

**“Q1FY11 Earnings Conference Call of Jyothy Laboratories Limited”**

**July 28<sup>th</sup>, 2010**

**SPEAKERS:**                   **Mr. M.P. Ramachandran, Chairman and Managing Director**  
**Mr. Ullas Kamath, Deputy Managing Director**  
**Ms. Neetu Kashiramka, General Manager - Finance**

**Moderator:**                   Ladies and gentlemen, good afternoon and welcome to the Jyothy Laboratories Q1 FY11 Earnings 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 conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. If you should need any assistance during this conference, please signal an operator by pressing “\* “and then “0” on you touch tone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. M.P. Ramachandran. Thank you, and over to you, sir.

**M.P. Ramachandran:**                   Hello, good evening to all of you and welcome to the Analyst Meet of the Jyothy Laboratories Limited. I hope you have all the figures of this last quarter with you. This last quarter result has showed a reasonably good profitability. The profitability has grown to 25.7 crores, from 21.9 crores, a growth of almost 17%. And all the segments of our company has done very well and the highlight for this quarter was our acquisition of DEPA technology from DRDO, which is a result of more than 20 years of their consistent research to protect the defense forces from mosquitoes and the other blood sucking insects. It was introduced into the defense service around the year 2000. This product was very well used by the defense and is a perfected one. Since then they have been in search of an Indian company which can reach across the country whether it is villages or in towns or in cities. It gives us immense pride to tell you that Jyothy Laboratories has been selected by DRDO through the intervention of FICCI and we have been given the exclusive rights for manufacturing the new molecule as well as the formulations based thereon to perfect in various forms of applications.



We have perfected that one and first itself we have developed a wet wipe which is finding the large scale applications wherever the man is there, wherever mosquitoes are there, it is easily transportable and it was officially devoted to the entire humanity by the Minister of Health and Social Welfare in Kerala in the presence of all the scientists as well as the Chief Executives of the DRDO as well as the National Disaster Management Authority and FICCI Director in Trivandrum. It was a dedication to the entire humanity, but the product was launched on the same occasion and that was very well appreciated. A good commercial also has been produced and as soon as the first placements are over the commercials will be aired. That is one of the development. Different forms of applications are being worked out; one of them is perfect formulations. Another thing, which I would like to inform you is that our fabricare – Fabric Spa, which is a spa for your clothes – washing and maintenance of clothes, laundry etc. Jyothy Labs Fabric Spa Ltd has been selected as an official laundry service provider for the Commonwealth Games 2010. These are all the main highlights and I would like Mr. Ullas Kamath to take you through the facts and figures as well as the profitability and future of this company.

**Ullas Kamath:**

Thank you, sir. Good evening, everybody. I'm Ullas Kamath here and I'm sure all of you have gone through our numbers in detail and highlights. Last quarter has been reasonably good for us and our topline has grown by 27% that's very heartening. And as I informed in the earlier Analyst meet, we have taken the price hike on Ujala and that's about 16% from MRP. 12 to 14 and real result of it will be seen in the coming quarter. We have taken the price hike in the May printing onwards but only about a month sale, we could do it in the month of June with the new MRP. But this current quarter July to September, you will see the full impact of that and as far as demand for Ujala is concerned after increasing its price, we are not seeing any dips on our volume where as it has grown about 7% in the last quarter in a volume wise. EPS has gone up from 3.0 to 3.5. EBITDA margin has gone up to 23.49% as against 19.5% for the last entire year. It keeps varying quarter-to-quarter but in the current financial year 2010-2011 we would be targeting to achieve at least 19 odd plus EBITDA margin, at the end of the year. And we have signed up with Sachin Tendulkar for two and a half years' contract and his new commercial will be on the air from August onwards and as MD said that we became the official launderer for Commonwealth Games 2010 in New Delhi. That's more of you know the credibility for us and within six



months of launching of our Fabric Spa. If Government of India can identify us and they can give us that job we are proud about it. And now I'd take the questions one by one

**Moderator:**

Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question comes from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:**

Could you guide us on the pricing and volume expectations in the balance three quarters and how you have done in the first quarter in terms of the key segments, soaps, home care and fabricare?

**Ullas Kamath:**

Yeah, as far as the segment wise, fabricare has grown 22% in that one month we have taken the price hike of Ujala. Mosquito repellent, volume growth is 9.74%. There is no price hike in that. Dish washing has grown by 48.3%, there is no price hike and other products are 67%. Overall growth is 26%. **In that only the price hike what we are taken is in Ujala that too for the month of June but otherwise that sort of things are all in entirely so (7:28) volume.**

**Abneesh Roy:**

Ujala price hike is more for taking care of the raw material inflation??

**Ullas Kamath:**

Yes, you know there isn't much pressure on us based on the raw material consumption, still we are working around 70% gross margin there, before increasing the price. The reason is that you know we signed up with Sachin Tendulkar and we need to build a brand more to increase the usage of fabric whitener .We thought that it's the right time to get into brand awareness a little more than what we used to spend in the past because we're after "aaya naya Ujala, chaar bundon wala" campaign for about five, six years that's the time we used to spend 30-40 crore every year and we have reduced it because we already got 70% market share and every third person is using Ujala and for so many reasons. But now we felt that Ujala is going through brand extensions in detergent powder. They are getting into brand extension of Stiff & Shine and many more add-ons will be coming in the current year. So we felt that we have to build a brand, mother brand being "Ujala" and that's the reason we signed up with Sachin Tendulkar. So just to leverage that, we felt that we can take a price hike from 12 to 14. That's after 2.5 years we have taken this price hike and trade is extremely happy about the price hike sir.



- Abneesh Roy:** Now coming to home care the growth is 37%, broadly.
- Ullas Kamath:** Yes.
- Abneesh Roy:** But in fact is that you said mosquito coils rose by only 9.4%.
- Ullas Kamath:** Yes. Mosquito repellent business includes mosquito coil and liquid, is 9.74. Exo Safai, the scrubber soap is also a part of this (9:04).
- Abneesh Roy:** So most of the growth has come from scrubber, will that be fair to say?
- Ullas Kamath:** Yes, 9.74 is because it's a bigger base. Mosquito repellent business is a bigger base. So when I say 9.74 in terms of volume I would say in absolute sum that will be the highest because Exo Safai is a small number. Your analysis is right. Also, now that all of you are tracking Jyothy very closely, the best way to track us easy to track us is by -fabricare segment that's Ujala and Ujala related products is 22%. - Mosquito repellent is a big business for us that we've grown by 10% volume terms. - Dishwashing is Exo, Exo Safai, Exo scrubber all put together that we have grown 48% and - other small products are 67%. So I think its easy to track our company from the business perspective it's much easier to track us as Ujala, Maxo, Exo, as against the product segmentation which's more from accounting point of view but.
- Abneesh Roy:** Coming back to mosquito coils, have you lost market share or even the industry has gone at 10% kind of the levels?
- Ullas Kamath:** We have grown market share by 2%. Now our market share on all India basis gone to 25.7% from 22 and odd. It's actually 3.3% that we have increased when compared to the same period last time and market must have grown maybe 8 to 10% on its market growth.
- Abneesh Roy:** Sir what we understand from some of the other FMCG (10:38) companies in this space of mosquito repellent is that the raw material is quite benign (as in they are easily available)? Is that correct sir?
- Ullas Kamath:** Not a worry. Not at all a worry and I understand which analyst meet you are talking about, because I also got the information from the same Analyst Meet from the participation and in this case raw material cost is not a worry. What we had, all of us are



buying from the same company and 10 years back when we started the business per kilo at Rs. 6,000 for Active and now it has come down to some Rs. 3,000. So there is no worry on that. The biggest worry in the mosquito coil business as such is the schemes and sales operations, which all of us are operating and the transportation cost. Because logistics cost is directly related with all your crude prices and right now we do have worries on the transportation cost. Because most of the raw material is coming from the South and production facilities or everybody is in the tax free zone in Guwahati and Jammu. So transporting the raw material from South to the North and sending back the finished goods there is a worry on transportation but not on other raw material side.

- Abneesh Roy:** And how is your market share in Ujala and the Dishwash?
- Ullas Kamath:** Ujala has gone to 72% in value terms and Exo in South India we are at 25%.
- Abneesh Roy:** So how has it behaved Y-o-Y?
- Ullas Kamath:** In South, we are maintaining it in spite of the huge investment by the competitor, which yesterday they have admitted in the results and that has been really, really huge on all the segments.
- Abneesh Roy:** Which one sir?
- Ullas Kamath:** HUL. They are the only company that came with their yesterday and 16% of their sale is gone into our advertisement. So that's very huge. And also they have taken a price cut in Exo category that is Vim. They have taken a price cut from 11 to 10 and six to five. We're still rolling on to our old price. With the same price, we are holding on to our market share.
- Abneesh Roy:** But that's difficult to understand. If your competition takes a price cut, why won't the consumer shift I can't understand.
- Ullas Kamath:** There is something called "Brand" sir.
- Abneesh Roy:** In this segment also?
- Ullas Kamath:** Of course, in every segment there is a brand, especially in FMCG segment, brand is like a heart
- Abneesh Roy:** No, that I understand but price is also extremely important.



- Ullas Kamath:** It is extremely important but it is not the only thing, which it drives. For example if a housewife is happy with using Exo because of its anti-bacterial properties, somebody has still reduced a rupee I don't think that she will shift to the other product. It can certainly create an impact if there is a price cut of Rs. 20 per kilo in a detergent powder, lets say.
- Abneesh Roy:** Okay
- Ullas Kamath:** We bring down by Rs. 20 it makes an impact, but not when it down from six to five. We don't wish to bring our price down right now. If required at the right time, we will react. But as of now we are just concentrating on our distributions.
- Abneesh Roy:** And lastly in terms of ad spends, could you comment both above the line, below the line and taking into account Sachin Tendulkar who must have cost a lot?
- Ullas Kamath:** Jyothi Laboratories Limited is always a conservative company. We always pay what is fair and with Sachin Tendulkar, ours is the first installment scheme. So we are paying him 8.5 crores over a period of next 10 quarters that is 85 lakhs per quarter, which is within our advertisement budget and he is staying with us for 10 quarters so we told him that we will pay in equal installment which he was more than happy to accept after talking with the management. The creative which we're spending on will start from August and which will be within our advertisement budget of 8 to 10% of our gross turnovers.
- Moderator:** Thank you. Our next question comes from the line of Naveen Trivedi from PINC Research. Please go ahead.
- Naveen Trivedi:** Can we have the classification of this **excise** benefit that goes into this other income and the homecare result?
- Ullas Kamath:** The **excise** benefit, what we have written back is that what we had provided in the past **excise** benefit. Like on our mosquito coil business there was a notification by the Government of India. It was a retrospective effect withdrawing the benefit to the company and **they had** gone straight to the high court and high court in Guwahati, the Honorable Chief Justice there crashed the notification order of the Government and based on that we wrote back whatever the provision we have created. This particular one, which is operating out of Jammu one of our outsourcing agent



which he gave us as credit in the current year. So naturally we keep it as other income.

**Naveen Trivedi:** What is the classification? Some part we have included in other operating income, some part we have included in home care's results.

**Ullas Kamath:** No.

**Naveen Trivedi:** I think you have mentioned that in press release.

**Ullas Kamath:** It has been homecare only because mosquito coil comes in a home care, so we have taken it there only one item -1.89 crore in one item.

**Naveen Trivedi:** So that is included in the homecare segment.

**Ullas Kamath:** Yeah it is only one party who is operating out of Jammu in the mosquito coil and product segmentation it comes under homecare and 1.89 is what we are investing.

**Naveen Trivedi:** So if we exclude this thing. I think the homecare PBIT margin is around 10, ten odd percent.

**Ullas Kamath:** That's right.

**Naveen Trivedi:** Okay. This PBIT margin for homecare is largely on the easiness on the raw material prices.

**Ullas Kamath:** Sales promotion.

**Naveen Trivedi:** So do you think that this PBIT margin of 10% is sustainable for the coming quarters?

**Ullas Kamath:** Actually we want to improve that because we've taken by and large decision to reduce some sales promotion irrespective of what competition does, is the decision taken by the board yesterday. We need to conserve sales promotion as much as possible in our house holding business and we have decided to withdraw partially now - effective from 1 of August. So for the last four, five years we are being fighting with our competitors to work on various schemes but the improvement of market share only went up by about two to three percentage point in the last three, four years. So we took a decision at the board level after giving them the entire presentation on mosquito coils business that we need to withdraw some of the schemes for 250 crore



brand, at least we should have 30-40 crore. So with that keeping in mind that we have taken a bold step of withdrawing some of our major schemes at the sales promotion, effective from 1 of August and by 30th of September I'll be able to give you a clearer picture about the response from the trade and also the big season comes up in February, March and April. So we are trying this withdrawal of the scheme in this off season, of this...

**Naveen Trivedi:** Okay. Even the inclusion of this Maxo-Military will get on this margin?

**Ullas Kamath:** No, Maxo-Military it is a separate product altogether. We are not operating any scheme on that and most of things presented is going to the government agencies where in we don't even have a trade margin in between. We're straight away billing it to the government agencies. But when it gets into the real market, this will be a nominal like the trade margin we give for Ujala. If that's the case, there is no competition in that...

**Naveen Trivedi:** But the overall homecare margin will expand from this level.

**Ullas Kamath:** It should expand. We're definitely working on that.

**Naveen Trivedi:** Okay, I want the GFSL numbers. How much is the topline?

**Ullas Kamath:** Yes. GFSL numbers, probably we'll be able to give maybe in the next quarter because we have not compiled that till now. Ready now it was too early in the day. So probably the next quarter we'll be ready with those numbers.

**Moderator:** Thank you Mr. Trivedi. Our next question comes from the line of Krishna Shah from Envision Capital. Please go ahead.

**Krishna Shah:** I just wanted to know the reasons for the decline in margin for our soap division?

**Ullas Kamath:** That's because of the raw material prices and there in the detergent powder sale has gone up and Ujala we are still maintaining the gross margin. It has improved because of the price increase in the month of June. Detergent powder like the sales, has gone up. So the contribution from detergent powder is far less when compared to the Ujala's contributions in fabric whitener. So as the product mix changes the net margin from that segment will be lesser. But in real term, in the detergent powder segment, we are earning a good amount of returns there and fabric whitener is different. When you club together one has a gross margin of 75%



and other one has a gross margin of 25%. So together when you take it, it looks as if it has come down but in real terms it has not come down.

**Krishna Shah:** But on absolute basis also this year you might have increased your sales by around 23% in that segment but I fail to understand that on an absolute basis your EBIT is declined year-on-year basis from 28 crore EBIT that you did in June '09 you've declined to 27.5. There is a clear dip in margins also; I'm not able to understand.

**Ullas Kamath:** The new General Manager Neetu says that it is because that the raw material cost has gone up in the quarter in the detergent. That's the reason. We're not increasing the price of detergent powder as such. We only want the same price. But this is mainly because the raw material price is going up.

**Krishna Shah:** Okay and the reason why we have a lower tax rate during the quarter?

**Ullas Kamath:** More production in Uttaranchal unit because last year we had opened our Uttaranchal unit because the tax has started from there and last year it was for partial period. Here right from the day one we're taking the production from Uttaranchal. So it is competing at a 100% tax free zone in the market and as a result of that is this effective tax rate has come down, when compared to the same period.

**Moderator:** Thank you. Our next question comes from the line of Ritesh Poladia from Almondz Global. Please go ahead.

**Ritesh Poladia:** What would be the time launch for military?

**Ullas Kamath:** We've already launched on July 15 in Trivandrum. Based on the production, which we're doing from our Uttaranchal unit. It will state by state launch in a phased manner. We'll be reaching all India by March 2011.

**Ritesh Poladia:** Could you give us some turnover benchmark?

**Ullas Kamath:** By March 2011, we are hoping to do about 25 to 30 crores. There are a lot of new learnings for us this quarter - new machineries imported and lot of things are happening.. But the next year we are sure of touching 60 crore and thereafter, it will also be based



on loads of other factors like like consumer acceptance. But this year 30 and next year 60 is what we are comfortable with.

- Ritesh Poladia:** Okay, so is it launched only in the wet wipe or other forms also?
- Ullas Kamath:** All the other forms are ready but the wet wipe is the one, which are going with the campaign on the television from August 18 onwards because that is a new category. We want people to understand this category along with cream form also. The advertisement spend will mainly be on that mostly.
- Ritesh Poladia:** Okay and one of the competitors has changed its packaging design in detergent?
- Ullas Kamath:** Yes.
- Ritesh Poladia:** Which would be incidentally very similar to Jyothy so, is it acceptance of competition?
- Ullas Kamath:** In fact we're very, very happy that, somebody can see our TV commercial and they can copy it within 48 hours. In that art commercial, it is good that, that's why they've copied it but Sachin Tendulkar is Sachin Tendulkar but you can bring in a stadium but you can't bring a Sachin Tendulkar into the stadium and stadium is owned by Sachin Tendulkar and that shouldn't make the difference and when we go on air on August 18 nationally, I think they will get the answer for that, but we are not worried because Ujala is Ujala, Sachin Tendulkar is Sachin Tendulkar and...
- Ritesh Poladia:** Okay, any particular reason for 18 August?
- Ullas Kamath:** That's a good day.
- Moderator:** Thank you. Our next question comes from the line of Sachin Kasera from Lucky Securities. Please go ahead.
- Sachin Kasera:** My question is regarding the call segment. You mentioned that you're looking to improve the profitability and we're trying to withdraw certain pay scheme from 1 of August.
- Ullas Kamath:** Yes.
- Sachin Kasera:** So is it just a unilateral decision by Jyothy or is it a collective decision by the industry per se?



**Ullas Kamath:**

No, sir. It's not a collective decision by the industry .....taking upwards this kind of a huge scheme but we may not be able to afford and we do not want – and especially when we saw the last year like 80 to 85 crores we gave, we're given as freebies to the consumer and all who do the trade, we failed. At the board level we decided not to worry about others. They're also in business and nobody wants to throw the money into the marketplace, because we're doing it, because they're doing and they're doing because we're doing.

So we took a conscious decision of looking into that risk involved in losing up the sale, we felt that let us try for three months by withdrawing the scheme at least by one third of what we're giving will reduce it and let's see what happens and indication what I get from the market is that the competition is also reduced, the moment we reduced. So we are going ahead with our decision. It's as of now it is unilateral. The other two players are there and I'm sure that they will also come to know about it but it's not a collective decision it's a unilateral decision.

**Sachin Kasera:**

On this qualified, one of the competition, the results were out a couple of days back and there the growth in revenue just been closed to around 28%.

**Ullas Kamath:**

That's right. That came to me also because we also see everybody's results and the 28% direct growth, I was not able to understand but good luck to them because the trend in the marketplace as far as our category growth is concerned is not consistent in the last one quarter and we have grown 9.75 –9.74% our market share has gone up by 350 basis points. Keeping these three parameters they must have grown to be with other items, which are not in household insecticides because this also covers Ambi Pur and all and they don't come under household insecticides. So I really don't know where the numbers have come.

**Sachin Kasera**

Secondly on Exo, I believe you have been going national in the last four to five months. So, what is the impact of that because if it's compared to March quarter the numbers of Exo are down?

**Ullas Kamath:**

Yes, sir. You see, we have taken this national in a phased manner from October '09 onwards. Till March we have gone in phase stock like most of the bigger cities. Advertisement campaign we started partially from February and we went in till April. Now the second round of advertisement we are going probably from, like in the coming months once the creative is ready. So as of now – the response in Delhi , West Bengal, Punjab is very encouraging and



Maharashtra is okay. So, we had to spend the money on the brand, so that placement is happening and initial days for the first, like six months to 1 year whatever the sales happens, most of the things will be in a pipeline stock or it has to go to the market, from there to the consumer and he should come back and that's the real sale what we recognize. So, it's too early to comment on Exo's you know like the success or the status probably on a two, three quarters we will be able to see but the fact that competitors already have reacted at national level and reduced the price and spending more on the brand, a clear indication that you know like a road block, wanted to create but we are going ahead with our campaigns.

**Sachin Kasera:** But in volume terms what was the growth in case of Exo if you could break it up for scrubber as well as surface cleaner.

**Ullas Kamath:** Exo as a bar it should be about 10% growth in the last quarter & scrubber 30%.

**Sachin Kasera:** So what would be the reason for this 30% growth in case of scrubber vis-à-vis 10% in case of cleaner?

**Ullas Kamath:** To be very frank, I don't know because the scrubber people are buying from all corners. We are finding it difficult in producing and getting it packed and results have been amazing in the scrubber and without spending any money on the advertisement people are buying it. Maybe it's the more superior quality what we're giving compared to the competition. As far as our bar is concerned, our market is 10% and if every quarter if I'm going for 10 - 20% sequentially, at the end of the year if the growth is about 25, 30% I will be happy on the bar, sir.

**Sachin Kasera:** And are there gross margin in scrubber better than in cleaner?

**Ullas Kamath:** Gross margin is better in our scrubber.

**Moderator:** Thank you. Our next question comes from the line of Anshul Mishra from ING Mutual Fund. Please go ahead.

**Anshul Mishra:** My question was regarding the margin fall again on the soap care segment, both the margin fall and the absolute fall that we have seen. Just wanted to understand out of the entire soap care and fabricare, what's the break up like between Ujala and the detergent and is Exo also included there?



- Ullas Kamath:** Exo is also included there.
- Anshul Mishra:** So if you can please tell me the breakup in, just to understand how the margins fall gains are, what is the sale composition like?
- Ullas Kamath:** Neetu will answer that sales hard numbers.
- Neetu Kashiramka:** Yeah, Ujala was 562. Fabric whitener at 461 is Stiff and Shine, Exo at 149. Detergents were 227.
- Anshul Mishra:** Okay. They're 2 crores?
- Neetu Kashiramka:** That is 139 in the previous quarter. The detergent growth is 63%. Fabric Whitener growth is 12% and Exo 10%.
- Anshul Mishra:** Exo you mentioned is 114.
- Neetu Kashiramka:** And then we have ad spend. And Exo has gone national so we have advertised more on Exo than the home care segment in this quarter.
- Anshul Mishra:** We just wanted to understand since you have taken in a price hike on Ujala and probably the margins would have been better.
- Neetu Kashiramka:** That will come in the next quarter.
- Anshul Mishra:** Okay. Just to understand the raw material aspect of Ujala, it is something to be tracked or is it stable and nothing to worry about?
- Ullas Kamath:** Not on the content part. Content part is very stable but the container we use CPA granules (ph) and that's directly linked to the crude.
- Anshul Mishra:** Can you give me an indication as to what would be Y-on-Y kind of a thing of HDB?
- Neetu Kashiramka:** You know last year same quarter –crude was Rs. 60 and now...
- Anshul Mishra:** So it would be corresponding to the crude.
- Neetu Kashiramka:** Granule price is around 20% increase.
- Ullas Kamath:** 73 is the granule price and vis-à-vis the earlier quarter?



- Moderator:** Thank you. Our next question comes from the line of Sarag Parekh from Enam Holdings. Please go ahead.
- Sarag Parekh:** Just wanted to understand, you said that you've got a contract for Commonwealth Games for fabric spa?
- Sarag Parekh:** How are you going to operate over there because you don't have any facility as such over there for laundry?
- Ullas Kamath:** Yes, sir. What we have done now is that we have tied up with seven, eight local launderers and putting our people there and the quality will be ours and we have taken them more or less for a month on a lease basis on each one of them and we are taking our good machines, four or five from Bangalore and putting that in the games village only. They have given us a place to put up our small village there. So the retail will be done out of our own dry cleaning machines and washing machines. Industrial type / the institutional type like bed linens and hand towels pillows went off the arcade which we are taking it out to Noida and where we are signed up with seven, eight outsourcing people and with our name it will get washed and give it back to the – this games authorities.
- Sarag Parekh:** Okay and do you have any tie up or probably use revenue sharing.
- Ullas Kamath:** No. What we have done is that we have taken the quote from individuals and have given our bit to the commonwealth games authorities and ITDC is you know like a nodal agency. So with the people where we are getting it done we have sufficient margin but Commonwealth Games is not going to be a big game changer for us as far as the revenue is concerned but it is our net credibility like if our people can go from Bangalore and if the Government of India can identify us and they can give us entire job to us to wash the garments there. It gives us the credibility and we will be able to make use of that credibility of go to other states as quickly as possible for special branding.
- Sarag Parekh:** And how much would you be expecting in terms of number of clothes?
- Ullas Kamath:** They are saying about 40,000 pieces retail and institutional and other 40,000 pieces. So 80,000 pieces per day at the minimum expecting 20,000 athletes but the numbers what they are talking otherwise in writing, they have communicated this to us but



otherwise they have said you be prepared at least a lakh of pieces per day minimum.

**Sarag Parekh:** Okay and in all your three segments, in mosquito you are having this DRDO technology dip and in fabric you've signed up Sachin. I mean Exo also you're going national. Just wanted to understand in all the three segments what kind of growth rate are you expecting in the next year?

**Ullas Kamath:** Ujala as a fabric-care we will be growing not less than 25%. That's because of the detergent powder. And Exo we want to grow between 30 to 35% because we have gone national. So the additional growth has to come from Pan India.

**Sarag Parekh:** So but then again Unilever is having price cuts and also you think you will be able to reach 30-35%?

**Ullas Kamath:** Sir, I do not want to talk about the competition but I know that there is 1.2 billion population in the country and 25 crore households are there and every household has to wash their dish and one company cannot supply to everybody. So, only numbers can speak one year down the line and we have seen same, Hindustan Lever we have seen in South India for the last nine years.

**Sarag Parekh:** Okay.

**Ullas Kamath:** They blocked us in Kerala, then they blocked us in Tamil Nadu and they blocked us in Andhra, then they blocked us in Karnataka and today they are working happily with us giving us 25% market share which we are holding on and all kind of price cuts was there in the past and all kind of schemes were there in the past and they went to an extent that... They worked out a fantastic scheme for our household by giving the kitchen also as free. So today what their Rs. 2 in nothing, they had given the kitchens also free. So we have seen in the past in the south we are a quite experienced with their activities and what we are getting what we are expecting 25 to 30% of growth in Exo by going national. This is very, very conservative estimate for all types

**Sarag Parekh:** Yes, because you had mentioned 50% growth rate two quarters back.

**Ullas Kamath:** Correct sir. That's what, when I say conservative, that time you know the price cut was not there. Advertisements were not that much but now they have reacted. But end of day, Exo as a segment



as of now is growing at 40%. As far as your numbers are concerned I'll be surpassing that 50% as Exo divisions. I'm only talking about Exo bar. Profitability is concerned, my profit is far superior. I'll profiting beyond 50%, more than what I've committed two quarters back.

- Sarag Parekh:** Okay and in the mosquito repellent segment?
- Ullas Kamath:** Mosquito repellent segment, now that the rains are doing very well and just have come on time. This category will growing at about 20%. We should be surpassing the category at least by 2 - 3%. But even if the category is growing at 20%, I will grow at least 2% more than that in my market share.
- Sarag Parekh:** Okay. Because you also have DRDO growth along with the mosquitoes...
- Ullas Kamath:** Yeah, there was new categories sir, we need to educate the people on that. So I don't take the big number in the current year but the next year that could be the game changer for us in Maxo. But in the current year, the 2010 – 2011 we'll be spending the money on educating the people on the outdoor mosquito menace and dengue, chikungunya, malaria, what it can do, every paper is writing about it. So we will educate the people how they can protect themselves outdoor and the next year you can see real sale and there we do not have any kind of problems with the sales promotional schemes or and the one which are operating in Maxo, we don't have there. So hopefully we will be able to show good Maxo-Military numbers and the DEPA.
- Moderator:** Thank you. Our next question comes from the line of Shivani Mehra from Techno Shares & Stocks. Please go ahead.
- Shivani Mehra:** How is the outsourcing now? Has it reduced for Maxo? I think last year 40% of our Maxo coils are being outsourced- Maxo coils and liquids. Now has that come down with the stabilization of the Jammu plant?
- Ullas Kamath:** It has come down but again we are growing. So as of now it should be 70-30, 70 must be in-house and 40 must be outsourcing. 31st of March, we will make it 80-20 and next year.
- Shivani Mehra:** Can I get your view on how the detergent business has grown this year and how the national launch is going to go?



- Ullas Kamath:** Detergent powder as of now, we're very active and very strong in Kerala. We do not want to grow detergent powder in a big way at the national level. Our whole idea is to leverage our brand Ujala with such kind of fantastic brand equity in the wash segments. We want to leverage that. Kerala, being the home set of Ujala, we have done extremely well. We are almost become number one in the mid segment there and as detergent powder segment we have grown 62.75% when compared to the same period last time. Now we have launched the product in Tamil Nadu. We have launched in part of Karnataka. With this new Sachin's advertisements of Techno Bright, we'll go to all the big cities.
- Shivani Mehra:** This is currently still priced one rupee higher than Sunlight, right?
- Ullas Kamath:** I think now the variation— we must at least be three or Rs.4 more than them because they keep changing the price, they keep reducing the price, we don't. So I think it must be.
- Shivani Mehra:** We have maintain the price vis-à-vis Q4 sir
- Ullas Kamath:** Now the whole country is confused about the price of the detergent segment.
- Shivani Mehra:** Okay. And in GFSL versus Q4, how many pieces a day have we been servicing, it was around 25,000 in Q4 right?
- Ullas Kamath:** Now we have gone to about 32, 000 or 33,000 pieces we have already reached. Our target is to reach at least 50,000 pieces by 31st of March with the existing facility. So, everyday it is improving by 1000, 2000 pieces and now that the monsoon has come, is the first monsoon we're seeing, generally the laundry industry does very well doing the monsoon season.
- Ullas Kamath:** Monsoon we're experiencing in Bangalore now and probably after the monsoon I will be able to comment on that because we're learning there. We only started from November 15 onwards, so we're learning the business but response has been very encouraging and numbers are growing day by day
- Shivani Mehra:** And currently the operational stores are 33 and you have not increased?
- Ullas Kamath:** We have not increased. We are 35. 30 Snoways and 5 fabric spas.



- Shivani Mehra:** And are we planning to go into this in other cities other than Bangalore?
- Ullas Kamath:** No, after reaching the cash breakeven in Bangalore, we'll go to other cities.
- Shivani Mehra:** Breakeven is expected in FY11, right?
- Ullas Kamath:** FY11 and we are getting lot of inquires from all over the country but we will plan it in the next year not this time.
- Shivani Mehra:** Can you throw some light on the QIP issue and what do you have in mind?
- Ullas Kamath:** What we have in our mind is to go for inorganic growth and we'll try to acquire some businesses that are regionally strong and one has a national presence. So our idea is to acquire a couple of them. The talks are going on.
- Shivani Mehra:** Okay. Domestic?
- Ullas Kamath:** Yeah, it is domestic. Because big country for us. So we are domestic players and their creative money is to use to acquire them. So we are doing our best to acquire as quickly as possible.
- Moderator:** Thank you, Ms. Mehra. Our next question comes from the line of Chirag Dagli from PINC Research. Please go ahead.
- Chirag Dagli:** A quick question on JFSL, since the time we last spoke, have we come to a point where we now know how to take the JFSL model to another city in terms of franchising model or pretty much like how you've done in Bangalore.
- Ullas Kamath:** Absolutely. Now, I like the perfect question you have asked and the answer is yes. What we have done in the last couple of years washing everybody's clothes is that we have understood how to wash the clothes and we have perfected the art of washing the clothes now. Coming to the SOP (ph) we have worked with KPMG and have finalized a fantastic set of standard operating procedures and we have now the business model for franchisee arrangement. We have a business model for business associate arrangement and we also have the business model to go on our own. The Board yesterday discussed at length, how to take it forward. The Board is of the opinion that the big cities we should have under company's control only because that's where the money comes from on a long-term basis. So board is of the view



that we need to have the big cities under our control and the small cities, we should give it on franchising basis. So we are not finalized how we go about it. As far as your observation whether we have perfected the art, yes, we have. And 2011 and 2012, we will be entering at least four or five major cities.

**Chirag Dagli:** So when you mean big cities, you mean the initial launch of Hyderabad, Pune etc will happen through the companies own store.

**Ullas Kamath:** Yeah, Chennai, Hyderabad and Pune are similar to Bangalore and investment required is not much. So we intent going on our own into those three cities but with a rental premises, because in Bangalore we have invested lots of money in our own land and buildings but other places we want to go on a rental basis, so that plant and machinery is all that we have to invest in. We are certain going to Chennai, Hyderabad and Pune in 2011 and '12. Other metros, which we need to plan, we will do it in year 2012, 2013.

**Moderator:** Thank you. Our next question comes from the line of Dhaval Gada from Edelweiss. Please go ahead.

**Dhaval Gada:** Just two questions. One is on the Wadi bunder tender, any update on that?

**Ullas Kamath:** Yes. Wadi bunder tender it is still on the hold and the General Manager, who was in charge of this Mr. Murugan is retired. As soon as a new General Manager comes in, financial bid will be open and we will work it the tender. And a similar one we have put in Chennai also, technical bid we have qualified and financial bid that opening mid-August and the options we will know and apart from that we have got now 18 trends we are getting from Bangalore.

**Dhaval Gada:** Yes. My second question was on the Exo Safai, the scrub. Is it because we have given scrubs free with the Exo soap that we're seeing this volume growth in Exo?

**Ullas Kamath:** Exo Safai, what is given free has gone as a cost of production in Exo. Exo Safai growth what you see is growth of Exo Safai sale only.

**Dhaval Gada:** Okay. As far as the pan India the market share of Exo is concerned. So have you improved on that?



- Ullas Kamath:** It should have been definitely improved but numbers have not come so far. But in South India, we are still holding on with the 25% market share. All India by the next quarter, it may be able to catch up better sir.
- Dhaval Gada:** Okay and on this acquisition, by when can we expect any final decision on this?
- Ullas Kamath:** As of now I've got the upload from the AGM yesterday. We'll be starting our due diligences maybe in the month of August. I hope that a couple of months we should be able to close this.
- Dhaval Gada:** Okay and in the previous question that you spoke about for our launch to other cities from JFSL. What would be the size of investment that we would require?
- Ullas Kamath:** Maybe about six, seven crores per city is what we see because hi-tech machines we already have in Bangalore. We don't have to go with all kind of hi-tech machines in these three cities. What is the minimum requirement we'll go with that and all that extra care garment which comes for a wash, we can always bring it to Bangalore and wash it and give. Like designer stores we don't need any specialized machines there and for various other items which would require two three days of treatment we will get such machines there. If at all if we go on our own these three cities are first cities, we need about 6-7 crore maximum towards the prime machineries.
- Dhaval Gada:** And have we changed our shift that we were talking about from the institutional to the retail that is the household.
- Ullas Kamath:** The capacity what we have in Bangalore is to wash 40,000 pieces per day. Just now we are washing 32000-35000 pieces per day and I want it should be 50% should be the retail 50% should be institutional. And we are going as and when we get the additional retail load we are reducing to that extent the institutional load.
- Dhaval Gada:** Currently, they are operating one shift for institutional.
- Ullas Kamath:** Right now we are operating the entire three shifts. Two shifts we are operating, one shift we are operating for fabric spa, one shift we are operating for Snoways and one shift we are operating for institutional. Going forward my interest would be more in retail than institutional but institutional give us the credibility. So we would continue with that as long as I get my operating margins I will wash for them.



- Dhaval Gada:** Right and so any further update on the institutional side, we were looking at some business with operate as well.
- Ullas Kamath:** We are working on that and some of which we have already signed but the rental aspect will be starting maybe in a couple of months down the line.
- Dhaval Gada:** So some positives from there
- Ullas Kamath:** Yes, yes. It is very, very positive.
- Moderator:** Thank you. Our next question comes from the line of Ajay Thakur from Alchemy Shares and Stocks. Please go ahead.
- Ajay Thakur:** My question was on the Commonwealth Games that we are going to cater to. What kind of sales can we expect from the same?
- Ullas Kamath:** It's not a big sale because it's a business of 10 to 20 days maximum. So the whole highlight there is like your Jyothy Fabricare Service Limited has been identified at an international level for such a coveted event that will highlight but revenue wise we might do about between 1.5 crore to 2 crore with about 10 to 15% margin in that because we are operating out of Delhi, expenses are a bit of higher there. So the maximum business I feel about two crores is like a 10 to 15% margin.
- Ajay Thakur:** Okay and secondly we have witnessed in the past last year itself that we have variation in our EBITDA margin from quarter-to-quarter. So we can we expect the similar kind of trend to be followed in the coming year as well?
- Ullas Kamath:** I think quarter-to-quarter the EBITDA margin remains the same. At the same time the sales mix makes a difference in EBITDA margin because in this quarter if you see, we have achieved 23 point as against 26% same quarter last time and if you see the annualized, we have done only 19%. So EBITDA margin wise quarter-to-quarter we will be plus or minus 2% but annualized our hope is to achieve between 19 to 20%. We'll try our best to do that now that we have increased the Ujala pricing, we should be able to achieve



that number but if a sales volume comes more from detergent powder then that there will be under pressure.

**Ajay Thakur:** Okay and coming back to the acquisition that you're targeting. Is there any particular segment that we are targeting in that?

**Ullas Kamath:** In Fabric Care.

**Moderator:** Thank you. The next question comes from the line of Abhijeet Kundu from Antique. Please go ahead.

**Abhijeet Kundu:** The question was on the Exo performance. What is the category growth happening in dish wash because dish wash was going at a high rate earlier. So has there been any slowdown in the dish wash category as a whole in India because if Jyothy is growing at about 10%, the dish wash category which used to be earlier growing in the region were 20-22%. Is there any slowdown in that?

**Ullas Kamath:** As of now. I don't have that data. At present current data I don't have on dish wash segment for the quarter but the last year the growth has been about 10 to 12% only at the national level.

**Abhijeet Kundu:** Okay. So going ahead in case of dish-wash it would be primarily in case of Exo scrubber would be primarily the growth driver?

**Ullas Kamath:** No, no Scrubber is doing but the concentration and primary focus will be on a dish wash bar. And coming to your first question on this - we are spending the money on our product and Vim is spending the money and Henkel is spending the money and everybody are spending money, so that category will grow. So far the share of voice of everybody was very less. Now that the competition has set in, everybody will be talking about dish washing, dish washing and the category has to grow upward of 20% and at least when the category grows or when the new people are coming in there are very high chances **that you know like they will just get into Exo directly which is what our weakness in South India.** Most of the people who have used Exo are for the first time users of a branded product.

**Abhijeet Kundu:** Okay. So currently how many retail outlets do you reach in case of Exo?



- Ullas Kamath:** Exo has reached almost five lakh retail outlets. Last quarter it was 3.5, it is now five lakhs. By 31<sup>st</sup> of March they will be available in a million retail outlets.
- Abhijeet Kundu:** Okay. So with this growth in retail outlets the extra traction in this business should have been expected. How much of it would have come from the new outlet reach? Anything materializing there?
- Ullas Kamath:** We do not have the complete track how individual retailers off take and as to what extend the traction has helped us to achieve with that extra volume. By March 2011 probably we will be in a complete position that how many retail outlets are keeping our stock and agents have also captures the minimum off take from individual retail outlets that carrying a dozen then we know that is the pipeline stock and stockist data we will have. Our super stockist data we will have. We'll be able to capture the exact information of the one year of the launch of the product at national level. By March, I'll be able to give the complete information on that.
- Abhijeet Kundu:** Okay. And then in case of Maxo, I believe the other categories within mosquito repellents are growing at a higher rate the newer categories in the sense aerosols and the prices category and that is the reason why your competitors have been growing I think because they have a higher exposure to that category.
- Ullas Kamath:** One of the reason could be that, because the shift is happening from coil to the liquid and liquid to aerosol, but new comers are coming into the coil so rural is doing very well and when the rural does well, the coil does well and it's a combination of new people coming in existing people are shifting and even if you have the money to buy the liquid vaporizer, if don't have the power at home then again you go back to the coil, it's combination of all. Maybe as you rightly said it could be the reason that they are doing extremely well in aerosol probably somewhat higher growth but **28% under 200 crore quarterly numbers, 250 crore quarterly numbers**, it is a huge number because the **entire Mosquito contribution toward 150 or 160 crores**.
- Abhijeet Kundu:** And so about your new product in your mosquito repellent business, I am going to ask about the one with DRDO, you had launched a new variant in the liquid segment last quarter?
- Ullas Kamath:** Yes, we have launched that. The liquid vaporizers are in the market already.



- Ullas Kamath:** Aerosols is also getting in the market in a month time. By 31<sup>st</sup> March, we will complete all the portfolio products and household in cities and including the DEPA technology that is Maxo Military.
- Abhijeet Kundu:** Okay. Any initial responsible in your new product that is already a greater bit of the market?
- Ullas Kamath:** Liquid is doing I don't say it is doing extraordinarily well because there is one more liquid in the marketplace. We have All-Out, we have Mortein, and we have Maxo also. So far they have seen only Maxo as a coil now they will see Maxo liquid also and as we just start to spend the money on the brand then we will know exactly how the people have received it. So will spend during the next season, because now it is an off season we are spending the money in September, October when the season starts.
- Abhijeet Kundu:** Does the strategy of high-trade margins also play out there to an extent?
- Ullas Kamath:** So far there the margins are okay but there the MRP plays a bigger role and because initially it was 30 nights, people used to sell at Rs. 90 and now people are selling 45 nights at Rs. 45, so it's all Re.1 a night, it is what the MRP is. So there, it's a MRP gains and not the sales promotional scheme gains.
- Moderator:** Thank you. I would like to hand the floor back to the management for closing comments.
- Ullas Kamath:** We take this opportunity to thank all the people who have participated in conference call of our quarterly numbers and thank you very much for your participation and we will get back to you after the next quarter. Thank you very much for your time.
- Moderator:** Thank you very much sir. On behalf of Jyothy Laboratories, that concludes this conference call. Thank you all for joining us and you may now disconnect your lines. Thank you.