now.

Richard Leve: And was this 24 Crores including marketing spends number, how much would it be in the same quarter last year?

Pankaj Patel: It was Rs. 17 Crore.

Richard Leve: And you are still comfortable at maintaining an operating margin target of around 20%.

Pankaj Patel: Right.

Richard Leve: Thanks, that is from my side.

Moderator: Thank you for your question from Mr. Richard. Our next question comes from Mr. Punit Sarawgi from Arisaig Partners. Please go ahead sir.

Punit Sarawgi: Thank you for taking the question. Could you give us a sense of who are the main competitors in your 3 segments of operation and how are their products priced as compared to yours. Are they at premium or are they at discount to what you products retail at?

Pankaj Patel: We have major market share in all. The market shares are anything between 70 to 80%, so we cannot say there is a major competitor. They are all same and the price levels are similar on some product, they have market schemes where they offer one over one free and those kind of things. In some product in particular segment of institutions, they offer some discount rates, but apart from that, there is not much difference in the prices.

Punit Sarawgi: As one would assume as the market size becomes bigger, some of the larger players in the industry would come in our competition and do you foresee a situation where you might have to take price cuts in order to sustain the top-line growth that you have been witnessing?

Pankaj Patel: We do not see that at this moment. We have number of players who have come in up till now and many of them are vanished. So, at the same time, I do not want to take competition lightly, so I do not want to say that nobody can succeed. We will be watchful, but we do not see that we have to cut prices or something to achieve the volume growth.

Punit Sarawgi: Just one last question on your distribution set up, could you give us a sense of how many outlets do you reach and what is the sort of potential that you could reach to and what sort of steps are you taking in order to reach your target number of outlets?

Pankaj Patel: As I told you earlier to a question we are covering about 850 towns and I think as far as number of towns is concerned that is quite sufficient and as far as number of outlets are concerned with our own effort, we cover about 1.5 lakh outlets, but our products are available in 3 times more than that number because lot of wholesale and distributor redistribution efforts are included. So, our coverage is quite sufficient to give us the sales growth which we have been delivering.

Punit Sarawgi: Okay and just finally one last question, two of your segments, the Sugar Free segment and the Nutrilite segment it sort of requires your customers to be educated about the benefits of using such products. So, do you take some sort of, do you organize awareness campaigns and is that structured? I am just trying to figure out…

Pankaj Patel: We do below the line marketing activities, this includes also some awareness campaigns, some sampling of the products, some special aids available for like recipe books and things like that. So, we do all those kind of activities, yes.

Punit Sarawgi: And how much do you spend annually on those sort of activities?

Pankaj Patel: I do not have a number specifically for that.

Punit Sarawgi: Okay, great thank you.

Moderator: Thank you for your question Mr. Punit. Our next question comes from Mr. Amneesh Agarwal from Motilal Oswal. Please go ahead sir.

Amneesh Agarwal: Sir, I have a couple of questions. The first one being that beyond the 3 product categories into which we are present as of now, what are the other potential product categories which we would get flowing in future?

Pankaj Patel: Currently, I think we have a wide range available in this category itself, so we do not intend to launch 4th brand at this moment. Under this brands we will be adding number of products.

Amneesh Agarwal: No, that is fine. What my question exactly is that for example in the EverYuth brand which is a skin care brand, so is there possibility of our going into new product lines, just beyond your face packs and masks, etc.

Pankaj Patel: We will go into other product lines, but under EverYuth brand name.

Amneesh Agarwal: Even in skin creams and all this stuff. Okay and my second question is that once on your Sikkim facility goes on stream so what could be your blended tax rate in FY11 or FY12?

Pankaj Patel: It depends upon what tax rate the Finance Minister announces in this budget.

Amneesh Agarwal: No at the current levels which are..?

Pankaj Patel: The current levels, it should be around 16%-17%.

Amneesh Agarwal: So, it will come down to MAT rate then.

Pankaj Patel: Yes.

Amneesh Agarwal: Okay sir, thanks a lot.

Moderator: Thank you for your question Mr. Amneesh. Our next question comes from Ashwariya Deepak from Alchmy Capital. Please go ahead.

Ashwariya Deepak: Good evening sir. Just wanted to know what is your current capacity as well as the capacity which will be adding in Sikkim in terms of tons or whatsoever?

Pankaj Patel: As I mentioned we do not have manufacturing facility for Sugar Free and EverYuth. We are setting up in Sikkim which will basically take care of our next 4 to 5 years' requirement of Sugar Free and EverYuth.

Aishwariya Deepak: Okay, but what will be the capacity of the Sikkim plant, how much will be able to produce?

Pankaj Patel: We will be able to produce to sustainable growth for next 4 to 5 years.

Aishwarya Deepak: And what kind of growth you are expecting then?

Pankaj Patel: We are expecting growth of about 30%.

Aishwarya Deepak: And sir just wondering that how you position yourself in this Youthcare segment.

Pankaj Patel: I am sorry.

Aishwarya Patel: In EverYuth segment, how you are positioning yourself? In Sugar Free, you are the leaders and same goes for Nutrilite.

Pankaj Patel: In EverYuth segment, we have always tried to build our brands in niche categories. So we basically created all this face pack and face wash and face scrub area and created niche in that area and we became a market leader as far as that particular sub-segment of the segment is concerned. Similarly, we recently launched Menz range and we believe that we are moving towards becoming a significant player as far as men's cosmetic range is concerned. So, that is the way we are basically launching products. So, each of the sub-segment we enter our goal would be basically to become category leader.

Aishwarya Deepak: And if you can please explain how you are differentiating the products with the other products?

Pankaj Patel: By way of some product attributes and the quality of the products.

Aishwarya Deepak: Thank you sir.

Moderator: Thank you for your question Mr. Deepak. Our next question comes from Mr. Manoj from Kotak. Please go ahead sir.

Manoj: Hi sir, absolutely stunning set of numbers. Just one small clarification on the seasonality in the business. When I look at the 3Q FY09 sales, then 4Q FY09 because I am talking about the December quarter last year and the March quarter of last year, I think the sales is actually became 54 Crores to 45 Crores. Was there any specific reason in terms there is no seasonality I would have assumed that….

Pankaj Patel: To some extent, there is always a seasonality, so you cannot say there is zero seasonality. Nutrilite sells more in the winter season than in summer season for example. So, there is some extent there is a seasonality involved. Some of the face scrub and face washes or face packs are used more in summer. Only Sugar Free does not have seasonality. As a result, you will see some fluctuation in the sale from quarter-to-quarter.

Manoj: Fair enough. But was there any one-off launches, re-launches anything sitting in the base let say last year either in quarter 3 or quarter 4.

Pankaj Patel: No.

Manoj: Okay what I am trying to get a sense in terms of let say if I am to split full year in to four and then apply an annualized growth rate what I am trying to say that if there is no seasonality or rather this trend continues then it is fairly to say what would be the next quarter numbers?

Pankaj Patel: We would be in that range but we cannot give you the exact number.

Manoj: Fair enough, so broadly you are seeing that kind of trend we can see.

Pankaj Patel: It is not very far away from that but again we cannot say that. You have to also understand that sales force is completing their annual target and everything so they will also basically we looking at April sale more than March, that all happens as it the part of the healthy business practice, so we do not mind doing that.

Manoj: Sure sir. Thanks a lot.

Moderator: Thank you for your question Mr. Manoj. Our next question comes from Mr. Ashish from Sharekhan. Please go ahead.

Ashish: One last question on the raw material front, you gave us sense it is oil based products but specifically what should we look at which raw material should be tracked so we get an idea about your raw material costs, Is it palm oil that is more important the substantial chunk of it.

Pankaj Patel: It is one of the components, not all that but it is plastics, it is oil, it is also some other chemicals. It is all of that. We continuously work on finding better quality material, better price materials so our efforts are always there to ensure that we are able to maintain our price level.

Ashish: For Nutrilite, we should be having palm oil derivatives, that would be the raw material.

Pankaj Patel: It is one of the raw materials.

Ashish: Okay and for other diverse set of chemicals.

Pankaj Patel: And also plastic and all the products.

Ashish: Okay, but is there any substantial variation in the raw materials apart from the palm oil.

Pankaj Patel: We are not seeing much fluctuation in the prices.

Ashish: Okay, thank you.

Moderator: Thank you for your question Mr. Ashish. Our next question comes from Saurabh Pant from SBI Mutual Funds. Please go ahead sir.

Saurabh Pant: Hello Good afternoon sir. Just one question. We had actually plans of lending our surplus cash to our group company in order to get a high yield on the cash sitting on books. What is the status on that, how much have we given as an advance to group companies. I think in the memorandum of association, you have included this as a business segment, so how we accounted for the same.

Pankaj Patel: We have not given any cash to group companies yet, so all the money is lying in bank but an enabling resolution has been passed so that tomorrow if a lot of cash is available and we want to get better return, there is a possibility to basically to do leasing of equipment and make more money in the return. So, that is the way we made only an enabling provision but we have not done anything in that area.

Saurabh Pant: But, is there an intention for…

Pankaj Patel: There is no plan to deploy the money.

Saurabh Pant: Alright thank you. Thanks a lot

Moderator: Thank you for your question Mr. Saurabh. Our next question comes from Mr. Richard Leve from J Organisation. Please go ahead sir.

Richard Leve: Sorry one from my end. If I were to look at the raw material angle for the 3 categories, if you would be able to share with us index to 100 for or let us say same quarter last year how would the raw material index have behaved this quarter?

Pankaj patel: Very interesting question, but unfortunately I do not have the data, so I would request Vishal to share this information with you after he has prepared that.

Richard Leve: Sure thanks but just very roughly would it have fallen, is it below 100?

Pankaj patel: I think it is same. I think it has not fallen significantly. Basically, lot of advantage has happened because of product mix as I mentioned before, but I do not have exact number in front of me that I can tell you that this much is because of price, and this much is because of product mix.

Ricahrd Leve: Okay I look forward to that from Vishal.

Moderator: Thank you for your question Mr. Richard. Our next question comes from Mr. Aishwarya Deepak from Alchmy Capital. Please go ahead sir.

Aishwarya Deepak: One followup question. I want to know the mix of the 3 different segment products in your total revenue whether it is the last year or current year irrespective of that.

Pankaj Patel: I think the moment I give will you, you will know how much sale each segment has and all that. So, as a result we are not.

Aishwarya Deepak: Okay sir, thank you.

Moderator: Thank you for your question Mr. Deepak. Participants if you have any further question, please press * and 1 on your pushbutton phone. As there are no more questions, I would now like to hand over the conference to Mr. Pankaj Patel. Please go ahead sir.

Pankaj Patel: Thank you very much for joining us for the call and have a good evening.

Moderator: Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect your lines now. Thank you.