"Jyothy Laboratories Q1 FY14 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Jyothy Laboratories Earnings Conference call. We have with us on the call Mr. M. P. Ramachandran, Chairman & Managing Director, Mr. Ullas Kamath, Joint Managing Director and Mr. S. Raghunandan, Chief Executive Officer. 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 need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is 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 to all of you. I welcome to this analyst interaction on our first quarter result Mr. Ullas Kamath, our JMD and S. Raghunandan will be present to answer to your questions. Thank you.

Ullas Kamath: Our quarter has been in line with our expectation. We have already shared the numbers and presentation with you. Just to bring to your kind notice that effective from April 1, 2013 Raghunandan is taking care of sales to EBITDA numbers. He is in complete charge of the entire business. He joined us May 22 last year and whole of last year he was handholding, recruiting the new people, putting them in place and training them. All these things have happened and along with that the integration of Henkel business with that of Jyothy was completed. From April 1, all the line items are in complete control and for this quarter presentation, I request Raghunandan to take you through every item in the presentation and thereafter we can take question.

From the management perspective, Raghunandan has done a commendable job. We are extremely happy. Today at the board meeting it was quite impressive listing to the way forward what he has planned for the company for 2013-2014 and also for the years to come. Overall our thinking of bringing the new management team led by Mr. Raghunandan has paid off and he has already achieved the EBITDA margin of 15.3% after spending 12.8% on advertising. Advertising budget at Rs. 39 crore is the highest amount yet that we have spent in any quarter. This is all because of the bringing together the synergies as well as getting rationalization in the trade margins. So I invite Mr. Raghunandan to take you through the presentation. Thereafter we shall take the question. Over to Raghunandan please.

S. Raghunandan: This is Raghunandan here. I will just quickly take you through the presentation so that I can fill in blanks for some things which may not appear in the presentation.

I will start with the financial performance. The first chart out there is basically our profit and loss for the first quarter. Our revenue, as you can see has grown by 30%. The highlight has been that our EBITDA has grown handsomely to Rs 49 crore from Rs. 33 crore. There is a 50% jump in EBITDA and overall it is a jump in PBT which is 100%. The PAT grew by 100%. What is commendable in this quarter is that we have started investing in brands starting from April. We made investments in Margo and Henko to start with and after that in the month of May and June we started investing in Exo - our dish wash brand. We also invested in Pril during the quarter.

The brand that we did not invest in the quarter was Maxo, where we have not invested on advertising but on all other brands we have started our brand investment, as you can see. So we had new creative's virtually on all of our brands and what results you are saying is basically on an average about four to five weeks of advertising. We have had one time production cost because all the new creative's were done in this quarter. In the advertising cost, we also had a one-time investment of more than Rs. 5 crore in making the new creative's and that is why the number is close to Rs. 39 crore. But if you actually look at the media spend, the television spends that we did it was around Rs. 27 crore. That is the kind of money that we spent in Q1.

Going forward the business is promising. While 14% growth, some of you may not be too happy with, but I am personally very optimistic because as we move forward I can see revenue growth turning around sharply and our market share improving on all the seven power brands that I am talking about. So it is just about six weeks of advertising. Impact of it is around 13% to 14% revenue growth and more importantly the business model has stabilized. The business is profitable for us to continue to invest in our brands. That is the big story as far as Q1 is concerned.

I would say above average topline growth this time around, but going forward, in the quarters to come you will see much better topline growth. The topline growth, which we will get in the coming quarters will be far better and in line with the brands that we are undertaking.

The cash profit for the quarter was Rs.44 crore.

I am now moving to the next chart, which is on Ujala. There is a new packaging. As many of you would have heard in the previous quarter, we had talked about drying up our pipeline and the new pack was introduced into the market in the month of April. The new packaging has been very well received at the market place and in the first quarter we have actually registered a growth of 37% on value. Some of you may recall that we had spoken about on weighted average 12%-13% price increase in Ujala, which we undertook with the new sleek packaging. So 12%-13% overall if you have to need a split between volume and value growth in Ujala it is more like 10% volume and 25% value. That is what has resulted in the kind of growth that we have seeing on Ujala. Going forward we are fairly optimistic - we have started investing behind Ujala on "Safedi Ke Aage", a new campaign, which many of you would have seen on television. So going forward our outlook on Ujala is positive and whatever share losses that we have had, we are confident that we will gain back those shares and we will reach those 72% value share levels of Ujala that we had very shortly.

The next chart is on EBITDA analysis. We have tried to give you a breakup of how this 15.3% has come. One part of it is of course all the efficiency improvement that the business has done which has resulted in this and the other reason is they have also been fortunate in having the slightly favourable mix on Ujala in this quarter, which has also helped us get to these margins. Going forward we will not have several one-off expenditure like the Rs.5 crore of advertising production spend that we did in Q1. These expenses will not be there in Q2 and we do not expect significant contraction in EBITDA margins going forward.

Coming to the next chart on sales analysis. If you look at the two broad segments that we have started reporting from the last quarter our Soaps and Detergents business, which is the major business, it has grown by 17% in value terms. Our Home Care consists of Maxo and Scrubbers etc.We have not done too well in this segment. Our brand investments have not kicked in so far in Q1. We have had a very high summer in April and May followed by onset of rains in June. So the season has kicked off very well and we are seeing Maxo sales improving in this quarter and therefore even Home Care will turn around sharply. Some new initiatives under Maxo brand in Q2 and Q3 will restore our Home Care growth. Going forward overall if you look at our Power brand performance in quarter one; we have grown by almost 15% in value terms while the overall growth has been 13%. The Power brand growth would be far better in the coming quarters.

In the next chart we are talking about a break up between advertisement and sales promotions where you can see that the business is becoming more ATL and less BTL, which is the commitment that I had given to all of you in the previous meetings. So, you can see that it is very favourably skewed today in terms of more than two thirds of our expenses happening above the line and this should give us fairly strong dividends going forward.

In the next chart we are talking about the cash profit, as to how it has come. We have talked about the break up of how from revenue to EBITDA to PAT to depreciation and to amortization and the cash profit break up so that it is clear. In the next chart we are talking about a debt status. We have had some reduction in debt, about Rs. 18-19 crore we have had in this quarter.

Coming back to the next chart, we have given you the Q1 market share for our brand. The only thing that I want you to take home with you is whatever numbers you are seeing is basically an impact of our March quarter performance. We are very confident that going forward the performance in the June quarter and September quarter the market shares on all our brands will turnaround quite sharply even from Q2 itself.

The next chart will give you a broad idea on our business model. The important thing for us in the business was to ensure that we have a stable business model, a profitable margins profile, which we have achieved in the quarter so we have got all the overhead optimization in the synergies out of integration. We are working even harder on reducing our costs because the inflationary situation is there in the business. Rupee has depreciated and therefore we are working hard to ensure that our gross margins do not get impacted going forward. So this EBITDA improvement whatever you are seeing that has happened in Q1, our efforts will be there in the coming quarters as well on the costs front and on a supply chain front to ensure that we are able to neutralize the inflationary impact and maintain the EBITDA margins going forward. As I have already said, we have started investing heavily behind the Hindi satellite media. Our spends have actually gone up more than3.5 times of what we used to do in the past. Many of you would have seen our ads on National television starting from this quarter. So we have talked about traditional brands becoming a national brands and keeping in line with those spirit you can already see ads of Margo, Exo and Pril on a National basis. Our Hindi satellite media spends has gone up significantly and that has started reflecting in our Non-South contribution for the business going up. This is reflected in the subsequent chart.

We have relaunched Ujala detergent powder in South. Hence there is some de-growth that we had in this quarter because we had to again dry up the pipelines to launch the new product. We have launched the new Ujala Detergent in the three Southern States of Karnataka, Andhra Pradesh and Tamil Nadu. Going forward there is a new campaign, which we have initiated in these states. You will see some results in the coming quarter from Ujala detergent powder.

As far as manufacturing is concerned, we have closed down two factories in Bhubaneswar and Chennai and have shifted the production to Uttaranchal and Pondicherry. In terms of EBITDA improvement we have tried to give a breakup between last year same quarter versus this quarter. You can see that most of the EBITDA improvement has happened because of gross margin improvements in the business and we have been able to invest more heavily behind advertisement and sales promotion and still maintain a 15% EBITDA margins to the quarter.

In the coming charts we have just put down some highlights of the new campaigns that we are running on TV. Most of you would have seen it on National media the campaigns of Henko, Exo round, Pril and Ujala IBF, the new Detergent powder and Fa campaign. So most our power brands had new creative and we have started investing on national media.

The next chart is on the thrust on regional brands becoming national. We have tried to show you how the contributions from few of the brands in the non-South part of the country have started improving post this new communications. This clearly means that the non-core markets for us are growing faster than the core market, which is good news because that is where our market shares are very low and that is what will help us grow the business going forward. The non-south business is growing faster than South. That is a good part of whatever we are doing as of now.

The next two charts are basically about the distributor meets we conducted in Karnataka, Andhra Pradesh and Tamil Nadu where we rolled out Ujala detergent powder – Ujala IBF100 and the campaign is on air in the Southern States.

Well, those are the business highlights for the quarter and there are some initiatives that we have taken in supply chain, to make sure that our stocks are contained in an environment of inflation. We are trying our best to ensure that margins profiles are protected going forward at the current level of wherever the Rupee is lying at 60-61. We are okay, but beyond that if it goes then we have to wait for competition to take up the prices before we can. So that is where we are on the business over all to summarize.

I am personally very happy with whatever we have done. The growth is about 13%-14% and going forward it would be much, much better. With a great degree of confidence, I can tell you that we would perform significantly better than industry in this financial year from a topline perspective and bottomline anyway is there for all of you to see. So going forward key initiatives in the current year we continue to do whatever we are doing which is continue and investment pan India and gain market shares across all power brands because at the end of the day all these have to result in market share gain on all of our brands and I would be able to show you market share gains across all our Power brands starting from next quarter itself.

Consolidate the new sales and distribution footprint across India, which is the task for us in the rest of the financial year and some of the businesses like the detergent business and the household insecticides business. These segments need some breakthrough innovations which we are planning in the coming two quarters. A large part of our brands like Henko and Maxo will also see a lot of new news and a lot of investment in the coming two quarters. That is the summary for you. We are very positive on a business front, very positive on the topline growth front and a very positive on from a bottomline front and very positive from wherever we started this whole exercise. Thank you very much and now we open the floor for questions.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir my first question is to Raghu Sir. Firstly congrats. My question is on advertising spends. We have the time regulations coming in the second half. Sir, my question is Rs 27 crore TV ad spend - that's for four to five weeks; so should that be the runrate, which you are doing in your modeling for the sharp sales growth? So how much would you really model advertising ATL in our numbers?

S. Raghunandan: 10% of sales you can factor in.

Abneesh Roy: Sir you were saying sharp acceleration in the sales growth. What we have seen in the past is sales growth is also dependent on breakthrough innovations, which you also discussed that those are needed in some of the categories. In general, we are seeing slowdown in urban and to an extent rural sales also. How much are you banking on higher level of advertising and how much will it be dependent on that breakthrough innovation which will be needed soon?

S. Raghunandan: I can tell you that healthy topline growth will happen in quarters to come. I am not banking on anything. We have already started getting the results of whatever we are doing. So the first thing is you will get is healthy topline growth because we have done a fair lot of changes around the business, lot of changes around distribution and a lot of fresh brand investments. That is point number one. I am not banking on anything new, but what we are definitely doing is bringing in some breakthroughs on our brands because as I said without breakthrough this continuous growth cannot happen. So on Henko and Maxo, we are looking at certain breakthrough innovations which will further accelerate growth. I am very confident that whatever topline growth I am talking to you about are not on the basis of something new that we are going to do. Whatever new that we are going to do is only going to add on to the topline growth, which are already going to come in the business. I am just trying to clarify. So breakthroughs are definitely going to be part and parcel of driving business in mass market categories, because without breakthrough it will become just a me-too product and a me-too offering. That will not help us become stronger in the longer-term because the bigger players have far more resources, have far better reach and therefore breakthroughs are definitely going to be there. That is part of life for us. I am not counting on those breakthroughs. Breakthroughs will only help us consolidate and grow further.

Abneesh Roy: Sir one follow up question. Ujala saw 37% sales growth in Q1 while Soaps and Detergent as a category has seen 17%. So if you could explain, which have been the slower moving parts there?

S. Raghunandan: As I told you on Ujala detergent powder, we did not do well because we had to dry out pipelines in April and May in parts of South where Ujala detergent powder had a significant base. There we have declined on Ujala detergent powder because a new product came into the market in the month of June. Therefore there is some drop, which has happened otherwise if you look at all other brands Power brands except for Maxo Coils everything else has grown in the business. So Maxo Coils, which is in Home care that has not grown. That was more flattish in Q1 but apart from that all other brands have done well. The only significant drop, so it say in the entire portfolio one is Ujala detergent powder, on which I have already explained to you. The other one was a small brand called Chek, where also we had moved into new packaging. There were some old stocks which were lying in the market. So we had to flush out all of them. Except for a small brand Chek, which is not even 1% of our portfolio and Ujala detergent powder all other brands have grown in the quarter.

Abneesh Roy: Sir last question on the Maxo business. We saw the market leader growing at 24% YoY even in Q1. So if you could tell us how we see the maxo business for the full year? I understand you are doing the advertising part now and we are entering the peak season.

S. Raghunandan: I will be very disappointed if we don't do 24%.

Abneesh Roy: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Hemanth Patel from Axis Capital. Please go ahead.

Hemanth Patel: Hi Raghu and the team. Congratulations on a great set of numbers. Just have a couple of questions on supply chain, which you have actually illustrated in your presentation. Could you help us through this? Has the part of this benefit already been captured in this quarter and what kind of quantifiable benefit in terms of gross margin are we seeking for this entire year?

S. Raghunandan: Basically to be very honest with you I will be very happy if I can maintain the current gross margin profiles because as I told you there is a mild inflationary impact with Rupee depreciating sharply in the last two three months. So all the efforts that we are doing from a supply chain standpoint are to ensure that our margins do not get eroded going forward in future. I will be very happy if I can continue in this situation even if the Rupee is at 61-62. If I can maintain my gross margins at these levels, I would be very happy. All efforts are to make sure that we do not slip on these variables. So that is my target. I am not really looking at increased gross margins at this point in time wherever we are I just want to go.

Hemanth Patel: In terms of market share, which you have said that you know on a year-on-year basis, we may have declined. Could you give us a sense, has there been a sequential improvement in some of these Power brands as we speak and what gives us large confidence of this spurt in market share in the coming quarter?

S. Raghunandan: One is recent sales trends that give us the confidence more than anything else, which I cannot share at this point in time. Number two, whatever Neilson reports there is always a lag of six-eight weeks. So obviously if recent sales trends is an indicator of market share gain that is one strong factor in which I am going with. Number three is the all brand investment take at least two to three months time to register share gains, that to, to Neilson. Consumer has to see, digest, appreciate and then buy and then repeat buy for you to get the shares up. Therefore I am confident that on all shares we will be able to improve shares from the current quarter itself. Current quarter means I am talking about September.

Hemanth Patel: One last question and I am going to try pushing you here because I guess this bit too early as well. But we have lot of rebranding being done, new creative's have been launched and repackaging has been out in the marketplace for barely a few months now. Where do we see in the Power brands where the traction really has been good and where we still see there is a challenge in terms of the brand performance?

S. Raghunandan: The traction has been excellent on Ujala and Margo. On Henko and Maxo, as indicated in our presentation, we are going to look at some breakthrough innovations. That leaves Pril and Fa. On both the brands, we have registered very healthy growth. On dish wash liquids, we lost a bit of our market share. But the market growth continues to be healthy and Pril has registered a very handsome growth. Therefore there is some share drop which Neilson is showing but internally the numbers are looking very healthy for us on Pril. Of seven Power brand on five Power brands we have started doing very well.

Hemanth Patel: Okay thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Congratulations to the entire team on splendid set of results I must say that. Sir actually I had one question but largely about three of your categories you know Detergents, Dish Wash and Soaps. One common threat which I just wanted to pick your brain on was on the competitive dynamics or the industry dynamics at this point. One in detergent, we saw, some recent price cuts by Surf. Point No.2 in the dish wash, there is a new entrant and Point No.3 in soaps. lower gross margin means higher activity. Just want to check with you that would there be an upside risk into your ad spends as we move into this year?

S. Raghunandan: I think if you look at Detergents, I think Lever did not anticipate the sharp depreciation of the Rupee. I think when the action induces the consumer promotion on detergents, I am sure they will pull it back in the next one month or so. So when they initiated this the Rupee was at 52-53 and now it is 60-61, it will be hurting them badly. Therefore as of now they have taken consumer promotions on detergents. There is no pressure on us from advertising point of view but definitely will have to react in terms of more competitive trade offers, which we have already started doing on detergent. So it is more an impact on margins front as far as detergent is concerned. I do not think it can be sustained over a longer period of time. So that is one on detergent where there is more aggressive competitive reaction in the marketplace.

The second thing, which you talked about, was on Dettol's entry into dish wash. At this point of time dish wash liquid penetration is very low. So whenever a new competitor comes in and makes a lot of noise the category will grow faster and the category of dish wash liquid is continuing to grow at 35% plus. Therefore as long as we hold on to our market share, the growth is going to be healthy. From an increased ATL point of view that is not the way we are going. In fact, we are sharpening our communication spends on Pril because the top 10 cities contribute to 75% of overall category potential. We are sharpening our efforts on those 10 cities in terms of below the line market execution on Pril. Right now what we are doing is getting our market act right so we are spending more money below the line and it is working. We have grown very healthily on Pril. So I do not think that it will lead us to more advertising spend, because on Pril anyway we are doubling spends this year on advertising spend when compared historically.

As far as Soaps are concerned Margo is fairly niche and unique in terms of the offering and so there has been a significant improvement in the margin profile on it. This has flown into the bottomline for us. We have had a very healthy growth on Margo as well and the season is upto September of this year. So even if Lifebouy or Lux advertises it is not going to effect Margo sales because Margo is fairly sharp differentiated and unique. We have also invested heavily behind Margo from April to June of this year. For the first time we have invested more than Rs. 8 crore on Margo in national media. This has started giving us good results and I do not expect that any of these issues is going to affect us in terms of increasing marketing spends. I mean that is the point, anyway all these marketing spends have been factored in our results and whatever we are talking about is on a 10% advertising spend based results. The brands we have were under spent and we are investing more. Therefore it will anyway help us.

Manoj Menon: Thanks. That is pretty clear Sir. Just one question if I may sneak in. In the detergents portfolio I am honestly bit confused. I mean is it Ujala who is going to be the primary vehicle or Henko or am I missing there is no primary vehicle both are important?

S. Raghunandan: Both are equally important. It is very much like Surf and Rin. Surf operating at the premium end and the Rin operating on the whiteness end. For us Henko will operate at the Premium end and Ujala brand will operate at the mid priced or mild premium end, which is equivalent to Rin & Tide. So both are equally important for us.

Manoj Menon: Thank you.

Moderator: Thank you. The next question is from the line of Tejaswini Kumari from Angel Broking. Please go ahead.

Tejaswini Kumari: Congratulations on your numbers. I just have a question on other income. What it is exactly?

S. Raghunandan: See other income is basically the interest income that Standalone Company is receiving from JCPL and JFSL so this is the loan, which is given and the interest which is accrued. So this is the interest income which is accrued to the standalone JLL today.

Tejaswini Kumari Okay so this will be at the same level at right now for the quarter coming quarters as well?

S. Raghunandan: Yes.

Tejaswini Kumari: Thank you.

Moderator: Thank you. The next question is from the line of Aashish from Elara Capital. Please go ahead.

Aashish: Very good set of numbers actually. Sir just wanted to understand when we say that growth has been healthy in the Henkel Power brand basically, so if I try to decipher the number, 37% growth in Ujala or probably Rs.37-40 Crore of topline increases YoY, it seems to be substantially from Ujala rather than any other brand contributing here?

S. Raghunandan: No not really. Only 40% of our delta growth has come from Ujala. 60% has come from all brands. The one thing, which I wanted to remind you is that everything has grown in the business excepting Maxo Coil, which has been flattish and the only decline that has happened in the quarter is because of Chek, which is 1% of our portfolio. Ujala detergent powder, which is about

7% of our portfolio in terms of value, has grown. So it is not really only Ujala everything has grown, our Dish Wash has grown, the Fabric Wash has grown everything has grown.

Ashish U: I wanted to understand on the gross margins which are surprisingly high. I mean the improvement is tremendous. So how do you see, if you could elaborate more, on the raw material front - what is happening on the core raw material prices and how the Rupee would make an impact into the raw material cost for us? Just a comment on gross margins, how will it shape up going forward? You said that we would endeavor to maintain these margins in this quarter?

S. Raghunandan: Yes, I told you that we had some extra sales of Ujala in this quarter, which has helped us register very good gross margins. Going forward our challenge would be to retain the gross margins to the better efficiencies within the business. That is why I am not projecting an increase in gross margin. So if I can maintain the gross margins at 37% levels then I would be very happy. All the efficiency improvements that we are looking at in this quarter and in coming quarter would be to ensure that we maintain the current gross margins which we have achieved. We have identified some opportunities out there and we are confident that we will be able to maintain the gross margin levels going forward. And as far as the significant improvement in gross margins are concerned, I have spoken about it in earlier analyst meetings several times about all the steps that we have taken in the last financial year to improve the gross margins. So there is nothing new. It is only that it has materialized in this quarter. So this is not surprise for anybody. This was already projected anticipated and now it is realized.

Ashish U: You absolutely do not see any downside to these gross margins?

S. Raghunandan: I told you there will always be a downside if Rupee becomes Rs.70 to a Dollar. There can be a down side but then industry will also have to take some steps to ensure that their margins are protected. So I am just hoping that the bigger players who will get more effected when Rupee depreciates further, when they take action then we will also take a corresponding price increase. But at this point of time, at 60-61, we are trying our level best to maintain the same level of margin.

Ashish U: Sir if I can ask one more question on Henko. Just wanted to understand how are we going to play in this category? Because we are not going anywhere on the discounting model on the pricing front. You said that branding would be the case but I mean challenge is too big probably given the other competitors that are there in the game. I mean just wanted some sense how this will go this topline as far as Henko is concerned?

S. Raghunandan: Obviously I cannot reveal the strategy in these forums. But all I can say is that maybe by not talking the same thing that others are talking and therefore there has to be real value, which is delivered to consumer and we have to give a benefits to consumers which they are seeking. But they are not getting into today’s market. As long as we ensure that we give a great product at a competitive price and which is new news then we have a scope and potential to sell in the market and therefore that is a kind of offering that we are working on, which is different from whatever Henko was doing earlier and that is the only thing I can say at this point.

Ashish U: How was the response to new advertisement of Henko? Did it help in terms of pickup from the shelves?

S. Raghunandan: That was a more a transition stage for us because we had to do some campaign to keep the brand alive. So that is what we have done with the current campaign and we have registered some positive growths in this quarter on Henko as a result of this campaign. But real innovation is required in this category and we appreciate the competitiveness in this category and therefore we will play in this category only when we have something strong to talk about.

Ashish U: Do you think Ujala Washing Powder will deliver much better growth in initial stage compared to Henko given the fact that it is a mass brand and you have decent brand pull in the south for this one?

S. Raghunandan: Henko also had a good brand pull in the South. Henko has a premium image as well. So I do not see which market. Both markets are equally big. If you know about market sizes of premium detergent powder whether it is Ujala's market or Rin & Tide together, the market size is as big as Surf & Ariel. So both the markets are equally big and therefore we feel that we have a good chance to play in this market by coming out with meaningful innovations to the consumer.

Ashish U: Thank you.

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

Abhijeet Kundu: Congratulation on a very good set of numbers. I just had couple of questions. One was on how has the cut in trade margins helped you in terms of, if we have to look at the net sales growth has the 4% reduction in trade margins helped the net sales growth as well?

S. Raghunandan: Of course it has it helped us.

Abhijeet Kundu: So in that case would it be fair to say that the 13% growth in sales without cut in trade margins would have been may be close to 19%?

S. Raghunandan: See first of all the 4% trade margin did not happen everywhere. It happened only on one or two brands. The entire Henkel portfolio there was no improvement in realization. In fact it deteriorated by 1% as far as distributor margins are concerned. So this 4% trade margin that you are talking about is only true for Ujala and about overall 4% on a JLL portfolio. So when you look at the whole business, it is more like a 3% impact because of trade margin rationalization. We have had volume growth of 10% in this quarter. The volume growth in the past has been more like 5%-6%.

Abhijeet Kundu: Secondly, you said that you have done extremely well, in terms of incremental growth, as concerned to non-core geographies, non-South regions. So if you could stress on which of the brands have done well or it has been a very broad based growth in brands in non-core geographies?

S. Raghunandan: It is broad based growth in brands in the non-core geographies. We have had it on all the brands where we have invested in the quarter.

Abhijeet Kundu: Sir when we look at a detergent portfolio, which geographies would you specifically focus on for that incremental growth? Because in South, both Ujala as well as Henko have some got very strong branding in place.

S. Raghunandan: As far as Henko and Ujala detergent powders are concerned, when we do a relaunch it will be a national focus and that is the reason why we are advertising Henko on the National media today. So today if you see, we are able to see Henko ads on National media for the last three months. The reason why we are doing this is because when we come with new news on Henko at least the consumer should know about Henko. He should be aware about Henko as a brand. As far as Ujala detergent powder is concerned, Ujala is a National brand. Our Fabric Whitener sells across the country. As far as Ujala detergent powder is concerned, we have decided to focus on South for the time being and later on extended to rest of the geographies.

Abhijeet Kundu: Sir, can we sustain the EBITDA margins, 15% which we saw in this quarter? Assuming that you do not face any pressure on the raw material cost front and the marketing exercises or initiatives are increased during the year.

S. Raghunandan: Yes the whole effort as I said is to sustain them at this point. At this point we are saying that we will sustain.

Abhijeet Kundu: Thanks a lot.

Moderator: Thank you. The next question is from the line of Girish Raj from IFCI. Please go ahead.

Girish Raj: Sir the question is on Ujala Fabric Whitener. 37% growth in fabric whitener which I am assuming that partly the growth has come from the inventory filling because Q4 we had stopped the supply. Then the question is, is 20% contribution to the topline sustainable? And if no, what are the other EBITDA margin drivers in the quarters to come?

S. Raghunandan: See Ujala still is one of our bigger brands. So if it is not 20 it could be 18 in the coming quarters. It is not going to drop significantly in the coming quarters. We could have changed because of the pipeline filling but it will not have a significant impact on EBITDA margins.

Girish Raj: Okay so 15% is what at this point you are indicating?

S. Raghunandan: Yes. I think the right thing to do if you look at advertising spend plus EBIDTA. When you look at the business, so it could be one or two percent here or there if we spend a little more on advertising in one quarter and a little less in the next quarter. It is the weighted average for the year that one should look at.

Girish Raj: Okay great and I missed your indication on Maxo. How do you look at this category?

S. Raghunandan: As already mentioned, anything less than 20% - 24% growth in this year on Maxo brand will be very disappointing.

Girish Raj: That is it. Thank you Sir.

Moderator: Thank you. The next question is from the line of Atul Mehra from Edelweiss. Please go ahead.

Atul Mehra: Good evening Sir. My question is in terms of the overall southern market. If we back calculate the current quarter numbers, southern market as such has degrown about 3% during the quarter. My general view is that we are very dominant in the south, in terms of distribution presence as well as our branding initiatives. So my question is in terms of what has led to this slowdown in the southern markets and where do we see the growth for the rest of the year?

S. Raghunandan: Going forward we definitely expect South to deliver for us. The one factor which could have depressed sales slightly is partly because in Kerala we have had very early monsoons. The monsoon started unprecedentedly in May this year. Our sales are significantly high in Kerala and due to heavy rains, South as a geography has not delivered. Some of our non-power brands which were slightly bigger in South have suffered during the quarter so overall on a value basis on the non-power brands we have declined. We had to dry the pipelines of Ujala Detergent Powder in South because we wanted to launch the new powder in May/June and hence Ujala Detergent Powder has declined in the quarter. Keeping these factors aside, we are investing heavily in the South and going forward we will see these markets grow much more than what we have done in Q1. South will continue to be our core-market but we will also ensure that the non-south market grew much faster as we will continue to invest heavily on the National media to make our brands become stronger on a pan-India level.

Atul Mehra: One more question regarding the growth for the rest of the year. In terms of incremental efforts in advertising, we already are very aggressive. But, specifically on larger portfolio in terms of detergents, we are yet to have a key differentiator communicated to the consumer. I am curious to know, incrementally what will drive this 20%-25% growth for the rest of the year?

S. Raghunandan: I cannot single one brand I think all brands in the portfolio should register very healthy growth this year.

Atul Mehra: What I was mentioning was in terms of Detergent portfolio.

S. Raghunandan: Even in the Detergents portfolio we have grown this quarter and the growths will be better when we bring in new news. I am not going by one quarter but looking at all the plans that we have on a holistic basis. In some regions, the season is yet to start so when I look at the full year we will find that the growth is fairly uniform across all the sectors.

Atul Mehra: Thanks a lot and best of luck.

Moderator Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Thanks for the opportunity Sir. Congratulations on great set of numbers. Sir just wanted to know currently what is your total debt including the working capital?

S. Raghunandan: As given in the presentation, it is Rs.583 crore.

Kunal Bhatia: Sir, what will be the average rate of interest for the same?

S. Raghunandan: 11.25%.

Kunal Bhatia: Just one clarification, the Other Income you mentioned also includes the interest received from Henkel?

S. Raghunandan: Yes that is right.

Kunal Bhatia: Sir and apart from this from the time you have joined till date because it has been seen that quarter-over-quarter your confidence on revenue growth has been increasing so what according to you are the challenges you have overcome till date?

S. Raghunandan: It is a very broad question. Challenge is what excites us as a team. I think we find challenges in all the categories. They are all competitive categories. Therefore we have to work doubly harder to ensure growth and therefore the only thing I can say is all of us are working very hard to get the desired figures.

Kunal Bhatia: Thank you so much.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Liladher. Please go ahead.

Amnish Agarwal: I have a couple of questions. My first question is regarding Maxo which is a brand in Mosquito replant, a very vibrant category. So where Maxo as a brand lacks and what are the initiatives being taken by you which you believe with accelerate the growth rate in this category?

S. Raghunandan: I think if you come to us in the next two analyst meetings post the quarter results I would be able to talk about Maxo. The category is vibrant, no doubt. So therefore we need to do something. But what is it I cannot share with you now but obviously you will have some news in September quarter results and more news in the December quarter results. In the next two quarters I can assure you that a lot of new news will come on this brand and this will also play an important part in a very vibrant category. So as of now I have no news to offer on Maxo, but the season has started very well for us. The rains have been excellent and post the rains the season starts so we expect September quarter will be very robust in terms of Maxo's growth. The June quarter is not a great one from a category perspective. What is important for this category are the September and March quarters, and we are confident that we will deliver very good set of numbers then.

Amnish Agarwal: Sir my second question is regarding one of our other brands, Fa, which is a personal care Deo and Soaps brand. So, what initiatives are being planned for accelerating growth here?

S. Raghunandan: We have grown in Q1, but we started our initiatives a little late on Fa this year. Nonetheless, we have done well in quarter one. We will continue to bring in new products from Henkel's table under the Fa brand in India. So, we will see more action in the coming years to come.

Amnish Agarwal: Sir what sort of products can we expect?

S. Raghunandan: We are looking at body wash, shower gels, and other exciting products in the Fa range, which is new in the Indian market.

Amnish Agarwal Thanks a lot.

Moderator: Thank you. The next question is from the line of Bhavesh Jain from Sushil Finance. Please go ahead.

Bhavesh Jain: Good evening Sir. Congrats for a good set of numbers. Sir is there any more gain available in this manufacturing consolidation part? You were expecting the capacity utilization to improve from 40% currently to around 70% so with this closedown of two units what capacity utilization were we able to achieve?

S. Raghunandan: Obviously there has been an effort to improve capacity utilization in the current factory and so wherever capacity utilization is very low, we are closing down and moving to our current units. So both the units are our own units and therefore capacity utilization out there is improving. All the steps which we are going to take now and in the future are to ensure that we are able to have a good margin profile in the business. Whatever efficiencies we can get in the coming quarters will all be ploughed back into profitability and brand building.

Bhavesh Jain: Sir, can you give the divide between urban sales and rural sales in the overall topline?

S. Raghunandan: If you look at rural it has below 1 Lakh population sales, you can say around 28% to 30% of our sales come from below 1 Lakh population towns and 70% comes from above one Lakh towns. So it differs from category-to-category but on an overall level it will be around 30%.

Bhavesh Jain: Sir, what is the plan for the Laundry business going ahead for rest for the year and this quarter numbers for the Laundry business?

Ullas Kamath: This quarter number is not consolidated. In the Laundry business, we are just improving on the EBITDA front and in the current year there are no big expansion plans there. Our complete focus is on JL consolidation and probably the next year we will be going to many cities. Right now we are only in six cities and the next year we will try to go to four more cities. At this point in time we are just focusing on EBITDA improvement in the Laundry business.

Bhavesh Jain: Thanks a lot.

Moderator: Thank you. The next question is from the line of Akash Poddar from I-Alpha Enterprises. Please go ahead.

Akash Poddar: Thanks for taking my question. Congrats on a great set of numbers. Sir could you just give us the gross margin breakup in case of Soaps and Detergents and the Home care segment for this quarter, last quarter and the quarter of the previous year? I know it has to be viewed in the light of all the changes that you done but just a broad idea?

S. Raghunandan: On the Home Care front it is largely Maxo and scrubbers. There if you first see the revenue, 80% of it is Soaps and Detergents and hardly 18% is coming in Home Care. The Maxo coil business is not as profitable like the soaps and detergents business. We have already said that we have stopped bleeding on coils. So we have a positive gross margin of about 8% to 10% on Maxo as a brand. So the Home Care part of the business is not so profitable but fortunately for us it is a very small portion of our portfolio, only around 15% the portfolio. The scrubbers have a gross margin of close to 30%.

Akash Poddar: Sir next I just wanted an update on the debt schedule. You have Rs. 582 crore of debt. So this year how much would be paid off?

Neetu: A total of Rs. 68 crore for the year.

Akash Poddar: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Ullas Kamath for closing comments.

Ullas Kamath: Thank you very much friends and any follow up questions you are more than welcome to talk to me or to Neetu whenever convenient. Thanks for your patient hearing and look forward for the next quarter's call. Thank you all.

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