



“Jyothy Laboratories Q1 FY13 Earnings Conference Call”

July 25, 2012



MODERATORS: **MR. M.P. RAMACHANDRAN**
MR. ULLAS KAMATH



*Jyothy Laboratories Limited
July 25, 2012*

Moderator: Ladies and gentlemen welcome to Q1FY13 earnings conference call for Jyothy Laboratories Limited. As a reminder for the duration of the conference, all participants' line 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. Should you need any assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. M.P. Ramachandran, Chairman and Managing Director from Jyothy Laboratories Limited, thank you and over to you Sir.

M. P. Ramachandran: Good Evening everyone. We announced our Q1FY13 results sometime back. I have with me Mr. Ullas Kamathh. He will take you through our performance during the quarter and then we will open the floor for Q&A.

Ullas Kamath: Good evening friends. Welcome to the analyst call for Q1FY13 results of Jyothy Labs. Just to give the highlights, the sales have increased by 70.63% from Rs.123 Crore to Rs.209 Crore. Net Profit has increased from Rs.14 Crore to Rs.17.62 Crore, increase of 25.68%. We had indicated that there will be a lot of structural changes which we will be doing. That is taking the distribution from three layers to two layers. Also we were converting ourselves from credit sales to cash sales. There were some policy changes which we implemented in Q1FY12. We started that quarter with negative 19. At that time we had indicated that it will take two to three quarters for us to setback everything and we will be able to see the compounded CapEx at once. I am very happy to tell you that the results of whatever the structural changes we did in the last year have started paying the results. The results of what you have in front of you are the effect of that.



Jyothy Laboratories Limited
July 25, 2012

We have also brought in a small management team, which has been identified by Rangunandhan, in this particular quarter. In the current quarter, the advertisement spends has gone up which is almost doubled when compared to the same period last year. The employee cost has also gone up because we have started building the new management team. The input cost has also gone up. That has been taken care of with increase in retail price across all segments.

Now I would hand over to moderator who will open the floor for Q&A.

Moderator: Thank you gentlemen. We have our first question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh: Hi Sir Congratulations. This is Abneesh here. My first question is on the demand side. If you could tell us what will be the sustainable growth rate post the thing that you have done in the distribution and if you could take us through the innovations done in last two years. How much have they contributed to the growth?

Ullas Kamath: As far as going forward in 2013, we still hold on to the 25% growth as far as the JLL is concerned. As of now, our volume growth is upwards at 40% but for the year we feel that 25% should be doable from our side. Right now you see the synergy effects is because of Jyothy's & Henkel's distributors are doing part of each other.

Abneesh: Sir this 40% volume growth, if you could explain, is the inventory getting piled up? Is this growth because of distribution changes?

Ullas Kamath: It is not the pipeline filling in. If you see the quarter-on-quarter, last June we were negative 19%. So if you take that 19% into consideration our volume growth has been quite good even after taking a price hike twice since June 2011. As of now, the season has been fair. We have grown exceedingly well in Maxo and Exo has doubled in turnover. Exo's



*Jyothy Laboratories Limited
July 25, 2012*

doubling has happened because of the pure market share. If you see the market share numbers in the presentation, we have grown the market share by 3%. Maxo has done very well. Liquid launch has taken place and it is completely in cash and carry. If you see my debtor's position it is more or less the same as of March 31 which is around 22 days. Our creditor days, 90% of that is because of institutional sales and it is not stopped happening at the retail or stockiest place. It is actual sales. But because we have had the base of minus 19% you will see 40 as huge, but otherwise it is 30-35% is what we see from our side.

Abneesh:

Sir that was useful. My second question is on the Henkel turnaround. We have seen the results of the other key players. Soaps and detergents margins have rebounded. So if you could comment on your Q4 margins in Henkel and Q1 margins and how do you see the margins in the rest of the three quarters for Henkel? Based on the earlier guidance, where are we?

Ullas Kamath:

As of now, for Henkel we have repositioning most of the products after Raghu has joined in. You have seen the Margo commercial which has done extremely well in the east. You have seen the Pril commercials. So these two brands which we have more or less relaunched across the country are doing well. Advertisement spend has gone up now both in terms of Margo and also in terms of Pril. Last quarter we had 14.2 EBITDA margin in the Henkel business which has come down to 10% in the current quarter mainly because of increase in advertising spend. One thing that Raghu has put in place is the integration of sales and distribution channels across the country. So we are mapping all the distributors across the country who are in Jyothy as well Henkel. We will be working with the best of them. At this point of time, Jyothy sales is what I have told, but as far as Henkel is concerned, we have maintained the same as in the last quarter. Retail sales, which is the big component in Henkel business has taken a small hit because in the



*Jyothy Laboratories Limited
July 25, 2012*

month of May and June there were some issues in issuing the orders to all the FMCG companies. Going forward once you see consolidate both the company's sales together then you will see the synergy at 100%.

Abneesh: Can you say what percentage of Henkel?

Ullas Kamath: Henkel's business is about 15% and the dip there is about 3%.

Abneesh: 3% year-on-year for Henkel?

Ullas Kamath: Yes.

Abneesh: Increase in ad spent, is it one off because of relaunch or the next or two quarters this sustainability will be there?

Ullas Kamath: You can take the percentage of the advertisement within 10% to 12% of Henkel as well as Jyothy business.

Abneesh: Sir last question. Against your cash cow Ujala, there has been a recent launch, so how serious do you think is this competition because for them this is a very small segment? So are you unduly worried from it and on the ground are you seeing very aggressive promotion and advertisements in micro markets?

Ullas Kamath: We do not want to comment on the competitors move but we know what is happening in the market. As far as market share is concerned, we are still holding on to 73.5% of the market share as of June 30. So we are definitely not worried. But as any other prudent businessmen, we are wary that how to take it forward and we are working on that.

Abneesh: Thanks and all the best.

Moderator: Thank you. We have our next question from the line of Ashish Urganlawar from Spark Capital. Please go ahead.



*Jyothy Laboratories Limited
July 25, 2012*

Ashish Uppanlawar: Hi congratulations on the good set of numbers. Sir just wanted to know across segments and standalone business you have performed pretty well. What is leading to delay on the consolidated side?

Ullas Kamath: We are doing some free business for Henkel. Wherever we have additional capacities, we are producing Pril & Henko for them.

Ashish Uppanlawar: So this is a sale to Henkel is it as a subsidiary which is indicated in consolidated numbers. Okay and this will be the numbers in the stand alone numbers?

Ullas Kamath: Once we merge then it will go away.

Ashish Uppanlawar: Okay and sir you said that distribution realignment with Henkel, what is the major reason for this jump in topline? How does the scalability looks and till when we can see these benefits coming in?

Ullas Kamath: I think we should be able do it in the next three four years because the initial numbers that you are seeing now is only the beginning of the new combined strong entity of the Jyothy and Henkel products together. As of now, Henkel distributors distributing Henkel products and Jyothy distributors are distributing Jyothy's. But once both the entities are merged, then power will be far superior as a one entity. We will start billing all the ten brands together across the country. You will continue to see this kind of a growth according to me in the years to come and the next two to three quarters definitely it will be a little more. But we are very confident of achieving these numbers.

Ashish Uppanlawar: Okay and sir this 70% topline growth is it possible for you to give break-up between volumes and pricing?

Ullas Kamath: Volume growth is 35% is what we have got. 10% is what we have got by value, which is by the increase of the retail price. I have taken out the inter subsidiary transfers.



Jyothy Laboratories Limited
July 25, 2012

Ashish Uppanlawar: Looking at the numbers it seems that the raw material cost pressures are pretty high. So wanted your comments on how the raw materials are shaping up and any pricing increases further that would be needed that would be taken and would be reflected in the next quarters?

Ullas Kamath: At this time it is under our control. We are maintaining our gross margins. Going forward unless the entire industry feels the requirement to increase the prices we will not increase the same.

Ashish Uppanlawar: Okay and how do you see the outlook on raw material prices Sir?

Ullas Kamath: As of now it looks stable, but you cannot predict how the crude price behaves. Generally the entire industry takes the call and we just follow.

Ashish Uppanlawar: Thanks a lot. That answers.

Moderator: Thank you. We have our next question from Hemant Patel from Enam Securities. Please go ahead.

Hemanth Patel: Congratulations. Just two questions one in terms of the soaps and detergents margin for your standalone business. Even if I did remove your inter-company's sales, where obviously sales would be at lower margin, the margin profile for soaps and detergent margins has actually declined on a sequential basis as well as on a YOY basis. But some of the companies like Lever have actually indicated a flattish kind of a margin scenario on a sequential basis, so not indicating any kind of cost pressures over there. So wanted to understand is why particularly in our case it has actually gone down. Can you give some understanding on that?

Ullas Kamath: It is mainly because of the sales mix in our detergents. It includes our Exo sales also. Ujala's gross margin is at 70% whereas in Exo and other



*Jyothy Laboratories Limited
July 25, 2012*

detergents our gross margin is at 30%. So if you take both put together that is what resultant figure is.

Hemant Patel: In terms of cost per se, for let us say the detergents, have they actually moderated or likely to moderate in your view?

Ullas Kamath: As of now, we have grown 6% in the last quarter when compared to the same period last time. Most of us have taken upward of 10% price hike. So to that extent it has been taken care of. But going forward, at this point of time, it looks stable. There is not much worry on that as far as the raw material prices are concerned.

Hemant Patel: Your price hikes have been across including your mid and top end portfolio, Henko and Ujala Techno?

Ullas Kamath: Yes across board we have taken a price hike.

Hemant Patel: The second question I had is to do with distribution which had mentioned that you are integrating. So wanted to understand that during this quarter were any sales of Jyothy Laboratories sold through Henkel distributors' or vice versa?

Ullas Kamath: None of the Jyothy sales are happening to Henkel's distributors. But Henkel sales are happening through Jyothy's distributors which was started in month of June. They did sales of Rs5 crore.

Hemant Patel: Okay when do we expect this benefit to accrue?

Ullas Kamath: It already has started coming in now, but real benefit of sales will be seen probably from 1st October. But March quarter will be the best quarter because then there will be only one entity because as of now no matter we say that we are one but at the end of the day Henkel India's bills come and they will make a payment to Henkel India. Jyothy Laboratories bills it to the concerned distributor and we will get the



Jyothy Laboratories Limited
July 25, 2012

payment. So it is still seen as two different companies even though we say it is one. Once the entity gets legal merger then it will be one company called Jyothy laboratories Limited and then a lot of synergy will fall in place which I hope should happen in the last quarter.

Hemant Patel: Okay alright thanks a lot that is it from my end.

Moderator: Thank you. We have the next question from the line of Naveen Trivedi from Karvy Stock Broking. Please go ahead.

Naveen Trivedi: Good evening sir. Wanted to understand that in the Jyothy's standalone results there was around Rs.5 Crore jump as the staff cost. While in Henkel's staff cost there is a decline of around Rs.5.5 Crore. So was there any accounting adjustment that we have doing during this quarter?

Ullas Kamath: As far as the Henkel staff is concerned, actually the staff is less as compared to same period last year. So there is deduction in staff cost of Henkel. As far as Jyothy is concerned there are two reasons. One, there was a reversal of provision for incentives, which we have for the staff for the entire year, what they have not claimed in the quarter ended March 2012. If you lessen employee cost for the quarter ending but if you take the entire year of March 2012 it is in line with whatever we are seeing now. In the current quarter, the employee cost has gone up for three reasons. One is recruitment of the new management. Second one is because of the increment which we have provided and third one is the incentive what we have claimed. Now the company has got into a policy for providing incentives for the quarter whenever they achieve in the same quarter. Earlier we used to have the annual incentives and quarterly incentives to pay if they had achieved otherwise they could have carried forward. In the current quarter because most of our boys achieved the target the incentive is high because everybody who achieved the target took the incentive in this quarter itself. the current quarter you can get the same number as the employee cost.



*Jyothy Laboratories Limited
July 25, 2012*

- Naveen Trivedi:** Can you quantify the incentives number too if you can share?
- Ullas Kamath:** On an average the sales employee's incentive can be about 20% of their salary.
- Naveen Trivedi:** In terms of total staff cost, what was the number in incentives?
- Ullas Kamath:** It is about Rs.2 Crore.
- Naveen Trivedi:** You said that compared to Q1 previous quarter of Henkel, quarter of FY12 I assume it as a calendar year, there is a decline in sales costs because some staff have reduced so this 5 Crore is because of the same number, otherwise there is nothing else?
- Ullas Kamath:** Yes.
- Naveen Trivedi:** How many staff do we have in the Henkle?
- Ullas Kamath:** Now it must be over 120-125 people. It used to be 475.
- Naveen Trivedi:** The last thing I want to understand is that in the presentation you mentioned that our distribution network has reduced to do 2.8 million outlets as compared to in the March presentation we have mentioned 2.9 outlets. Apart from this thing in the presentation also we have mentioned that sales and staff has reduced to 1500 as compared to 1800 in the March quarter.
- Ullas Kamath:** These are all the actual numbers because this is the AC Neilson data what we are giving it to you. There are coverage of about 2.8 million is all given by AC Neilson and whatever the numbers they give the same number is put in our presentation. As far as staff of 1500 is concerned, this is the number of staff presently were there on our roles.
- Naveen Trivedi:** Okay you reduced the sales staff by 300?



*Jyothy Laboratories Limited
July 25, 2012*

Ullas Kamath: Yes.

Naveen Trivedi: Any specific reason?

Ullas Kamath: We are not reducing our sales staffs. Wherever we are getting the efficiency, we are continuing with them and any company for that matter sometime will take a strategic decision how to take it forward which is also in line with other companies in FMCG space. So to that extent we are very comfortable. We are getting some staff from Henkle also. When we merge entity, then within the same line or same areas we do not need two to three employees. So wherever people are left we are not including new.

Naveen Trivedi: Thank you so much Sir.

Moderator: Thank you. We have the next question from the line of Jehan Bhadha from Darashaw. Please go ahead.

Jehan Bhadha: Henkle sales were down year on year at Rs100 Crore for the quarter? From when do you expect the sales to see to uptake?

Ullas Kamath: If you see the quarter on quarter of the earlier period there is no sale reduction because there were lots of intra company transactions which they need to do that we are not doing. They had hair cut business which is not going to stay with us any longer. So we should take the product whichever we have taken from Rs390 Crore business or run rate is 20% more on that. So when you compare the numbers with the earlier period there are some businesses which we are have not taken over from them and they used to have this B2B business in your light to other companies which we have stopped. About Rs5 Crore of sales that happened in the June in through Jyothy, which is not reflected there.

Jehan Bhadha: Are you maintaining your sales guidance of Rs600 Crore for Henkel?



Jyothy Laboratories Limited
July 25, 2012

- Ullas Kamath:** Yes very much.
- Jehan Bhadha:** What is the cash balance right now with both the companies combined? What it would have been?
- Ullas Kamath:** Now we have a debt almost now Rs540 Crore. Henkle do not have any debt. The debt is what they have taken away from Jyothy, but otherwise our overall debt position is there in our presentation is Rs140 Crore.
- Jehan Bhadha:** So what is the other income amount of Rs16 Crore?
- Ullas Kamath:** That is the interest charged to Henkel because we get it 11.25%, we get it from Axis Bank and we charge at 11.5% to Henkel, so we have collected the interest and given to Axis.
- Jehan Bhadha:** Okay kind of other income is likely is likely to continue per quarter this kind of a rate?
- Ullas Kamath:** It will continue but it will be more or less, income received and income paid. Interest paid more or less will get written off. But once the both company is merged only the debt will remain and interest will remain.
- Jehan Bhadha:** And the likely interest cost for FY'13 are on net net for both the company what would that be?
- Ullas Kamath:** It will be about 11%.
- Jehan Bhadha:** I mean to say in absolute terms?
- Ullas Kamath:** About Rs.55 Crore.
- Jehan Bhadha:** Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Mehul Desai from HDFC Bank. Please go ahead.



Jyothy Laboratories Limited
July 25, 2012

Mehul Desai: Congratulations Sir for the good set of numbers. Sir just wanted your outlook in terms of Henkle in terms of margins. You have the net currently at 10% and you are saying ad spends would be around would be 8% to 10%. Do you think there is scope for margin improvement for the year in Henkle or do you think 10% is something satisfactory level for you?

Ullas Kamath: Actually we have been working from all the angles. One we need to increase our gross margin there. We need to see how we can get in the production efficiency. That is a first major work for us to look into and I will be extremely happy if I am able to maintain 14% -15% of the EBITDA. Interest is okay with me but EBITDA if I am able to maintain 14% -15%, I will be extremely happy. So our endeavor will be to increase the volume and get production efficiency. I will stock all the plants and once that is done I will be able to maintain the EBITDA margin at 14%-15%. But advertisement spend is what we are now spending which we will continue to spend but effort will be to take the EBITDA back to 14%.

Mehul Desai: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Shirish Pardesi from Anand Rathi Please go ahead.

Shirish Pardesi: Congratulations for the numbers. Basically I have two broad questions. One is that we are seeing the other expenses as a percentage of net sales have fallen down. What is major reason for this?

Ullas Kamath: These are all the fixed expenditure in the form of rent and things like that. These are all fixed.

Shirish Pardesi : The other observation that to my understanding because we are having Henkle business which is there and there is a loss in the business so why



Jyothy Laboratories Limited
July 25, 2012

the tax rates has gone up? Is that we have made a higher provision in this quarter at may be 23%?

Ullas Kamath: No we are doing at MAT.

Shirish Pardesi: So is this a broad tax rate for the full year?

Ullas Kamath: Yes because even if you have setting of a law considering at end of the year still we will be paying MAT, so we will be under MAT for next two to three years.

Shirish Pardesi: Very lastly you have done 25-30 days tour in India. Any specific learning from that and what it is actually Jyothy missing or may be opportunities if you can share that?

Ullas Kamath: We got lots of good learning across the country. The kind of corporate image what we have and the kind of service what we are doing as whole India is amazing. I was extremely happy to see our people working even in rural India. The region is selling Jyothy products and everywhere it was positive signs. So that has made me to believe that we can do any wonders to rule India.

Shirish Pardesi: Yes actually I am linking to the next question I saw your quarter numbers and presentation that mosquito repellent has shown 105% growth which is doubling. So is that a business in the mosquito coil or household insecticide segment because there is a down trading and people are using more coils and less aerosols?

Ullas Kamath: Historically we used to sell mosquito coil only on credit because we always believed that when the mosquitoes comes the product should be there and even if vertical law do not give us the demand draft that we used to supply on credit in the past. Last year June 2011 we took tough decision that we will never consider thing for credit and all of a sudden there was drop in our sales in the quarter of June 2011. We sold the 30%



Jyothy Laboratories Limited
July 25, 2012

less than what otherwise we should in the same period because if you see now people have understood that Jyothy needs business and they have started to give the demand up. So what you see is the real sail now, because I did poorly in the June 2011 quarter it looked like that if I have grown double but actual growth is about 30%.

Shirish Pardesi: Yes it is amazing to see that in cash, the rural economies buying mosquito coil, but my bigger question is that if you look at the A&P spends, is that if advertising is less than more promotions will happen in the most set of coils?

Ullas Kamath: We have reduced the sales promotion also and it is the first mosquito repellent business we are positive on contribution. So we have spent on advertisements and reduced the sales promotion schemes. When we launched our liquid, we spent on advertisements. People have also given us like cash for sales and we ended with positive contribution in the current quarter. This is the first time we are seeing that after long time in mosquito repellent business. I think our first question whether people are going for low cost coils, no it is not. So in the coils they are continuing with the coils and the liquid is still contributing 50% of to our business. We have done well because of the new creative launches which we did with Madhavan. Hopefully this will continue.

Shirish Pardesi: My last question on the A&P spends. Will you be able to share how much the advertising part and the promotion part you generally benchmark within or is there any policy within the management group thought process?

Ullas Kamath: So far the policy was that if required, than we should do that. But now as Radhunandan is on the board, and he will be taking the applications in the quarters to come and he is a person who always spends the money on the brand and very, very less on sales promotion. He has already started withdrawing the schemes from the market place. This has helped us gain



Jyothy Laboratories Limited
July 25, 2012

our profitability and going forward you will see more money on the brand and less money on the sales promotions.

Shirish Pardesi: Any progressive number to Ambattur land sale?

Ullas Kamath: Not at this point in time.

Shirish Pardesi: Alright thanks for opportunity thank you sir.

Moderator: Thank you. We have our next question from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: Just two quick questions, the simpler one first. Do you see a poor monsoon having any impact on Maxo demand? Would there be a reduced need for the product if the monsoons are a little milder than before?

Ullas Kamath: I will agree with you if monsoon is bad, if the water is not there and mosquitoes will not be there as much.

Dipen Sheth: The need for the product would come down, so I am not just talking about your sales, but across all manufacturers.

Ullas Kamath: There are no mosquitoes if the summer season is passed and the monsoon is not there, it directly effects, even for a week it affects our sales.

Dipen Sheth: Post the Rs13 Crore interest charge that we have taken in Henkel, the PBT loss that is Rs3 Crore now the Jyothy itself is paying about Rs15 Crore in interest every quarter and I suppose that is the bulk of that interest is attributable to get for the acquisition. So if as a management accountant I was to note that Rs15 Crore then the Henkel business is actually done Rs18 Crore loss?



Jyothy Laboratories Limited
July 25, 2012

Neetu: No if you see a Henkel result there is an interest line. So that is something which it is pain to do.

Ullas Kamath: It is after loading that interest it is Rs3 Crore loss.

Dipen Sheth: After loading that Rs13 Crore interest that entire Rs13 Crore is paid to Jyothy which would get cancelled if you were to consolidate the numbers. But then Jyothy itself is paying about Rs15 Crore of interest?

Ullas Kamath: Here I would put in this way. The Henkel business is able to service the entire interest if they service the entire interest they get into Rs3 Crore of loss. Whatever money we have borrowed directly from Axis Bank they will end up with the same number. Whereas in the case of Jyothy we collect and will just pay and the difference is only point of a percent what we are keeping at Jyothy Labs Limited as an administrative cost.

Dipen Sheth: So that's not a significant number in any case?

Ullas Kamath: No.

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

Sachin Kasera: Can you give some idea on which brands have done well is it across all brands and how the breakup now in terms of revenue?

Ullas Kamath: Pril, Margo and Mr. White that is an order which they have done well, Pril Margo and Mr. White.

Sachin Kasera: So they have grown higher than the average volume growth that you are reporting?

Ullas Kamath: Yes.



Jyothy Laboratories Limited
July 25, 2012

- Sachin Kasera:** Secondly coming back to Jyothy on the insecticide business I believe we had an aggressive campaign for our liquid side. So if you can share what is the revenue from liquid of the total mosquito segment for the quarter vis-à-vis March or may be better compared to June quarter last year?
- Neetu:** June quarter last year was hardly anything just Rs1- 2 Crore. This time it is 15% of the total revenue.
- Ullas Kamath:** What does it translates to 15%?
- Neetu:** It translates into Rs6 Crore in the quarter.
- Ullas Kamath:** We have got a sale of about Rs6 Crore in the quarter against Rs2 Crore last year.
- Sachin Kasera:** I think you did mention that there new management team joining with Raghu now. Could you just highlight some thing on that?
- Ullas Kamath:** Yes we have already taken brand manager for our personal care division. We have taken packing heads, we have taken modern trade heads and we have already issued the letter of offer for a Zonal Head and Sales for operation in Karnataka and for the western region. Offer letter has already been issued for a procurement head and recruitment for Northern Zonal manager is underway. Discussions are at the final stage to recruit a manufacturing head and R&D head. So the whole set of people will be there by the next quarter when we have this analyst call I will be able to give everybody's name. But fantastic team is building.
- Sachin Kasera:** And last thing on the debt. Would you be leveraging any object on that more or less?
- Ullas Kamath:** No sir we have more or less we have decided to maintain the debt for some time now and concentrate on the business because both me and Rangunandhan are in the market place, meeting staff and distributors and



Jyothy Laboratories Limited
July 25, 2012

consolidating and bringing in the talent team. Lots of things are happening and we will be concentrating for at least one quarter on the business. At this point time at least that you can take the debt as debt at 11.25%.

Sachin Kasera: So this mainly because we are not able to get the right prices that we are looking for the assets?

Ullas Kamath: Absolutely.

Sachin Kasera: Can you give what is the type of gap, is it very high 20-30% between your expectation and what the offers we are getting?

Ullas Kamath: Real estate is not doing well. People who are talking have money in bank. I do not want 25% of money and there after get stuck with them. So I have been very cautious like accepting the offer. Offers are coming but unless it comes to clarify the board, we will not be selling the real estate.

Sachin Kasera: But do we see any movement in a second half H2?

Ullas Kamath: Should be because I have been trying and have been talking to people. But end of the day it is value preposition and also the seriousness. The real estate in south is not that great at this point in time.

Sachin Kasera: Okay thank you very much.

Moderator: Thank you. We have the next question from the line of Nikhil Vora from IDFC. Please go ahead.

Nikhil Vora: Just one question, just fairly on the syndication that Henkle brands how does it really look like right now given that Henkle brands have been slightly more mid to premium end whereas Jyothy's legacy has



*Jyothy Laboratories Limited
July 25, 2012*

historically been at the mass end, so does it mean significant change in distribution or our own organization DNA and so on.

Ullas Kamath: Absolutely that is where we are getting a synergy from. With Jyothy predominantly rural and semi urban and Henkel being only urban, when we merge both entities together the products from Ujala to Margo will have all the categories. There are lots of things which you can work to get the synergies of the companies and what you said is exactly what we want to achieve, that the DNA of Henkel as urban and DNA of Jyothy is semi urban and rural and together will have end-to-end solution for all the products across the country.

Nikhil Vora: Would it also lead to certain brands not being preferred as historically Jyothy had a limited portfolio to go with? So are we now clear about which brand could really lead the way forward from here?

Ullas Kamath: Absolutely. In the past when we had three brands, Mr. M. P. Ramachandran and Ullas Kamath used to be there. Now we have a whole team of people and their job is to take care of all these brands. We have personal care head now and his job is to take care of personal care. We are looking for other category heads their job is to take care of all the brands 10 brands all the SKUs skills across the country and spend the money on the brand. So the fact that they are giving new management team is to answer your questions.

Nikhil Vora: That is really speeding to see the entire organization buildup now. Thanks for this and all the best.

Moderator: Thank you. Our next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: Congratulations on a very good set of numbers. I had two questions. One was on your homecare business. You have shown substantial



Jyothy Laboratories Limited
July 25, 2012

improvement in sales growth, but losses are still there. So going ahead what is your view on improving the profitability there, essentially Maxo. Secondly the gross margins have been lower because of the component of detergent sales to Henkel. Now are we going to see any improvement in gross margins going ahead?

Ullas Kamath: I will first answer your first question. Maxo sale has doubled because of lower rate last time. The second one is that we have taken away the sales promotion. So to that extent we have taken a bold step and we have been given the complete support to go and execute it. So what you see the numbers now, we will continue to have the similar numbers. Reduction in the losses for me is as good as making money in the last one quarter. So going forward you will see more of spending on advertisement and less spend on sales promotion and that should continue the way we have performed in the current quarter probably the next year when the mix changes. Right now, we have 85% coil and 15% is liquid. But as the mix changes in the next year then the profit will be far, far superior because the liquid has more gross margin than the coils.

Abhijeet Kundu: And in case of your overall gross margins what is the call?

Ullas Kamath: We will be able to maintain the same gross margin, 40% is what will be able to maintain. But right now our growth is coming from Maxo and also Exo. In both the places our margins are lower when compared to Ujala and detergent powder. We are trying to maintain at 40% for Ujala, Jyothy's portfolio but Henkel's portfolio is about 25%. Through synergies in production and in sales and distribution, we should be able to manage overall in Jyothy's portfolio around 40%.

Abhijeet Kundu: Okay thanks a lot.

Moderator: Thank you. Our next question is from the line of HR Gala from Quest Investment Advisor. Please go ahead.



*Jyothy Laboratories Limited
July 25, 2012*

HR Gala: Congratulations Mr. Kamath for really good set of numbers. If you can guide us through in terms of the EBITDA margin, excluding the entire component of other income this quarter we did something like 11.7%. What is your take for the full year?

Ullas Kamath: Last year we did about 12.5%. This we hope that it should be between 12% and 15%. Because Q1 has always been bad quarter for most of the FMCG companies. Last quarter, which is March 2012 quarter, we did extremely well with a sequential EBITDA of 16.64%. But the year always starts with the lower EBITDA because advertisement expenditure is more and in the current quarter our employee cost and advertisement has gone up. So we are starting with 11.87%. But hopefully it should be around 15% by the end of the year.

HR Gala: Okay fine sir can you just tell us something about the laundry business. How it has done?

Ullas Kamath: For the current quarter we have grown by about 40%. We have not increased any retail outlet. For the same store business we are up by about 40% and we have got the railways business, DIAL business in Delhi. They are just consolidating because the board took a decision in JFSL that current year let us try to see how we can make money fast there and then we go for expansion for other cities. At this point in time we are consolidating more in JFSL.

HR Gala: Sir last question from my side, looking at the way in which monsoon is progressing, do you think that we will be able to maintain 25% type of sales growth this year?

Ullas Kamath: We should be able to but monsoon is something which you cannot predict and mosquito repellent business will have a direct bearing on water and resulting into the mosquitoes. To that extent even if there is a weak delay or if there is no monsoon it affects our business directly or



Jyothy Laboratories Limited
July 25, 2012

indirectly. As per the other business are concerned for example in the case of Ujala a bottle will last for about 45 days. In 45 days is really doesn't matter whether the monsoon comes in between or doesn't come in between, the availability of the water to wash is very important and that affects entire detergent space as such. So people do not have the water to wash their garments and then question of putting Whitener does not come in that. That is the worst scenario. In the past we have not come across that situation at any point in time. But if at all, it affects first the detergents and then the post wash. But otherwise rests of the portfolios are not directly as you said affected by monsoon. Most of our SKUs are Rs.10, Rs.15, Rs.20 but doesn't matter much any way further.

HR Gala: Okay fine and thank you very much and wish you all the best.

Moderator: Ladies and gentlemen due to time constraints that was the last question I now hand over the conference to Mr. Kamath for the closing comments.

Ullas Kamath: Thank you very much friends, I hope I have clarified all your queries. In case if something we are not able to answer your queries because of the time constraint you can get touch with either me or Neetu at any point of time. We will be available and thanks again for your time and patient hearing. Thank you.

Moderator: Thank you gentlemen. On behalf of Jyothy Laboratories conference call that concludes this conference thank you for joining us you may now disconnect your lines.