



“Jyothy Laboratories Limited Conference Call”

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**MODERATORS: MR. M. P. RAMACHANDRAN, MANAGING DIRECTOR,
JYOTHY LABORATORIES LIMITED
MR. ULLAS KAMATH, DEPUTY MANAGING DIRECTOR,
JYOTHY LABORATORIES LIMITED**

Moderator Ladies and gentlemen, good evening and welcome to the Jyothy Laboratories Limited Q3FY10 performance conference call. We have with us here Mr. M.P. Ramachandran, Chairman and Managing Director and Mr. Ullas Kamath, Deputy Managing Director of Jyothy Laboratories limited. As a reminder, for the duration of this presentation all participants are in the listen-only mode and this conference is being recorded. After the presentation there will be an opportunity to ask questions. Should anyone need any assistance during this conference call they may signal an operator by pressing ‘*’ then ‘0’ on their touchtone telephone. At this time I would like to hand the conference over to Mr. M.P. Ramachandran, Chairman and Managing Director of Jyothy Laboratories. Thank you. And over to you, sir.

M.P. Ramachandran Ladies and gentlemen I am very glad to talk to all of you over this conference call for the first time.

Now, in the last quarter we have made a growth of about 13.5% over the top-line to Rs.135 crore and profit before tax has grown 18% to Rs.19.3 crore compared to previous year of Rs.16.29 crore. The net profit after tax has grown by 24.97% to Rs.16.84 crore. There is good savings as the tax rate has decreased from 17.28% to 12.75% because of our Uttaranchal unit which started at full scale production.

If you look into the nine months ended 31st December 09, the sales growth had been 26.16% to Rs.385 crore. The profit before tax has grown to Rs.66.1 crore, a growth of 46.26% compared to Rs.45.17 crore last year. The net profit for the nine months has grown to Rs.52.94 crore from Rs.36.6 crore, an increase of 44.65%.

One of the important milestones achieved during this quarter is that we have entered into an agreement for a technology by DRDO that is to be manufactured and marketed as Diethyl Phenylacetamide which is one of the newest molecule mosquito repellent. This is an exclusive agreement and the entire authority for marketing will be taken by Jyothy Laboratories Limited. Now, I hand over to Mr. Ullas Kamath, who will give you detailed information.

Ullas Kamath

Good evening, everybody. This is Ullas Kamath here. This is the first time as our M.D. said that we are having this quarterly conference call but otherwise every time we used to meet you at analyst meets. Because of the paucity of time we felt we can do this conference call.

Jyothy Laboratories Limited is into Fabricare, mosquito repellent and dish wash bar. And mosquito repellent business is an off-season in the quarter of December. So when you compare quarter-to-quarter on an annualized basis, the mosquito season will pick up from February. So quarter ending March 2010 will really see the mosquito coil sales. When compared to the same period last time the growth has been around 14% on the top-line and 25% on net profit. But if you take the nine months detail the growth has been 26% on the top-line and the bottom-line growth has been over 45%. This bottom-line growth of 45% is mainly because last time we had increased cost of input but price of some of these materials are going up steadily by 2-3% points but we are able to maintain this by increasing our EBITDA margin from 15.65% to 16.18% during the quarter and going forward probably we will be able to take it further up maybe by a percentage point. EPS in the current quarter has gone up from Rs.1.86 to Rs.2.32. Nine months EPS stood at Rs7.29.

So, overall the growth is in line with what you have anticipated. Most of the growth has come from rural India. As of now the composition between the rural and urban is more or less in the range of 66-34. But lot of demand is coming from rural India and going forward we expect the same trend to continue both from rural and urban and as our M.D. just explained to you on the DRDO technology it is heartening to know that it is by invitation by the Government of India because of our hold on the rural market. We have got the exclusive rights apart from Africa and all other countries in the world and it is a patented technology. It is a home-grown technology by defense and it has been tested on the soldiers who are guarding our borders for the last 8-10 years. It is not a new molecule; it has been in the market. Technically speaking, there is an active ingredient of the molecule in all forms- lotion, cream and spray. So this, we feel that going forward will be a very big growth driver in mosquito repellent business because as of now all the items which is available, the format is coil, liquid or vaporizers or aerosol, all mainly for indoor application. The one which we are talking about now will be mainly used for outdoor application. Today there is no protection of the children going to the school from dengue, Chikungunya, and malaria infected mosquitoes and we feel that if you are able to propagate very properly among the people who work outdoor, mosquito bites can be reduced. And that is how your Jyothy Laboratories Limited sees taking forward this DEPA technology, not only in India but to other neighboring countries also soon.

I hope I have covered most of the items about the performance of the company. Now, we will answer your questions & if I leave out any I will get back to you with my answers. Thank you.

Moderator

Thank you very much, sir. The first question comes from the line of **Abneesh Roy from Edelweiss Securities**. Please go ahead.

Abneesh Roy Sir, good set of numbers. Wanted to understand this deal better which we have got from DRDO. How exactly you manage to get and in terms of the current product offerings of our own and competition, how exactly is this different in terms of product, in terms of pricing. Will it be a niche product more towards higher intensity of a product?

M.P. Ramachandran It is a new molecule which has been developed by DRDO after nearly more than 20 years of research in their labs, distinguished scientists of our defense have done this work. It is meant for outdoor applications where nobody has been protected by way of coils or from liquid vaporizer, purely a new type of marketing. It is in the form of ointments & spray. By spray you can impregnate the window curtains as far as indoor applications are concerned. It is not a mosquito killer; it is a pharmacopoeia item, which will not only allow the mosquito to bite you. They will not be able to find out the veins and arteries of humans. Therefore, you are saved from the bite of the mosquitoes. We are planning to launch this product especially at the borders where people are admitted in hospitals due to the menace of mosquitoes. And this is a new niche item; other items of course are there in the market which is in a very rudimentary stage of development, just by way of some cream named *Odomos*. But the efficacy of those items is only for 1.5-2 hours protection. Our product gives up to 8 hours protection outside. Therefore we are finding one of the largest opportunities in this segment especially because this technology has been given to us on an exclusive basis.

Abneesh Roy And sir, in terms of pricing and what kind of market size and whether this is a separate brand or brand extension?

M.P. Ramachandran It is the brand extension of Maxo and we are giving an attractive name to the product, Maxo Military, safe and soft. We are getting into cream

as well as the spray immediately. Development is on based in the form of a wet tissue which can be used anywhere, anybody can take it in their pockets. We are pricing it at just Rs3 now so that it can be used for mass scale use.

Abneesh Roy Okay. This will be for mass, not a niche?

M.P. RamachandranNo, it is for the mass. Jyothy is for the mass only.

Abneesh Roy Sir, coming to your Ujala product, is there a drop in market share quarter-on-quarter and why is it happening?

Ullas Kamath This is one spot where there is market share loss but there is growth internally. Our market penetration also has gone up, but once in 3 years they re-caliber their sample and you see the realignment. Every 3 years they reduce our increase and that has happened with all companies. So this is what they call the realigned figures and this is in line with our expectation. But otherwise we are not seeing any more competition coming in; no new players have come in.

Abneesh Roy And sir, lastly in the rural areas, you said rural market is doing well. You have not seen any impact of the deficient rainfall this time?

Ullas Kamath It is there, but like especially for Ujala if wash gets affected only then we get affected, not otherwise, because prerequisite for Ujala usage is the wash of clothes. That is primarily the indicator of detergent usage. But as of now I do not see any drop in the detergent usage nor washing of clothes. And to that extent like in rural India as far as Ujala is concerned actually we have grown by about 6-7% points by volume and we are seeing profits from rural India. As far as mosquito repellent is concerned it is not at all affected because people are now really

worried about malaria, dengue and Chikungunya. Therefore, we are not at all worried.

Abneesh Roy Crude related inputs have gone up from the lower level, although on a YoY basis still we have some comfort left. So, what is your outlook on margins?

Ullas Kamath In fact, last time crude was at an all-time high. We had increased the price of Ujala from Rs11 to Rs12 wherein our gross profit had gone up from 51% to 71% plus. At this point of time our gross profit is still around 68-69% with the increased input cost which I mentioned is about 2-3% point. But we are maintaining, we have cut down a lot of other costs. We have started out a production facility in Uttaranchal and the productivity has really gone up there by way of two things. One, due to new state-of-the-art machinery, per grammage per bottle has come down, so that has added cost to EBITDA margin. Second, the tax benefits what we get there, both from state and central has helped us to maintain the margin.

Abneesh Roy Do we do forward covers hedging for raw materials?

Ullas Kamath We do not do that because a couple of years back we did it and have lost one quarter because of that and so now we do not do. We will buy as it varies.

Moderator Thank you Mr. Roy. The next question comes from the line of **Prachi Kodikal from Bay Capital**. Please go ahead.

Prachi Kodikal Good evening, sir. My question basically pertains to your laundry businesses. Could you just elaborate a little bit on that?

Ullas Kamath We started our commercial production in laundry business under the flagship brand Fabric Spa from November 15th in Bangalore. Last year we have done mainly corporate clients, servicing hotels, airlines and service apartments which fall into the institutional category. The real retail which is our flagship brand, Fabric Spa, was launched in November 15th, with 3 retail outlets, one in Indiranagar in Bangalore, other one in Sadashivanagar and the third in Koramangala. One is a Quick Service Station wherein we have some machinery inside to give a quick wash in one hour's time; the rest are just a Collection & Delivery Centre. Response so far has been overwhelming, much better than what we thought we would be getting in, and so far we have not spent any money on advertising, it is just by word of mouth people are able to understand and we have gathered quite a number of registrations on a month-to-month basis for monthly packages and walk-ins everyday into the stores which are in excess of 100, and conversion is in excess of 50%. So we are seeing a real positive trend in all of the business in Bangalore. And after watching may be for a year, we will think of moving to other cities but not before that.

Moderator Thank you. The next question comes from the line of **Ravi Metha from Indsec Securities**. Please go ahead.

Ravi Metha On this exclusive technology which you have got, is there any payments been made or would be made?

Ullas Kamath Yes, we have made certain payments and we have signed a confidentiality agreement with DRDO but we cannot talk about the consideration part, as a part of confidentiality, but it is not something which is really big that is all I can say. When we look at the category size and the business side, the money what we have paid is more like a goodwill gesture, but we are barred from talking about the

consideration part. But we can only talk about exclusivity and about the DEPA technology worldwide what we have got. But we are really worried about balance sheet as we still are at 110 crore balance.

Ravi Metha Okay. You reached an average turnover of 20,000 garments a day, so what is it as of date, has it been growing day by day on an average?

Ullas Kamath It is growing day by day. As of December 31st, I would say we must have crossed close to about 27,000 pieces on a daily basis and now we are improving our yield, i.e., the realization per piece. In comparison to last year, the increment has gone up by about 10-15% per piece.

Ravi Metha This would be the shift from retail?

Ullas Kamath Mainly the shift is coming from retail. And in the Snoways category which we acquired for Rs.1.5 crore, 1.5 years back, average realization was Rs.29 a piece, now we have taken up to Rs.38, soon we are taking up to Rs.45, wherein we will be looking at value-driven customer for good quality. And Fabric Spa, average realization is about Rs.109, which we will take up to Rs.125 per piece. Out of the 20,000-22,000 pieces what we are washing on average, about 3,000 pieces is retail, rest will be from institutional which is mainly bed linen, covers and hand towels of airlines and serviced apartments. So their realization per kilo is close to about Rs.29.

Moderator Thank you Mr. Metha. The next question comes from the line of **Sagar Parekh from Enam Holding**. Please go ahead.

Sagar Parekh What is the breakeven level for the laundry business, at what rate, what number of clothes would you breakeven?

Ullas Kamath If you see our original project costs of Rs.30 crore and installed capacity of 40,000 pieces, our initial understanding of a business was that breakeven should have happened around 20,000 pieces. We were thinking that 50% of that will be retail and 50% will be institutional. And this is based on our business plan before starting the business. But the way we are looking at this point of time, the breakeven might happen at the end of 31st March, 2011, because we have employed lot of high paid employees in that business. We have General Manager-Sales coming from Nikon & Metro Cash & Carry; we have taken some very senior people to help us in building the brand. So the initial expenses in relation to the retail operation, door-to-door campaigns and the logistics has slightly gone up more than what we had initiated in the past, but I am sure by 31st March 2011, we will have a cash breakeven and thereafter we will see the real profit coming in. The gross profit per se in the business is upward of 50% at this point which is very heartening to note. And when you start any new business, initially certain things may go for which is more than what is really required like taking 3 GMs at one time. We did it for the reason that we need to have people first, to do the business later also. Otherwise, it is very comfortable.

Sagar Parekh Okay. And sir, currently your capacity is 40,000 clothes per day, so are you planning for capacity expansion probably in 2011-2012?

Ullas Kamath Yes, increase in the capacity will be on a small incremental capital cost because we have already put up a huge building of over 65,000-70,000 sq. ft. and you do not need all the machines to increase the capacity. Right now, we are working on a single shift. The moment we go for a double shift, the capacity will increase by itself because the 40,000 capacity which we have indicated is more like 1-1.5 shift only. And some of the machines may have to increase, and if it happens we will

be very happy. Hopefully by 31st March, 2011, once we reach the cash breakeven rest of things will fall in place.

Sagar Parekh

And currently there are 3 branches of Fabric Spa. So FY11, how many branches are you planning to add?

Ullas Kamath

Maybe another 2-3, because most of the stores which we have opened now, it has become like a destination store. We see people coming from the other side of Bangalore to this store to give their clothes and go back. So our original thinking of having 10, 15 or 20 stores might shift to may be only 4-5 destination stores and as of now we have already introduced the door-to-door pick-up and delivery service. Most of the people are calling us and we are going and picking up the clothes and delivering it back to them. So with that, number of stores which we will be opening in Fabric Spa might come down than what we initially thought. For Snoways, we have already gone in for 30. When we acquired, it was 8, we added 22 more & we don't intend to increase it.

Sagar Parekh

Okay. And sir, what is the current cash on books?

Ullas Kamath

Current cash on books is about Rs.110 crore.

Sagar Parekh

And about the DRDO project, when do you expect volume increase from this particular product?

Ullas Kamath

This is a new category and it is at the conceptual stage now and it is for outdoor application. Category is very big but I am not able to quantify what could be the category. And when you are building a new category you start from zero level, but sooner or later it should be at least in the range of Rs.150-200 crore category by itself, maybe in another 1-2 years' time. For outdoor application, as of now there is no good

product available at the marketplace with the 8 hours efficacy what we are talking about. The worldwide accepted product is DEET which is about 50 year old molecule from U.S., when compared to that this efficacy is, according to DRDO, 1:5 i.e., our's is 5 times better than the efficacy of DEET and cost wise it will be 1/5 of that. And this is a patented product and very well protected by Government of India and as M.D. said it will be priced around Rs.3-4 only. It will be for the mass. You can see children carrying this along with their bags and everybody walking on the road in the evening for a walk will be applying this ointment while going around.

Sagar Parekh

By FY11, we can expect some kind of top-line from this particular product?

Ullas Kamath

Definitely, if we achieve 30-40 crore also we will be happy for the year 2010-11. But 2011-12, is a real year when we will stand out as a category. The Defense Ministry has dedicated 8 scientists to this particular project along with our M.D. who are working continuously on our product on a day-to-day basis just to bring it to the common man. They are saying us to do it and the kind of support what we are getting from our defense, from the lab set-up in Gwalior, the entire DRDO laboratory we are using as if it is our laboratory. The whole objective of this is for the Government of India, it is not for a commercial expertise in technology. We see lakhs of people dying because of malaria & the government is doing nothing. When the defense ministry has this kind of a molecule which is so powerful & is being used by soldiers, then they felt why can't this be given to a common man? It is not only for mosquitoes, it is used against all blood sucking insects & this is the technology from which we do not have a security threat from the outside world. So, you can just popularize it and that is the way how the Ministry like Mr. A.K. Antony has taken

the initiative and the Defense Minister himself spoke to our company. He felt that this should be commercialized & they invited us. It is not that we went to them. They called us through FICCI & they spoke to our Chairman and they said that why can't you propagate at every nook and corner of the country? And that is the way how they gave the technology. Then as business people we do not want to have non-exclusive because when you spend money on a brand, you need to get return in some years. They agreed to give it on an exclusive basis & that is the way how we got it.

Moderator Thank you Mr. Parekh. The next question comes from the line of **Vinay Paharia from Religare Mutual Fund**. Please go ahead.

Vinay Paharia What is the gross margin for each of the three different categories, Ujala, Maxo and Exo?

Ullas Kamath Gross margins for Ujala for the quarter ended stood at 68.32%, Maxo at 15.28%. This is because this year the consumer offers has gone out of our net sales, because when you give 4 coils free actually we account that as free coils. Earlier we took that as sales promotion expenditure, then it would have been 35%.

Vinay Paharia I think that is the year long offer, in the past we used to give either trade margins or

Ullas Kamath No, we have taken it out. The year when we had taken it out, gross profit had gone up. Now about two months back, we re-introduced it and Exo gross margin is at 35.71%.

Vinay Paharia And, would you be advertising a lot in Maxo, in your overall advertisement expenditure is there is a significant proportion devoted to for Maxo and Exo?

Ullas Kamath In this quarter, yes. If you see the advertisement costs have gone up by about 74% when compared to last year. It is mainly because we started spending money mainly on propagating Maxo liquid vaporizer in the current quarter.

Vinay Paharia And what has been the volume growth on a YoY basis in the core Ujala fabric whitener?

Ullas Kamath Fabric whitener was at single digit, maybe 2-3% only.

Vinay Paharia But there was a volume growth but there was no decline?

Ullas Kamath There is no decline but there is volume growth. The growth what you see in our fabric care category is mainly from detergent powder and Stiff & Shine. Ujala as our fabric whitener bottle is more or less flat but in some regions we are getting about 1-2% growth.

Vinay Paharia And there is no price increases?

Ullas Kamath We have not taken the price increase so far.

Vinay Paharia And what is the overall outlook on the advertising you intend to spend?

Ullas Kamath Last year, our advertising spend was in the range of 6-7%. The quarter was different spend but overall we had spent 6-7%. Going forward we want to take it up to 8%. In 2010-2011 you will see an advertising spend of about 8%, but in the current year, 2010 March, we might be closing slightly lower than 7%.

Vinay Paharia I want to get your thoughts on operating in this category of mosquito repellants. And ex-DRDO deal, you have been operating Maxo since you introduced in 2000, you have grabbed a large market share which is spread, but this category has not produced any profits at all for you?

Ullas Kamath

This particular product has not given profit to Jyothy Laboratories Limited but retailers have made money, consumers are happy, distributors have made money, Sumitomo has made money, everybody has made money, only Jyothy Laboratories Limited is the last in the queue to make money. But if you see the mosquito repellent business, it is a Rs.1,600 crore market, and in that coil will be about Rs.800-900 crore business, in that we hold now over Rs.250 crore in the brand size. So the day when you start making 10% also, it is big money what we are expecting to do. So if you see the category, money is there. It is only because both the competitors who are there as of now are multinationals, sometimes they withdraw the scheme, sometimes they introduce the scheme and we are more or less like either we are following them or they are following us so it is going on. But the blessing in disguise now is that one of the operators is getting consolidated, either he will be bought out or he will be sold out, which all of you are aware of, so we expect in the current year some consolidation will take place in the mosquito repellent business. Out of the 3 operators who are there now & with some kind of a realignment of the trade offer or the consumer offer, Maxo will get an advantageous position. All the three operators put together we are giving more than 40% margin to trade and as consumer offers, unheard of in FMCG business. For a temporary period I will agree, but we have been doing it for the last so many years. So some day when we withdraw it, then there will be huge profit and just now my CFO gave me the actual contribution from Maxo has been 8.86% for the quarter which is very healthy. And real business will come in the next quarter because our main season is starting from February till April end or May with that if we are able to cross this contribution from Maxo 12-13%, the next year will be much better.

Vinay Paharia You said 40% trade margin is given, so if in the end consumer price is Rs.100 per Maxo coil, so would it mean that Rs.40 is given to the retailers or wholesalers?

Ullas Kamath Yes, at one point of time you will be surprised that traders used to get for every two coil packet one coil free. 33% margin he gets because one is given free, and on top of that on every product he has his own 10% margin, so he will get 43% margin. It is like for two trucks of my Maxo, one truck used to go free.

Vinay Paharia Correct. So does profitability depends on competitors in this category?

Ullas Kamath Competitors and also the category is also growing, we are growing more and more towards rural. And the category is poised for big growth. And now that we have taken the DRDO technology, and using the same umbrella branding of Maxo, there will be a rub-off effect when you spend here above what you spend either way.

Vinay Paharia And I would presume that since DRDO is a different niche product it would be at much superior gross margin?

Ullas Kamath Yes. We will be having a gross margin not less than 50%.

Vinay Paharia And can you elaborate more on the Exo strategy and what is your advertisement spends on Exo as a proportion of total sales and how do you intend to grow that part of the business, because detergent business per se is not highly profitable for larger multinationals?

Ullas Kamath By 31st March, Exo will be available in all cities with 7-8 lakh population. As far as Exo spend is concerned we have just shown our advertisement couple of days back at the national level, but in a small way. But you will see a real burst of advertisement from April, when

we are there at all the places. As of now, our placement in all-India basis is about 3-3.5 lakhs, but we need to reach about 6 lakh retail outlets to go for a national burst of advertisement. We are growing in South where we are there for last 8 years, we are growing at healthy 25% and our market share has also grown up by about a percentage point. Now we have 23% market share in South India, but a place like Punjab or Haryana or Delhi it is as good as a new product. Some bigger money will be spent from April. But as a brand now, it has crossed annualized more than Rs.150 crore. Even if I were to spend about 10% of that, i.e. Rs.15 crore next year, it is a healthy spend by which you can make the entire country know about the launch.

Vinay Paharia

So currently you are not spending any advertisement money?

Ullas Kamath

We started a couple of days in some channels but not as a big burst.

Vinay Paharia

How are you growing your share in Exo without resort to any advertising?

Ullas Kamath

In south we are spending for last many years.

Vinay Paharia

For the brand, Exo how much are you spending as a percentage of sales in terms of advertising?

Ullas Kamath

Roughly now about 8-9%.

Vinay Paharia

Same as company average?

Ullas Kamath

Yes, as it is only in South it is much easier to handle. But now when you are national you need to spend. Initially if I spend about Rs.15-16 crore also, then percentage wise it will go up a little bit at first then it will settle down.

Moderator Thank you. The next question comes from the line of **Aniruddha Joshi from Anand Rathi Financial Services**. Please go ahead.

Aniruddha Joshi What is actually working for us that we are able to gain market share in dish-wash and washing powder space and that is not working for Lever plus Lever is recently taking price cut of more than 20% in Rin and Surf. Where do we stand to gain market share further?

Ullas Kamath Sir, we will not talk about our competitors.

Aniruddha Joshi No, actually what is working for us that we are able to gain market share at such a rapid pace?

Ullas Kamath Work for us is hard work and to understand the consumer psyche better, value for money product, don't short change the decision based on the quarters, see from a long term perspective, long-term perspective in a consumer world means 'one life'.

Like, for example, we launched Ujala at Rs. 3.50, 25 years back, now we are at Rs. 12/-. This is the long term and there is no year or quarter, increase or decrease and no offer. So the consumer will stay with you for ever. But if you decrease, like today I also read the Economic Times that they have reduced the detergent powder by Rs. 20/- a kilo, what does it mean for a consumer? It means two things. One, earlier I was charging you more, I am sorry, so I reduced it, either that or you say that, okay, I want to take some market share from others. So I will give you less now, at an appropriate time I will withdraw it. Indian consumers generally take such things in a negative way. But as far as our market share is concerned, it is purely coming from value for money products. It is the quality which we are offering at the price which is affordable and they are happy so they are buying it. And the image what you have created and the equity what you have created for

Ujala and Jyothy Laboratories Limited, it is helping us to grow the market share.

Aniruddha Joshi Okay, but despite such hefty price cuts, you see that we will continue to gain market share?

Ullas Kamath Yes, we are certain about it, because we are not worried about the price cut.

Aniruddha Joshi Okay, sir, if you can just tell what is the market share currently we are having and what was maybe let us say one year ago, in both dish-wash and washing powder?

Ullas Kamath Before that I just want to talk on the detergent powder. I want you to analyze as a consumer, the price at which the competitors are giving, the quality of that product and the quality which they used to give earlier. Because at the end of the day people should get value for money for the product. If same quality is given at a different price and different quality is given at a different price, one has to see.

In Kerala as of now we are almost No.1 in the mid-segment with 49% market share. We may be a percentage point here and there with the competition, but in March definitely we will be able to get the No.1 position and we have just rolled out in other states. We are there in Tamil Nadu & Karnataka and we have gone to Andhra Pradesh and we will go state by state, as we get the results, we will go forward.

Moderator Thank you, Mr. Joshi. The next question is from the line of **Amit Hiremeth from Enam AMC**. Please go ahead.

Amit Hiremeth I would like to know the volume growth across all product categories in this particular quarter?

Ullas Kamath In entirety the company has grown only in volumes, there is no MRP increase in any of our segment in the last 9 months. Volume growth in Soaps and Detergents was 13.71% and Homecare, i.e., mainly mosquito repellent has grown by 18.72% and it will be more or less similar for the entire 9 months basis also.

Amit Hiremeth Now Ujala has grown by around 14% including the Detergent Powder. If you can be bit specific about Maxo.

Ullas Kamath Maxo, the growth for 9 months is about 29%.

Amit Hiremeth Would it be possible to share the HDPE granules price currently?

Ullas Kamath Rs.84 per kilo.

Amit Hiremeth Rs.84 per kg. is almost similar to the price which we had in December 2008, right?

Ullas Kamath No, we had purchased at Rs.100/- plus also.

Amit Hiremeth Okay, it has risen from Rs. 61/- per kg, some 2 – 3 months back? So, in this particular scenario increasing raw-material as well as you want to aggressively spend on your advertising and promotion, which would be the key factor for driving your profitability going forward?

Ullas Kamath Correct. Going forward the drivers for the profitability as far as Ujala is concerned, now that we have started our production in Uttaranchal, the new plant which we have put up, our productivity has been excellent. So we are able to reduce our cost a lot in producing Ujala from Uttaranchal.

Second, grammage has come down by about 0.5%. Earlier we are using 9 grams a bottle, now it has come to 8.5. There is a reduction

there also and as of now we are working with 68% gross margin over Ujala. The moment it breaches 65% then we are left with no option but increasing the MRP, so till then we are not worried.

Amit Hiremeth

Okay, and about the rest of the categories, say, Maxo and Exo?

Ullas Kamath

Everything under control, because only the inward and outward freight cost has gone up little bit because of increase in diesel price, but otherwise the fiscal benefits what the Government of India has given in form of excise from 14% to 12% to 10 % to 8% is a lot and there the major Active Ingredient is supplied by Sumitomo which we had renegotiated and brought it down and we are happy about it. The price has come down when compared to last year by about 6-7% to the Active Ingredient, rest of things are saw-dust and binders more or less is priced similar to that of the last year.

Moderator

Thank you, next question is from the line of **Milind Muchhala from Barclays Wealth**. Please go ahead.

Milind Muchhala

Sir, what is our planned investment for the laundry business over the next 3 years?

Ullas Kamath

As of now, we have put up only in Bangalore. Till we break even in Bangalore & see profit, we will not move to other cities and we are also contemplating whether we need to go on our own or a franchisee route or a semi-franchisee route. We are all contemplating internally at the Board level and finally we have taken a decision that the complete one year April 2010 to 31st March 2011, we want to consolidate ourselves in Bangalore, see the cash profit, and then we will know the entire dynamics of the business. Based on that we will see how to go about thereafter because we are not seeing any major player now coming into the business other than one will start from Delhi by

Wardrobe and Presto to Spain from Bombay. But we are watching the competition, but at this point of time, we don't have any major capital outlay for laundry business in the coming year.

Milind Muchhala But sir, typically what would be your vision in terms of the size of this business say over the next 3-5 years? What kind of size can we expect?

Ullas Kamath This is a service driven business. So here, if I say that it can be a business of about Rs.150 crore over a period of next 3 years; I will be very conservative and may be bottom line of about 15-20% is doable. Being a service industry, once you get a customer, he is a customer for ever. Because once he gives his clothes for washing on a daily basis, it is as good as getting customer for goods. So, we are watching that very closely in Bangalore and Snoways is doing pretty well. But Fabric Spa which we launched on November 15 has really made us to feel that we should have come to this business couple of years back. As people are experiencing and when we ask them, where you were giving earlier, they say that every time they used to give to 5-star hotels their expensive clothes to get washed. Now the outlook of the customer who is coming to us is that we are now getting it done at half the price, especially designer clothes and expensive saris and suits. So there is a business opportunity, but we don't want to hurry it up. We will do all our homework profitably at Bangalore which is the pilot plant and thereafter move to other cities. But each city if I have to go, it might cost about Rs.10 crore at maximum including the plant and machinery. In Bangalore, we have invested more because it is our own land and we have made it as a beautiful world-class building, but other places we don't have any intention of having our own building. We will go on hired places, we will have the plant and machinery alone and nothing else.

Milind Muchhala If say, we operate at 100% utilization, i.e. 40,000 pieces a day, then what kind of EBITDA margin can we enjoy?

Ullas Kamath The gross margin in our business is upto the finishing of the garment and realization, the difference is upward of 50%. We are able to maintain 51-52% as of now in the last 2 months of working. We will maintain at 50%, but the major cost comes from logistics, the pick up and delivery and the rental cost of our property. It will drastically come down when we start picking up more clothes. So, from April 10 to March 2011, if I am able to wash on an average say about 20,000 pieces, out of that 10,000 should be retail and 10,000 should be institutional. We expect a revenue generation about Rs.25 crore and we should be able to have at least 10% profit of that, that's what we are aiming for. Thereafter, taking it at from Rs.25 crore to 50 crore is much easier. Now, going from Rs.6-7 crore, if I am able to achieve Rs.20-25 crore, going from Rs.25 crore to Rs.50 crore is much easier because the same household has to give double the quantity of the clothes.

Milind Muchhala In terms of our overall business, what is the sustainable EBITDA margin that we are getting?

Ullas Kamath As of now we are achieving an EBITDA margin of about 15.8% as compared to 15.65% last year. And our objective would be to go up to 18% by 31st March 2010 and improve may be another percentage point next year.

Milind Muchhala And sir, what will drive the improvement?

Ullas Kamath Basically the cost of improving in the productivity because our productivity has drastically improved in Maxo both in Guwahati and Jammu factories. Once we increase the production, our net cost to

manufacturing will come down and in Ujala, our EBITDA margin has gone up drastically only because of shifting production to Uttaranchal plant unit. It is a new plant, new place, new people and the speed is very high. We work at almost 2 shift basis, so we are getting that production.

Milind Muchhala We just spoken about expanding the national footprint, in that scenario, what kind of overall growth can we target in terms of CAGR over the next 3 years?

Ullas Kamath 25% top line CAGR for the next three years is conservatively we can anticipate, but we are trying to do much better on that. But 25% top line growth is doable.

Milind Muchhala Okay and what kind of capex would that require?

Ullas Kamath Not much, because most of the capex for our expansion has already been done including for plants in Uttaranchal, Jammu and for Maxo. So, if at all we require about Rs.5–10 crore, it would be maintenance cost of putting up some new machinery here and there, but not sizable capex for next 5 years.

Milind Muchhala Sir, in that case our cash flows would be extremely healthy. So, what do we intend to do with that?

Ullas Kamath The Board will take an appropriate decision at appropriate time because our Board has 3 wonderful independent directors who will help us to take a proper decision, but the money what we have in the bank belongs to all the stake holders.

Milind Muchhala Sir, are we looking at any kind of acquisition or anything?

Ullas Kamath We do look at acquisition, but what happens is that when people are willing to pay a fancy price, Jyothy is not in that race. Our way of acquisition is that how much it costs for us to create that business and how long it will take. Suppose, if I get a business of Rs.100 crore and I have to pay Rs.150 crore, but if I can create that business in next 3 years by putting Rs.50 crore investment, rather I would go for that Rs.50 crore and make Rs.150 crore over a period of next 3 years on our own. But if we get a good business wherein the valuation is not fancy, the valuation is a market valuation, and if you are able to double the turnover because of our network what we have, we will definitely get into that. So, we are looking at some of the small players to acquire but not the big players, because we should be able to add value for the acquisition. That is if I get a business of Rs.100 crore and if I am able to make Rs.300 crore there is a value for that. So, if we get it in our price then definitely we will take it.

Milind Muchhala But will the focus be on manufacturing facilities or branch level?

Ullas Kamath On the branch because our core competence in Jyothy Laboratories Limited is manufacturing and if we do our manufacturing at our plant, it will be much better and good quality at the least cost. But if we are able to somebody else's manufacturing facility paying a price and having their own labor we will not be able to control the way how they will have control. So, even if you look at some of the businesses, we do not take the manufacturing facility.

Moderator Thank you, next question is from the line of **Sachin Kasera from Lucky Securities**. Please go ahead.

Sachin Kasera Sir, one question regarding the progress on the liquid mosquito segment, liquid vaporizer segment?

Ullas Kamath We have launched the new product about 2 months back. Right now, it is available across the country in about 220,000 retail outlets as of 31st of December according to a AC Nielsen report. And we started the advertisements about a week back, but the mosquito repellent season will start from mid February or end February because of the delayed winter and thus extended winter this time. The season will start by end February and we will see the campaign in a big way, starting from the mosquito arrival and we hope to do at least about Rs.20-25 crore business out of that mosquito liquid.

Sachin Kasera And sir, how is the competitive intensity there in terms of margins vis-à-vis the coil segment?

Ullas Kamath Much better, but they are experienced in liquid, the availability of the product and efficacy of the product and how attractive the packaging is, makes a difference and modern trade plays a prominent role in that. So we are placing our product in all the places, and we hope that with our new campaign which is on a different platform we will be able to do some kind of a dent in the market.

Sachin Kasera If you see the players in the coil and the liquid segment are more or less similar. Why is that competitive intensity so high in case of coils whereas margins are much better in the liquid segment?

Ullas Kamath Around 45-50% is the margin at both the places, but my understanding in the liquid is that it is dominated by one player and he used to have upward of 90% market share and now it has come down 50%. There are many players in the market place, but the dominant has been one, and we are getting in along with others since last few years. So, if we are able to get about 10-12% market share, we will be extremely happy there. And the category is growing, rural market is growing, and our

penetration in the rural market is strong, we are very strong even otherwise. More or less we are the first people to go to rural markets with liquid and now electrification is happening there, that helps us to place in rural markets.

Sachin Kasera

And sir, on the coil side assuming the current scenario continues in terms of high trade margins, how do we see profitability on that front? Are we taking any steps in terms of reducing cost which could lead to better margins or the profitability in the segment will depend on the trade margins coming down?

Ullas Kamath

Trade margin coming down will be a bonus factor, but ignoring that, we are working out on our own different formulations; taking production out of our own tax free zones and making use of this excise benefit what Government of India has given. Our contribution has improved drastically when compared to last year from 2% to 8.8% for the current quarter, however, if we achieve about 10-12% contribution, with stiff competition in the trade push and consumer pull, we will be happy. But, if we are able to withdraw from some of the offers which we are giving to consumers in the trade, it will be the bonus.

Sachin Kasera

So, this means 12% you are targeting by March or end of next year?

Ullas Kamath

No, by June quarter, because our season will start from February end or March & 30-40% of our turnover comes during these 3 months.

Sachin Kasera

Okay. You mentioned that you are looking at taking up overall margins up by 100 basis points in the coming quarter and another may be 50-100 in the coming year, but if we see the product mix of the company, I think Ujala has got the highest gross margin and the growth is coming more from the product which has got much lesser gross margins compared to Ujala, plus you are taking up the expense from

6% to 8%, so in such a scenario, what is it that would probably drive your margins higher & also we are looking at higher raw material cost.

Ullas Kamath In Maxo, we are working out a different methodology to reduce our cost of manufacturing. With newer imported machinery and new technology we would get that decent advantage in our Maxo manufacturing cost.

Sachin Kasera But, how about products like Exo and washing powder and even the soap segment where I think the gross margins would be much lower?

Ullas Kamath But, as of now we are outsourcing Exo, for Northern India. But our own units are there everywhere that will start producing once we get sizable volumes in Northern India. Then we will be able to improve our margin, because once you are outsourcing you will be very expensive. As of now, we didn't want to put up a facility and then go national. So we are using whatever the facility we have in the South and the East, but other than that, right now we are outsourcing. The moment we go for our own production, our EBITDA margin will improve.

Moderator Thank you. The next question is from the line of **Pallavi Kedia from Jet Age Securities**. Please go ahead.

Pallavi Kedia Will our tax rate continue to remain low at 13% going forward as well?

Ullas Kamath I would comfortably say it would be at MAT. As of now, MAT all inclusive taxes, is in the range of 15% and we will continue to hold onto that for the next 3 years.

Pallavi Kedia What would be your average realization in the institutional laundry segment?

Ullas Kamath Institutional when we had started it was at Rs.18 now it is at Rs.29 per kilo.

Moderator Thank you, Ms. Kedia. The next question is from the line of **Grishma Shah from Envision Capital**. Please go ahead.

Grishma Shah I just wanted to know whether we would be comfortably achieving Rs.600 crore top line for March 2010 from the point of understanding the seasonality in terms of Maxo?

Ullas Kamath 2010 March, comfortably we will be able to achieve about Rs.550–560 crore, Rs.600 crore will not be comfortable, it will be very tough as we are left with less than two months. So going forward, a growth of about 25% when compared to last year is comfortably achievable, that's about Rs.550-560 crore, subject to seasonality effect of Maxo. If it really goes well, then probably another Rs.10 crore extra we can achieve.

Grishma Shah Okay, and we were also planning to launch a stain remover in the pre-wash category. Is there any update on that?

Ullas Kamath Yes, our lab is ready with the product and all tests have come out very positive. We are very positive about the efficacy of the product. Only the timing we need to see, probably next year actually you will see that product.

Moderator Thank you, Ms. Shah. The next question is from the line of **Nilesh Doshi from Techno Shares & Stocks**. Please go ahead.

Nilesh Doshi On laundry, we are currently doing about 22,000 pieces a day including institutional. 3000 you said is retail, so then prior to the

launch of Fabric Spa, 2000 we were already doing in retail under Snoways, so what is the addition we have done through Fabric Spa?

Ullas Kamath Fabric Spa is only 2 months. We started the pooja on November 15th, people started coming in from December and December end we closed it. So it is that every day we are getting new customers.

Nilesh Doshi So, currently have we merged both Snoways and other facilities under Fabric Spa or they are still operating independent?

Ullas Kamath They are all operating independently because Snoways business model is positioned as economy brand. And when we acquired, they used to charge Rs.25-26-27 per piece, the average realization we used to get was about Rs.29. We took a price hike to Rs.30-35 and now made it at Rs.40, average realization we are getting is Rs.38. When we acquired Snoways they had a business of about 800-1000 pieces a day. Now we are getting almost 2,000 per day which is fixed with 30 outlets.

Nilesh Doshi So, will we not then compete with our own Fabric Spa? At which point we are going to merge it?

Ullas Kamath We will not merge it at all, because it is like Peter England and Louis Philippe. In Snoways, we are charging Rs.40 whereas in Fabric Spa my average realization is Rs.109 as of now, here a shirt is Rs. 95 a piece whereas in Snoways it Rs.30 a piece.

Nilesh Doshi Okay, the next question is on the DRDO technology based molecules, currently you said that DRDO is already using it for their internal purpose and this is a cream based product...

Ullas Kamath Cream, spray and lotion.

Nilesh Doshi Now, how is the arrangement, in the sense who will give you the Active Ingredient? Are we going to manufacture it in-house?

Ullas Kamath As of now, no. What DRDO presently has done is that they have identified a person who is a manufacturing technical, i.e the 'Active' and they are getting it supplied to another person in the formulation and supplying only to Defence, that's more like outsourcing for Defence. Now they have given to us the technology to manufacture the 'Active', the molecule and the entire technology till the end product. And right now they are asking us to buy the technical from where they are sourcing at the same price, but we can negotiate for better price. Over a period of time, we will see the technical feasibility & if required, we don't mind, if the investment is not big, getting into our own manufacturing. In all it depends at what price they are supplying and how much does it cost to set-up that unit.

Nilesh Doshi Okay, so that would all depend on what volume and when are you expecting to launch it?

Ullas Kamath We will be launching in this mosquito season. You will definitely see by March in the market place in one format. But all the 3 formats will be there in the next financial year. And a size of the business, we are expecting from Defense also because it is like a buy-back. Not that I guarantee, but assurance given by them is that we will be able to supply to Defense also, if we are competitive when bidding, because we have exclusive right & we will be the first people to do that.

Nilesh Doshi Okay. Since the downstream petro-chem prices have gone up recently, are we seeing some margin pressure in most of the products, especially Exo?

Ullas Kamath Not to the extent that it is alarming. We are not that worried but if it continues till 31st March and if 2-3% we are already seeing cost increase, probably we will be left with no option but increasing the retail price in April-May.

Nilesh Doshi But even then we will be able to compete with the price reduction with what the leaders have taken?

Ullas Kamath You are talking only of Detergent powder. In dish washing, they have not taken price reduction so far. They are operating on some scheme in a sporadic manner, some states they operate, some states they don't operate, but in the National level what they have done is only on detergent powder. This is something when we saw wars some 4-5 years back when Tide came in. So we are just watching how to go about as we are not at the national level, we are only in couple of States now. But for other products, if there is an increase of retail price it will be across by all the players, so we will also go with *Tide*.

Moderator The last question comes from the line of **Mohit Gulati from Antique Stock Broking**. Please go ahead.

Mohit Gulati On the DRDO deal, you made an initial payment to them for getting exclusive rights. So, once the product is in the market and you are retailing it, is there any kind of royalty payment that will go back to DRDO?

Ullas Kamath Yes, there is a royalty payment, 2% for domestic, 3% for CSD and 4% for export.

Mohit Gulati Sir, I know you don't want me to mention a rival name, but Unilever just mentioned that may enter the fabric whitener category, so.....

- Ullas Kamath** They are more than welcome. I am very happy.
- Mohit Gulati** No, obviously you are the market leader there.
- Ullas Kamath** No, not market leader, people have to spend on a category. People should know whiteness and only we are spending money on whiteness.
- Mohit Gulati** So, is there something particular you will be doing to keep your market share intact as Lever, obviously being a bigger brand, will be very aggressive in their marketing as well as advertising for their brand?
- Ullas Kamath** Absolutely, we are not undermining their abilities or their passion to build the brand, but this is the third time they will be getting into this forte. I don't know when they will come, but in the past they have come. It is not that they have not come in the past. They have come in the form of Rin, Surf, Ala, then finally they felt that they should be in the bleach segment not in fabric whitener segment. If you see today's Ala bottle it resembles to a fabric whitener, even though it is a bleach they position it as a fabric whitener. And right now in which avatar they will come, with which fashion they will come, we will not react, because in the past, wherever it is required, we have taken the competition very seriously and have felt that many other serious competitors had come, like P&G, Marico, Pidilite, Henkel, Nirma. So, everybody has come and everybody felt that it is too difficult to break. I am not talking like a complacent person, but all I can say today, we are available in 3.1 million retail outlets. Some of them are holding a dozen bottle stock as of now. Imagine the role stockists play in the market place and they are happy selling this for the last 25 years, and the second one is that there are 3,500 dedicated distributors. Day-in-and-day-out they are selling this Ujala bottle and their efforts will always be there. Finally, we have our soldiers of 1,600 people at the

market place selling Ujala every day. So, our's is a concentrated, dedicated, daily work in-and-out & as somebody else comes with some products to place it, it is difficult for them to find a place in the shelf. So when it comes, we will take it up.

Moderator Thank you, Mr. Gulati. Now, I hand over the call to Mr. Kamath for closing comments.

Ullas Kamath Okay, I will take this opportunity to thank everybody for making to this conference call. It is a first time experience for us and we enjoyed it. If there are any more questions, you are always free to talk to me or to Neetu whenever you require, and thank you very much for your patient hearing. Thank you.