"Jyothy Laboratories Earnings Conference Call"

August 12, 2011

Moderator: Ladies and gentlemen, good day and welcome to the Jyothy Laboratories Limited Q1 FY'12 earnings conference call. Joining us on this call today are Mr. M.P. Ramachandran, Chairman & Managing Director and Mr. Ullas Kamath, Deputy Managing Director. 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. Should you need assistance during the conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this being recorded. At this time, I would now like to hand the conference over to Mr. M.P. Ramachandran. Thank you and over to you Sir.

M.P. Ramachandran: Good evening friends. This is a discussion on the quarterly results, which we have declared just a few days back and I will invite Mr. Ullas Kamath to give you more information about all the fact and figures. Thank you.

Ullas Kamath: Good evening. Ullas Kamath here. I welcome all of you to this analyst call and the present quarter June 30, 2011 there are a lot of changes, which we have made internally at Jyothy Laboratories Limited just to ensure that integration will take place smoothly and this business conference call I would to explain to each one of you what we have done in the last three months and what exactly we will do in the coming couple of quarters. So maybe I will take about 15 minutes to take it through the event, which has happened at Jyothy in the last quarter and then I will take questions one-by-one and we are here as long as you wish us to be here. We will be here to take your questions.

In June 3rd analyst meet what we had in Taj wherein most of you had come we had explained very clearly saying that Henkel acquisition is the pride for Jyothy Laboratories Limited. It is going to be a turning point for Jyothy Laboratories Limited's history and that acquisition has made us think differently post acquisition and acquisition is complete as of May 31 and today we are running the company effective from June 1 we are running that company both operating out of Chennai also operating out of Bombay.

When we have looked into the dual business after acquisition there we have found some good things in Henkel and we also found some negative things in Henkel, wherein negative things we are dispensing with.

One of the positive things what we have seen for the purpose of integration is the distribution channel. They have 750 distributors and about 1700 sub-stockists and after getting into that business we understood that in entirety their sales is on cash and carry at 5% distribution margins and there have the sale cycle from 1 to 27 and 27th they close the sale and whatever the cheques we have received before 27th got cleared that is the only sales they made and all the distributors who are doing this sales at 5% they were reasonably happy in doing the business with Henkel. Whereas contrast to that at Jyothy Laboratories Limited for a very long time I would say at the national level for the last 20 years at the regional level for last 27 years we always used to follow three levels of distribution as all of you are aware of. First company to the super stockist then super stockist to the distributor then distributor to the market and so the channel margin what we used to pay for CSA areas whereas super stockists are there in a normal year 65% of our turnover comes from the super stockist area, which is 5% margin for super stockist, 8% to the distributor and 10% to the end retail market. That means 23% is the channel margin as against the Henkel 5% to the distributor and 10% to the markets that is retail market 15%. While we have taken addition at Jyothy's board that we need to integrate the sales effective from April 1, 2012 post merger. The thinking was that when do we align the trade margins do we do now or post March 31 and board took a decision in the last board meeting itself that it is better to do before we align, before we merge we need to bring down our trade margins 23% to probably 16%. So there will be a saving of about **7**%. So we took the decision of getting away from the super stockist. We want to get away so that we will be working with two layers, which is company to the distributor and distributor to the market. Also Henkel has 29 depots across the country and we felt that wherever we do not have the depots we can operate out of their depots.That is the one major restructuring what we have done. So it has impacted our sales to the extent of 19% in this particular quarter. In July also we have seen some reduction in our sales but in August the normal sale has happened.

Now why the sale reduction and what is its impact on the market share is as follows: when we stock the sales to the super stockist generally we carry about 30 to 45 days stock and he will lend those stock in the market place on the credit so we need to give sufficient time to clear his stock in the market place. That time we will not be able to do any sales to him. So we have not sold any stock in the last quarter to our super stockists and we only allowed them to send their stock at the market place and clear all dues. As on March 31, 2011 if you see our balance sheet outstanding receivables was Rs103 Crores. But as of June 30 it has come down to Rs48 Crores. Even though you do not have the numbers with your quarterly thing but the outstanding as of June 30, 2011 is Rs48 Crores that means the reduction of Rs55 Crores in the receivables. As of yesterday the outstanding is less than Rs25 Crores. Over a period of last three months we have recovered more than Rs75 Crores, Rs80 Crores we have recovered the money from the market to that extent one layer we have completely dispensed with.

The second one is that what is the impact on the margin is that we see at least 3% point going up 300-basis point going up in our net margin because of this adjustment by the end of March 2012 and now the normal sale has already started from August onwards. This is the first thing what we did. That is changing the distributor channel. One channel taking out, reducing the sundry debtors from Rs103 Crores to Rs48 Crores right now it is less than Rs25 Crores and pipeline stock what we used to keep. Now pipeline stock for all the products put together has come down to Rs37 Crores and investment in the working capital from Rs113 Crores as of March 31 has come down to Rs77 Crores and this is what has changed the way we are doing the sales and going forward we will be continuing the same pattern. This is on the topline. As far as the bottomline is concerned there is a reduction of 45% if you see the net profit it is mainly due to most of our expenditures are fixed in nature. Other than the raw materials most of the things like overheads, the staff expenses, administrated expenses, and overheads are fixed in nature. It has to be observed at a lower base hence there is a reduction in our EBITDA margin and is only temporary. August onwards we started getting our normal EBITDA margins.

In the last quarter the input cost was also up and we were not able to increase retail price of our product but effective from July 1, we have increased the retail price of most of our products probably about 7% to 8% you receive that volume increment in the coming quarters because of the price increase what you have taken in Ujala, Maxo and also in Exo. Apart from this Henkel we took over in June 1 immediately we got into the production area first then the sales then the distribution and then thereafter towards the marketing and we have drawn clear 120 days program as we mentioned in the last analyst meet and that has started from June 1. It will get over September 30 and from October 1 we will be operating out of Bombay office. Henkel business here and as of now we have seen lot of savings in the procurement because we are doing that and when we took over the company there are 475 people. Now there are 220 people and we are not increasing the staff. We are working with the existing front line staff. They are doing extremely good job, month-on-month we are seeing the sales going up. When we took over there was a about Rs34 Crores of monthly sale. Last month it has gone to 40 and probably in the coming months we will take it up to 41.2 monthly sales is such a way that annualized sales should be exceeding Rs500 Crores in these existing Rs400 Crores of annual sales.

Whatever restructuring we have done the distribution has affected our primary sales but it has nothing to do with the secondary sale. When we say secondary sale it is from the distributor to the market, that sales which we are controlling to our field force which is inline with our expectation. The market share, we are keeping intact even though if you see product wise segment wise sales, there is a reduction. This only because of that channel stock drying and definitely nothing to do with the market. Especially in the case of Maxo there is a reduction of the sales up to 33% in the current quarter. We are holding onto the market share #1 position in rural India and #2 position in the urban India. We are holding onto the same market share whereas 70% of our Maxo sales come from our super stockist area and in super stockists area our sales has come down by 41%. That is what has actually resulted into 33% reduction sales in Maxo. But we are sure that in the coming quarters we will be able to makeup as much as possible but still our market shares will be able to hold on.

We had also mentioned in the June that to integrate and to run the company efficiently both Henkel as well as the Jyothy in the years to come we are taking good management team headed by our CEO and I am extremely satisfied extremely pleased to say that we have identified the entire team and team will be joining in the Q3, that is December quarter. They will be joining and as I committed in the next analyst meet I will be able to present them to all of you. The management team consists of a CEO, three category heads one for fabric care, one for household insecticide, one for personal care and there will be one supply chain in charge. Combined turnover of both the companies for the March 31, 2012 will be in excess of Rs1300 Crores. We know that with this new management team coming in the growth of both the companies will be in line with the guidance what we are given that is around 20% topline growth. We hope to get from 2013 onwards and combined with bottomline growth of at least 15% from 2013 onwards.

In the case of turnaround plan of Henkel some of the things what we have done so far is that we have taken over the production & procurement. We have shifted the office partially from Chennai to Mumbai. We have changed most of the advertising agencies. Campaign for this product will start from October 2011 and as of now we have turned around the EBITDA negative from -8% as of March 31 to positive 8% as of June 30. Going forward we are sure that whatever we have committed 10% EBITDA margin in Henkel will be able to maintain for a year 2012 and thereafter every year 2% minimum in the year after year. That is something which we are very happy about the turnaround which is happening now. From March 31 there will be only one entity Jyothy Laboratories Limited and their distributors, their employees will be on the roles of Jyothy Laboratories Limited. We will be aligning the distribution margin of Henkel distributors probably from 5% we will make it 6%. Jyothy distributors right now get 8%. It is our chairman's view that we should make it as a 6% plus 2% that is 2% as an incentive in the year one. So our distributors and their distributors will get 6%. All products will be given to everybody in such a way that the synergies what we are expecting, that we selling their product in rural India and they selling our product in urban India, all things will be in place from April 1, 2012.

With this I will go ahead with your go ahead with your questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may please press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Participants are also requested to limit their questions to two during the initial round. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on mosquito repellent, when do we see growth coming back and why will it come back? If you see the other listed players who have come out with number 35% to 40% kind of growth consistently so what will make the growth numbers come back and you said market share is still the same. Wanted to understand how the market share can be the same?

Ullas Kamath: I was expecting this question. Let me take you through the mosquito repellent business as such. Whatever market share we are talking about, there are three market shares- coil, liquid & aerosol. As of now what we are talking about the market share is in the coil. The other listed entities which have shown upward of 35% growth is in household insecticide. They are extremely good in the liquid and aerosol and that has higher value realization. Their growth has come from that. If you see the growth in mosquito repellant, it is in the coil category, in which 90% of our turnover come from, that it is single digit category growth whereas in the case of liquid and aerosol the growth has been 21%, 22%. So they have got this advantage and also the value realization as per the liquid is concerned is much, much higher. Whatever I have spoken is only on the coil and market share we are holding on is because that wherever we are from we continue to be strong.

Your second question is when you will start seeing the numbers. I think we will start seeing the number from August onwards because we are extremely strong in Maxo in the eastern region and as had I explained that 70% of sales of Maxo comes from the eastern region where we had taken out the complete layer all together that has affected a reduction of Maxo sales to the extent of 20% to 25% in the primary sales. As per the secondary is concerned everything is normal, basement is normal and growth what we are seeing there is normal because that what if I am holding on to the market share then naturally my secondary sales will have grown by as much as the category sales. Category sale has grown in the last quarter about 10%, so my secondary sales to that extend will grow. So there are no worries from our side. But at the same time going forward our thinking is very clear on Maxo that we continue to work the way we have been working on Maxo without reintroducing any of the schemes. But we will be concentrating on the liquid and aerosols. Also we are ready with our new advance version of liquid and that will be in market probably in October

Abneesh Roy: How much has your vaporizer grown?

Ullas Kamath: Our vaporizer growth has been 15% in the last one quarter

Abneesh Roy: How was the new introduction the DRDO related? How is that?

Ullas Kamath: DEPA we launched in Kerala. The response has been very mixed. I do not say it is highly encouraging there but we have spent little money there. It is too early to take the consumer feedback. What is that we have realized that the people have to be educated on the application of any of the repellant kind of the product.

Abneesh Roy: Other applications are already there, right?

Ullas Kamath: The entire category is very-very small. If all are put together, the category is not more than Rs100 Crores. So when you are introducing this new tissue form, which we have introduced in Kerala, every month we are selling about Rs.10 to Rs.12 lakh. It is not a big sale. But it has been accepted by the people. We have not gone to rest of the places because it is a huge investment from our side to spend the money on building the category. We intend doing some kind of sweet sampling along with our other products, which probably will start from September onwards but the product has shown it efficacy. People who have used are extremely happy. Government is placing the order on month-on-month and we are getting some good orders from CRPF and from primary health centers. Government has already approved this under the vector borne diseases program, which is about Rs60,000 Crores money, which government has earmarked for the malaria eradication in that program. This particular product has been listed already and already gone to the state government. As far as the domestic market is concerned it is only the when we are capable of investing huge money, we can see the sales. Having said this we are very, very hopeful that this particular product will be a game changer for us in the years to come.

Abneesh Roy: My second and last question is on the fabric care 18% decline what is the reason for that and when do we see growth coming back there?

Ullas Kamath: Decline is only in the primary sales. There is no growth and there is no decline in the secondary sales. There is no decline in the market share and I again I am repeating for the understanding of all of you that whatever reduction you see it is only one time restructuring

Abneesh Roy: Just one remark why doesn't any other company give the number primary, secondary? Why we are only you giving these numbers and divergence is also there. What is the reason for that?

Ullas Kamath: Others do not have probably as much as they have the data on the primary and secondary and when you have direct distributors sales and they may not be able to capture the secondary sales thereafter because we have 1800 field force we already believed in a secondary sale that is the sale, which happens on a distributor to the market, which is what we primarily believe in that should be the real sale and we capture that so whenever we talk about the sales we talk about the primary sales from us to the distributor and the secondary sales of distributor to the market and secondary sales and the market share will always be going hand in hand.

Abneesh Roy: Thanks and I will come back with more and all the best.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from PINC Research. Please go ahead.

Naveen Trivedi: Good evening Sir. My question pertains to the can you share the segmental sales for Ujala as well as Maxo?

Ullas Kamath: Right now I do not have the secondary sales data because it is not captured in our balance sheet. But I will say that the secondary sales for all the products are in line with our growth, what we have estimated in the past 15% to 17%. We are there as the non sales area in the southern states. Other than southern states everywhere it is super stockists that means in a normal year 65% to 70% of our sales come from a CSA area super stockist area and the remaining will come from distributor area. In the non sale area in the last three months we have grown by 17% and in the CSA area we are degrown by 48% So answer your question what will have been our sales in the secondary it will be at least 17% growth in the secondary level because that is what transforms into trajectory.

Naveen Trivedi: Sir once you say it is non CSA does it mean that you are talking about the secondary sales?

Ullas Kamath: These are the secondary. This is the company to the distributor sale what we call. When you have a three tier sale the primary sale in CSA area is considered whatever the sale we make from us to the super stockist that is called primary but when there is no super stockists the sale whatever we make from us to the distributor that is considered as a primary whereas distributor to the market that is secondary whereas in the first level also from a distributor the market is considered as secondary.

Naveen Trivedi: Non CSA sales are also relatively very low compared to the CSA sale. Once you are saying 17% sales growth in the non CSA segment I do not understand the mathematics in terms of the secondary sales growth you are saying that will in line with your expectation, can I understand was that number similar to the last three, four quarter numbers?

Ullas Kamath: I have not kept the last Q1 secondary sales data. I only have this secondary data for the current quarter especially in the non-sales area, which are grown by 17%.

Naveen Trivedi: Can you share how much of the volume decline in the Ujala as well as in the Maxo for the current quarter?

Ullas Kamath: Ujala has declined-- the current quarters in the non-sales area we have not declined. We have only declined in the CSA area. That is again because we are dispensing with one particular level. We are removing it, so that is how the decline has happened. But otherwise if we have maintained the same market share then the secondary sales will remain the same there is no reduction in the sales in the market place at the secondary level.

Naveen Trivedi: Despite taking the price hike in Ujala Supreme as well the lower spending on the channel margins, why were our margins under pressure for especially for the Ujala Supreme?

Ullas Kamath: I just clarified the price hike we have taken from Ujala is only from July onwards, we have not taken in the last year in the quarter, which you are referring to, there was no price hike. The second one is that when you take the price hike effective from July the realization will happen from July month onwards so it is not captured in the June quarter and the cost pressures in June quarter was there for everybody in the raw material. The price increase what you have taken, which you will see the impact only in September quarter.

Naveen Trivedi: If I am not wrong the 17% price hike we have already taken in the second half of FY'11 the Rs.12 bottle has been went to Rs.14 so I think the Q1 should take the benefit of that 17% also?

Ullas Kamath: This is over a year back Rs.12 to Rs.14 we have taken a year back.

Naveen Trivedi: It was in the September of FY'11 at least the Q1 numbers of FY'11 was getting the benefit of this price hike. I mean this quarter at least we should get the benefit of that price hike?

Ullas Kamath: Whatever we have got now the profitability in Ujala is only because of that price hike. We have spent the money on advertisement and the raw materials prices have has gone up. The VAT is something which is impacted us in the current period. Most of the places the VAT used to be 4% and now it has gone to 12.5% for Ujala. So there are various factors which has compelled us to increase the retail price once again from Rs.14 to Rs.15, which is what we have done from July onwards, the result will be seen in September..

Naveen Trivedi: Now you are saying that after September onwards, the things are normal. Can you just throw some light on the next nine months? Since last two quarters, we are getting volume pressure on Ujala Supreme. So would there be any benefit in terms of volume growth and all?

Ullas Kamath: There are two elements in your question one is the volume, volume growth in Ujala we always expect about 7% to 8%.In current year also we are hopeful of at least getting 6% to 8% growth. The second thing is that like how it will impact the profitability. It is very, very simple the crude price if it comes down and there is no need to worry for anything else automatically for us the gross margin will go up. The price increase what we are taking is because now we are under pressure and we thought some 14 to 15 will not make that much impact at the consumer hand. To be more cautious we are increasing the price and also in the last year we have spent a good amount of money on advertisement, which is when compared to the earlier year it is almost double and that has obviously impacted our profitability. But as a corporation we have got that additional benefits and Ujala Detergent Powder is doing very well, and going forward the next three quarters if the crude price is under control I think that will be back into the normal profitability of 18% to 19% of EBITDA margin is what we expect all products put together.

Naveen Trivedi: Any impact of price hike on Ujala Supreme? Any structure changes in whitener market competitors who are doing the same business?

Ullas Kamath: For whitener business, there is no competition and we are the market leader with 32%. The nearest competitor is at 3.5% with Robin. There is not much to worry about it. But it does not affect our volume at a secondary level, we are still present in 3 million retail outlets and market share we are holding intact.

Naveen Trivedi: Volume market share I think we are around 55% to 56%?

Ullas Kamath: Yes that is because of lot of small players who are operating at a district level, very difficult to identify them and we cannot compete with them because they are all small players who are doing Rs.50-60 lakh turnover and they are more than 300 people across the country. So when you see the value and volume market shares it is predominantly because of small players operating at a regional level.

Naveen Trivedi: Last question on the interest cost for the quarter it is around 18 million, I think as you have already mentioned in the inventory figure that the order reduced especially for the receivables and all, I do not understand these numbers?

Ullas Kamath: This is our working capital limits which we have taken now because the funding for Henkel. As you know that we have taken Rs.600 Crores, out of that Rs.450 Crores is NCD with zero coupon and premium payable at the time of redemption. Then we have taken another Rs.150 Crores of working capital out of that we have used about Rs.90 Crores and the interest is based on that and this money what you have taken.

Naveen Trivedi: Even for the Henkel numbers the interest cost was already there it is around Rs.9 Crores so we already charged the interest from Henkel that was the kind of mathematics we have done?

Ullas Kamath: Here whatever we have charged, whatever the advance we have given to Henkel we have taken that as interest income.

Naveen Trivedi: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Hemant Patel from Enam. Please go ahead.

Hemant Patel: Just a question on growth front. I am still not able to understand how Ujala will grow during this year after we have dropped down from a three tier structure to a two tier structure. Am I to understand that the primary sales, which you have lost out by getting away from your super stockists that primary sales is close to around Rs.40 Crores odd, which we lost. So are you saying that this Rs.40 Crores odd of primary sales will be taken up now by C&F agent?

Ullas Kamath: No this is a one-time loss, which we will not be able to take it back because once the tier is really not there we will be supplying directly to the distributor and distributor for him is irrelevant because instead of getting from the super stockists it is getting from us. So it is the one-time loss of sale for us in entirety on all the products, which will result into at least saving about 3%. Because right now what we are giving is 5% margin to the super stockists. If I take the secondary sale and everything if I have to spend about 2% since there will be a 3% of profit I would say the saving in our margins.

Hemant Patel: So that profit would have come in during this quarter?

Ullas Kamath: It starts coming from August. Now whatever billing we are doing, some of the places we have already started doing the direct billing and some outstanding, which yet to recover from the super stockists will happen maybe by or before September 30. So effectively we will be billing it all across the CSA areas of eastern agents, which is about 70% of our turnover from October 1. But some of the places where the stock is already being cleared, money has to be collected by us. We have started billing actually to the distributor now.

Hemant Patel: By when would the CSA sales completely stop by next quarter?

Ullas Kamath: Eastern region including UP it will stop from October 1 effectively, which is already being communicated to everybody. Delhi region we will be starting from January 1 and by March 31 there would not be CSA. So effective from April 1, 2012 all India basis there will be only Jyothy's Depot and distributor, direct billing and the margin for the distributors will be same that of Henkel margin. Henkel distributor will come on our role and we will be dividing the area, rural & urban India separately. Wherever Henkel distributors wants to do urban India, where we are weak & some of the places where we are extremely strong in the modern trade, like in Mumbai & Delhi urban market, for which we will be giving our product also to them. Whereas rural India they are not even going outside the urban, which we will be taking complete charge of. So there will be lot of synergies, which we will be getting in from April 1, 2012 but till then this uncertainties both at the distribution level and also at production level we are trying to cope up with.

Hemant Patel: This would also mean that the Rs.42 Crores of sales, which you did with CSA super stockists this quarter even that would go down in the next couple of quarters. Meaning that you would still lose another Rs.40 Crores odd of sales in the next couple of quarters?

Ullas Kamath: On one-time. What you are saying that now the sales what we have done to the super stockists is mainly because of Delhi. As far as your question is that now presently what is the sales what you have done to the super stockists whether they will go away from our thing or there will be an additional loss of Rs.45 Crores sales no it would not be because the sales what you have done now is to the super stockists in northern India and that is the only area, which you have done the sales now and to north-east where we will be retaining the super stockists because of other difficulties what we have in north-eastern region.

Hemant Patel: So the topline will grow up by 5%?

Ullas Kamath: But if you take away the entire super stockists by March 31 probably your question to certain extent the sales loss will be there because there would not be any super stockists in the next year in Delhi region as well. So I would say to a certain extent it will affect our sales.

Hemant Patel: On the fabric part are we continuing in terms of the losses, can you give us an idea of what is happening in terms of sales, equity, and profitability there?

Ullas Kamath: JFSL as we referred in the past that the Bangalore Pilot Project has already turned profitable and thereafter we aimed for Delhi, Bombay and Pune. Last year we closed our turnover Rs.9 Crores. This year we are estimating to close the turnover may be around Rs.55-56 Crores. There is a robust growth both in Bangalore and also other places. As far as the losses are concerned, there are no losses in Bangalore, Bombay and Pune. But the one which we acquired in Delhi with 61 retail outlets is there into the third year and they are still running under a loss of about Rs.30 - Rs.35 Lakhs month on month. We expect the overall loss for JFSL for the current year should be about Rs.5 to Rs.6 Crores that is subject to we going ahead with Chennai and Hyderabad, which we intent putting up the facility before March 31, 2012 and next year onwards there would not be any losses.

Moderator: Thank you. The next question is from the line of Ajay Nandanwar from UBS. Please go ahead.

Ajay Nandanwar: I just want to understand what role the CSA played in your distribution channel?

Ullas Kamath: Fantastic question Sir. I think I need to explain to you in entirety why we took them and why we are dispensing with them. Jyothy when went from regional to national in 1997, till than we were regional players and Jyothy was doing only Ujala sales in Kerala, Tamil Nadu, Karnataka and part of Andhra Pradesh. From there we went to West Bengal and went national. Ujala was an unknown product. Ujala did not have any brand equity in the rest of the country. We could only tell them that it is doing extremely well in the South and it is a new concept all together. At that point in time to get any stockists or to get any super stockists it was very tough task. So what we did at that point of time is that Ujala was sold at Rs.6 in South India, we made Rs.6.50 in South India and we made it Rs.7 and called it as Ujala Supreme. We gave the 50 paisa margin, which was converting into about 8%, which we gave those days to our super stockists who are high network individuals of marwadi community. Close to the places we appointed them as state super stockists and we told them that we will give you 8% margin; this is the product we are selling extremely well in South India. Why not became a super stockists and in term they started giving credit in the market and started selling to the distributors. We spent that money on advertisement those days. We used to spend about Rs.30 Crores on advertisement annually from 1997 to 1999. “Aya Naya Ujala, Chaar Boondon Wala” become a big hit and at that point in time we did not wanted to invest money on the working capital because a huge money was required to supply the goods across the country. Second as you know that Jyothy was averse to take any bank loan. So that time we got convinced that

Rs.6.5 paisa in Kerala, we are selling at Rs.7 in rest of India and that too from tax reason it was worth it and that time also we had 70% gross margins, which we have today also. Now that 8% we reduced at first level we reduced it to 7% and then made at 6% then we made at 5% right now we are working at 5%. Now even today they are all helping us to the extent of supplying the goods to the distributors, but all the distributors now are managed by our staff, 1800 field forces they are managing secondary sales are handled by us. Now when we taken Henkel, we would have not taken this drastic step of closing down the CSA godown overnight, like in one quarter. But now that we merged both then what we do with this people, either we need to make Henkel as a Jyothy's distribution channel and their existing margins of 15% will go to 23% or we should go to 15%. We felt that we should go down with the Henkel model and also reduce this particular margin because when you see a combined entity of Rs.1300 Crores saving of 3% it amounts to almost Rs.40 Crores. We felt it is better for us to do one-time correction and get going with only the two channels and that is the reason why we had got dispensed with them.

Ajay Nandanwar: In return for the 8% margins they are keeping, are they providing working capital channel to them to the distributor?

Ullas Kamath: Whenever we have given the credit they have also given credit in the market place. Because when we have outstanding of Rs.103 Crores that means that we have extended the credit to the super stockists during the season and in turn they were also doing the 15-30 days credit to the market place. Right now whatever the money we have recovered from them Rs.103 Crores has come down, as of yesterday as low as Rs.25 Crores. That means they have recovered from the markets and they have given the money to us and they have started and become zero.

Ajay Nandanwar: If your super stockists go away, to what extent your distributor get agonized?

Ullas Kamath: Distributors have nothing to do with super stockists because distributors are managed by our field force. Our strong field force will pick up the order from the distributor, they give it to the super stockists and they ensure that they will make the supply. So in that case now we have our depots at all the places where super stockists have. Wherever we do not have depots, Henkel depots are there. So the stockists instead on taking a demand draft in the name of one of my super stockists they will need to take a demand draft in the name of Jyothy Laboratories Limited and they will be more than happy to do the that. As long as the servicing is done by our staff not by the CSA staff I do not see any kind of alternation happening between the distributor and the super stockists. Only thing we are ensuring is that there are no dues from the distributor to the super stockists and that we have cleared it now.

Ajay Nandanwar: One last question on this, how prevalent is the super stockist's model in the whole FMCG industry?

Ullas Kamath: In FMCG business, nobody is working on this. Earlier people used to give C&S margin of 1%-1.5%. Now everything has become at 650 bases because the carrying in job is only to provide the logistics and why should we give any percentage. So the latest what is happening reference to the business is that everybody is on a fixed fee and channel margin across the country if you take, any of the FMCG, 10% is the retail margin distribution margin. Everybody has worked around 13%-14% channel margin which in our business we felt at one point in time when we grow really will dispense it. We have done that now and that way Henkel has become a blessing disguise for us to tell our super stockists that we want to do ourselves directly to the distributor.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: My question first one is a little bit more on the CFA, what kind of inventory do they generally hold?

Ullas Kamath: During off season it is about a month, during season it will be anywhere between 45 days to 60 days. Season comes only for mosquito season.

Arjun Khanna: Sure the second part is why are winding them down given that we have access direct to the distributors? Why did we actually make this 42.5 odd Crores sales to the CSA channel?

Ullas Kamath: Absolutely there were no bad debts at all because in the last 15 years of our working in this super stockists area across the country we have never booked any bad debt. That is the way we work. The distributors are controlled by and serviced by our field force and we are recovering the money as quickly as possible. The question was asked to us that why are you changing the credit policy, why is that you are going away from the super stockists? But it implies to all the distributors, we told them that we would not have been doing this. But for Henkel position we are investing lot of money. We are borrowing the money so we want are money back and at appropriate time we will try to give the credit. That is the only the reason that we gave and every distributor supported and gave the money. You will be surprised that 103 Crores of outstanding as of yesterday my chairman was telling me that it had come down to 24 Crores, out of 24 Crores 20 Crores is from the institutional which are always with the 30 day 45 days credit. That means that every distributors have made his best to give the money back to help the company to pay Henkel and which we have done. As far as the bad debts, the super stockist is not concerned because there godown is always in our control and we know what stock they are having and based on that we recovered our money and we sold a stock to distributor. So there are no bad debts probably on this.

Arjun Khanna: Since we do have an idea of inventory of there can you quantify the amount the INR amount inventory lying with super stockists?

Ullas Kamath: As of now the super stockists stock what we have is about 37 Crores. It was about 70 Crores now it has come down to 37 Crores.

Arjun Khanna: Probably you can help me with this, our sales have declined 40 Crores but the stockists inventory is not down by the corresponding amount and assuming a 17% growth this probably something wrong with my math, if you could fill in the blanks please?

Ullas Kamath: One is that it is the very dynamic like mathematics it is not 2+2 become 4. So one is that we have CSA area we have non CSA area, non CSA area there is no confusion. It is perfectly going on.

Arjun Khanna: Just in the CSA area Sir, you have 33 Crores of inventories run down by the CSA area while our sales decline is roughly 40 Crores?

Ullas Kamath: This is as of June 30 and 70 Crores inventory is of March 31.

Arjun Khanna: So you have had a rundown of 33 Crores of inventories lying with CSA and given the 17% growth. I am just trying to understand if we had a 17% growth in the CSA area we would have incremental sales of 53 Crores out of which we have had a rundown of 33, so roughly 20 Crores missing in sales, if you could help me where is that actually come through?

Ullas Kamath: That would have gone to the secondary sales, because whenever we sell to the super stockists that is consider under primary sale and analysis what we are making from 70 Crores of ground stock to 37 Crores to ground stock and if we were to make a normal sale of 17% sale on to them then the result will have been 25 Crores is the missing number what we have shown is actually the secondary sales have happened because what we sell to the primary that what we have the control what we sell from there to the market I do not have the control but I will supervise the numbers but it is not captured in my book.

Arjun Khanna: Probably I will take this with you offline. My second question is in terms of the debt, we spoke of asset sales while back so that we could reduce the debt profile of Jyothy Laboratories like you mentioned you are really comfortable with that debt have you seen any progress on that front?

Ullas Kamath: We have identified the assets both in Jyothy Labs and also that of Henkel. The Henkel we have gone in only in the June 1 and we did not want to make them say that we come here and sell their properties. We have identified. We have put the actuarial valuations on the job to value the property, value the machinery and whether it can be sold. We have to do something about it. Also decision has been taken at the board that whatever, wherever it is unproductive that we have right to sell that. So we are going very professionally according to the people doing the actuarial valuation and take the value, come back to the board take the clearance and then engage like professionals to sell the property. Probably you will see some of them happening in the December quarter and part of it that might happen March quarter. But intent is to give away because we know that whichever properties are unproductive and carrying 10.7% interest at this point in time, we do not want to keep it for long.

Arjun Khanna: Any ballpark number would greatly be appreciated.

Ullas Kamath: Probably about 50-100 Crores is what we intent realizing before March 31, 2012 if couple of properties goes away.

Arjun Khanna: The second part to this was there was a lot of talk in the papers of us doing a PE deal and diluting some stake. Any comments?

Ullas Kamath: At this point in time we are completely tied up with the integration of Henkel and one is to protect Henkel business and then promote it. While there are some PE funds who are approaching us because we have made a mention that we do not want to keep the debt for long. So we are talking to them, but price what we are expecting, unless it comes to our expectation we will not be diluting that but in today's context. I think at least for next two to three months time we will be concentrating more on integration and less on raising the money. We will continue with the debt for some more time.

Arjun Khanna: Sure and lastly on a debt funding for the fabric care business we had given debt from Jyothy Laboratory's balance sheet to the subsidiary given that ILF as put in 50 Crores and there is commitment of putting another 50 Crores post establishment of the two plants would any of those moneys come back to the parent the loan amount?

Ullas Kamath: No in fact probably small amount might come back. But the business plan what we have given to ILF to raise the private equity was for the future expansion in Delhi, Mumbai, Hyderabad and Chennai. It had been business plan for the next five years wherein one of the condition what they put is that till such time the ILF will put in the money, whatever money Jyothy has put in there should be retained in the business. So as of now the overall investment what we have made from Jyothy to JFSL was about 45 Crores will be carrying 11% interest that will be retained but as and when the company starts making the cash profit we are rather first side to take the money to clear Jyothy loans.

Arjun Khanna: 45 Crores is the debt amount and what is the equity Sir?

Ullas Kamath: Equity is 12.5 Crores.

Arjun Khanna: Thank you so much Sir you have been most helpful thank you.

Moderator: Thank you. The next question is from the line of Abhinav Sharma from ING Life Insurance. Please go ahead.

Abhinav Sharma: Your advertising and sales promotion expansion, we have seen a year-on-year drop, is that the picture for the full financial year?

Ullas Kamath: No there is not much drop, it is Rs9.6 Crores has come down the Rs9.24 Crores, about 7% and in the current year we would be spending about 8% on annualized sale you will see about 8% towards the advertisement and sale promotions that will be intact.

Moderator: Thank you. The next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.

Amit Purohit: Sir just wanted to understand on the working capital side, now we have saved the cost change in distribution but will that is sustainable and will these debtors now shift to more on the distributor side or how it is. Just want to understand?

Ullas Kamath: It is a very, very valid question what you asked for. This is the same thing which was asked to board also when we wanted to integrate and restructure the distribution. We took the decision is that we cannot get away from credit from the market place; however, the stronger brands are because there will be a loss of sale in future in case the sales completely cash and carry. What we intend doing is that the policy of the company will be cash and carry, it will be made and told to all the distributors. We do not mind giving one week - 10 days credit. We do not mean to spread the risk, and we do not mind giving that 10-15 days credit, based on his past credit history, because of what we have sold him over the past, at least Jyothy Distributors we know them for the last 15-20 years. So as of now we curtail the entire outstanding to the market place then we identify whom you want to give some post April 2012. We will do that and generally in FMCG business I am sure you are aware you are aware that everybody works on a negative working capital because only in Jyothy we worked a positive working capital. As of now what we thought that let us at least make it neutral first. So our investment of about Rs113 Crores has come down to now about Rs40 Crores. We tried to take it almost neutral by end of March 31, 2012 and thereafter we will see whether we want to go for a negative working capital or probably about 10-15 days of investment in the working capital.

Amit Purohit: So what I understand is depending upon how our sales picks up we might change our strategy because if you see that if there is some slowdown in the sales we might look at giving distributors some credit in some select segment?

Ullas Kamath: Select distributors, like for example in South India where we have only the company directs sales we have 25 days blocked in the receivable. We are comfortable there as there is no defaulter in the last 25 years. So we continue that wherein it becomes fine lubricant for the products to move from place to place but as for the money, every time if there is delay by two days you will have lost some sales for two days and only for that to select customer select distributor based on the credit rating what we have internally provided based on that we will decide but I would say post March 31, 2012 you can take 15 to 20 days as the money will be blocked in working capital.

Amit Purohit: On the Henkel side we talked about that 8.8% EBITDA margins just wanted check I am not aware, we have taken into account other income also that 8.8% EBITDA margins?

Ullas Kamath: Henkel there was not any other income. Henkel is a purely operating EBITDA what we have taken and probably interest expenses we will have taken because in EBITDA that is not taken into account it is a pure operation.

Amit Purohit: Lastly you have talked about a 13 Crores of topline for FY'12 and you said that you are inspired to have a 500 Crores topline coming from the Henkel business and then you are guiding that topline growth for FY'13 could be up 20%. So just taking back from the June analyst meet where you have guided that the Henkel business might grow at 40% so we are just trying to do some maths so the rest of the business grows at only 8% if we have to meet 20%. Just want to check on this.

Amit Purohit: Lastly I missed out the advertisement we have in sponsoring for entrainment Ke Liye Kuch Bhi Karega. So are we gaining would you be given out some estimated number? Have we booked that in this quarter or it will be coming in the next quarter?

Ullas Kamath: We all booked on the same day.

Amit Purohit: So 9 Crores includes that?

Ullas Kamath: Yes.

Amit Purohit: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashish Upganlawar from Spark Capital. Please go ahead.

Ashish Upganlawar: Just missed the figure on the topline growth that you have mentioned for Henkel and could you throw some light on a cost savings that have lead to this 8.8% kind of margin for Henkel?

Ullas Kamath: Employee cost is the major. The reduction in employee is about 200 people and that is one of the things which have contributed at 8.8% and the procurement cost efficiency has gone up. Efficiency means we have saved about 3% in material cost procurement percentage wise those two put together is about 8.8% nothing else, but we expect more to happen because we are shifting all their outsourcing production we are shifting to all factories, we said we are expecting more to come in the coming quarters.

Ashish Upganlawar: With this you have recruited new people on the top in Henkel so those have been running sometime late. So will the employee cost shoot up to levels that use to be?

Ullas Kamath: It will not cost much and this will be taken and combined entity of Jyothy and Henkel. Even though the primary responsibility will be to work on Henkel brands but they have been taken both Jyothy and Henkel together. So it will be absorbed by Rs1300 Crores turnover then it will manage and this is not significant do not have that much impact.

Ashish Upganlawar: Okay and the topline of Henkel that you mentioned, the figure that you can mention?

Ullas Kamath: We have given in the June 3 analyst report we have given it will be on Henkel alone it will be 400-500 Crores will be going in the first year.

Ashish Upganlawar: For quarter?

Ullas Kamath: Quarter I do not have any guidance on Henkel. I expect because every month is the new month for a Henkel, too early to give guidance.

Ashish Upganlawar: On the funding, will it all be equity that you are talking about replacing the entire debt?

Ullas Kamath: We are seeing a combination of equity and debt. If all goes well post September when all the numbers are in place will be seeing a combination of some debt and some equity and some selling of our properties which is not been used and combination of that we want to paying of all the debt so we will be extremely happy but March 31, 2012 if you can call ourselves as debt free company, which we always been proud to say that.

Ashish Upganlawar: Any limits for the kind of equity dilution that you would be comfortable with this point in time?

Ullas Kamath: Probably we will be comfortable somewhere holding up to 55% but not less than that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to management for closing comments. Please go ahead.

Ulhas Kamat: Thank you, very much and in case some more questions are there you can always contact Neetu or me. We are available from Tuesday onwards and all the details whatever you want please get in touch with us and thank you very much and tough quarter for us but we are extremely happy the way we have handled the quarter and it is completely in sync with the way we wanted it to be and thank you very much.

Moderator: Thank you gentlemen of management. Ladies and gentlemen that ends the conference call for today. Thank you all for joining us. You may now disconnect your lines.