"Jyothy Laboratories Limited Q2 FY 2013 Results Conference Call"

November 1, 2012

MODERATORS: MR. M. P. RAMACHANDRAN
MR. ULLAS KAMATH
MR. S. RAGHUNANDAN

Moderator Ladies and gentlemen good day and welcome to The Jyothy Laboratories Ltd Q2 FY13 earnings conference call. We have with us on the call today Mr. M. P. Ramachandran – Chairman and Managing Director. Mr. Ullas Kamath Joint Managing Director and Mr. S. Raghunandan – CEO. As a remainder 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 this conference call, 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 like to hand the conference over to Mr. Ramachandran .Thank you and over to you sir.

MP Ramachandran Good Afternoon friends. Welcome to all of you for this discussion on our first half-yearly as well as the second quarter result of FY13. Mr. Ullas Kamath will take you through all the salient features and he will be happy to answer to your queries if any. Thank you.

Ullas Kamath Hi everybody. Good Evening. Raghunandan is also here with me. For the current quarter, I'll take you through the salient features of most of the big decisions which we have taken and which are under implementation. We have already put our power point presentation on our website and I am sure that you would have looked at it. The new CEO came in on May 23, as all of you are aware and he had also committed a wonderful team of 9 other people who have now joined the management. The list of the Management team is there in our presentation. They have been the new additions in the manufacturing, in the procurement, in marketing, in Supply Chain and also in HR for our Manufacturing facilities. A couple of more people will be joining. Sales managers for South, for West and the North, North-2 and also for the East are in place. The details of individuals have been given in our presentation including their experience. It's a very young team - average age is about 40 of all 9 of them. As far as last quarter is concerned, there was lots of restructuring because for the last 20 years the style how MD and I have run the company was different. Now the relationship stand is different as the new management team has come in as well. So it is a blend of the old with the new and it is in the best interest of all the stake holders. So we are trying to re-organize the manufacturing, sales, distribution, marketing and also supply chain essentially to have a fantastic working capital management at the end of the period. We are done, we have taken some of the big decisions and all initiatives were taken by Raghunandan. The first in the order was rationalization of the trade margin. Jyothy initially used to give 10%-12% and for some of the products like Ujala in some of the states we used to give 14% as a trade margin to the retailer. Raghunandan has made it a flat 10% across the country now. So Ujala now is being sold at 10%. Other brands like Exo which we used to give at 10% now he has brought it to the industrial standard at 8%. A detailed rationalization slide is there in our presentation which gives an idea what all areas where we have reviewed the trade margin to be comparable with that of the industry. Likewise, in distribution we used to give 8% in the past now that is at 6% all across. Distribution stock holding in the past Jyothy used to have anywhere between 22-30 days of stock at the stockiest place but now it is been brought down to 7 to 10 days. Because the new concept which the new management has brought in is to work on ROI model wherein the stockiest has to get a decent return on his investment which could be between 20-24% and not on really hard margin basis. Going forward, the big decision which we have taken in distribution is that to have fewer, stronger, better and bigger distributors. Earlier we used to have the 3500 distributors across the country and all of them we were treating them as a distributor. Everybody was getting the same margin but now some of them will be our distributor, some will become our super stockiest and some people will become sub-stockiest. All of them will be retained in the business the way they used to be, as far association is concerned. However, the channel in which they will be working in the Urban will change to - through company to C&F to the distributors directly. Whereas in rural, it will be company to C&F to the super stockiest and then to the sub stockiest. So some of our small stockiest will become sub stockiest, some of our big stockiest will become super stockiest and in entirety CSA we had gone in the past, we had gone to depot through to C&F. Now Raghunandan has taken off the depot also, so it will be directly from the company to C&F. We should have a savings of about 2%. In the case of rationalization of the trade margin, we have already attained between 3-4%. We have already seeing improvement in the gross margin because of the CSA becoming depot becoming C&F; we are gaining about 2% now. And improvement in the EBITDA is very visible in the last quarter. We are now at 12.58% and going forward our target is to achieve 16% for the March quarter. Regarding investment in advertisement and sales promotion - Our target is to spend anywhere between 10-12% and depending on improvement in the margin we will be spending that kind of money in the quarters to come. Overall margin efficiency just to give a highlight: The trade margin we have got about 2%, distribution margin about 2%, C&F saving around 2%, efficiency in procurement is about 1%, packaging efficiency is about 1% and manufacturing efficiency we are expecting about 2% in the coming quarters. So over all - last 90 days in the quarter ending 30th September lot of initiatives were taken. The results of the same you are seeing partially this quarter but rest of the things you will see in the coming quarters. 2012-2013 will be a year which we will remember forever because this is the stepping stone for the New Jyothy Labs Ltd once Henkel merges with us completely. So these are the big decisions and implementations what we have done and now I will take your questions. Raghu is also here. So if you have any questions to him, you can ask him. So I`ll take your questions also.

Moderator Thank you very much Sir. We will now begining the Question and Answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy Sir, thanks for the opportunity. My first question is on the rationalization of Margins. We still have some band of margin. For example, there is 8-10% in Exo and in Maya 10-15%. So is still we have a band is some of the products?

Ullas Kamath **In s**ome of the states we have taken the decision immediately. But these things will be rationalized before March. Because in some states we have taken 2 step reductions where we have made from 12 to 10 and in some states we have made 10 to 8. But by March you can be rest assured that will be one margin across the country. Especially in Maya which is the product which generally helps more on the scheme, so there will be some difference.

Abneesh Roy Sir, this is a very bold step and congrats on such a move. Question is why we haven't done this till now and when you are going back to the retailer and cutting his margin from say 15 to10% in some cases, 20 to 15 in some, so what made you take such a bold move and similarly at the stockiest what is the reaction? Because his income from you is getting cut drastically in some cases. So what can be his reaction to our products and focus?

Ullas Kamath Sir, Nobody will be happy when you reduce the margin and that's a fact. But the first question that you asked - why now and why not earlier. For everything the timing has to come and the timing what we have managed is the Henkel acquisition. In the past Jyothy was a stand-alone. We had one Ujala, one Maxo and half Exo. That is only in south India. When you have 2.5 brands, the way how you manage in the Market place is different than when you have 10 brands. Together now we are a 12,000-13,000 crore company. So the stockiest also think that it is much better to deal with a bigger company and we are just – we are comparing that with an industry. Also, as a backup to the distributor, we are saying that we will ensure your return on investment which we never used to do in the past. For that we are reducing a stock holding, so that he will get a better return on investment and the timing is exactly when the new management team has come in. At least to that extent I can tell everybody that it is the new management that has taken tough decisions and they know how to implement it and also the money what we are saving, we are putting that in advertisement to build the brand. Although earlier we used to spend 6 -7% on advertisement, going forward we will be spending 10-12% advertisements. To that extent the sale has to happen automatically and now we have a complete team to back up the sales.

Abneesh Roy Correct, Sir, My second question is in terms of market shares. Ujala and Maxo seem to have lost some market share. Is it the normal Neilson data issue or is it that we have lost some share to may be some of the new player who has launched against Ujala? Maxo anyway is in a very competitive segment. So some insights on the market share?

Ullas Kamath As far Ujala is concerned; we have not lost anything to the competition. It has historically been 1 or 2% here and there. It keeps moving and we do not want to talk about the competition. At the same time when there is an issue on the market share, we shall take the necessary steps to make sure that we are keeping our market share intact. As far as Maxo is concerned we did lose the market share. The category has not grown but we did lose about a percent market share. But if you see the brand performance in Maxo, we have drastically improved the gross margin there. This is because we have increased the retail price of our Maxo brand when the competition did not increase it, that gave us about 12% and then we reduced a bit of sales promotion as well. We are investing the money in advertisement as far as the liquid is concerned. So investment in liquid, changing the retail price, taking it up by 12% and reducing little bit of sales promotion, we felt the end result of losing 1% market share was not really alarming because we have got better gross margin of 26% now on Maxo.

Abneesh Roy Sir, My last question is on marketing. You are doing quite a bit of national marketing as brands like Margo, Pril and Exo is being taken National. So how do you see the ad spent in the coming quarters - any drastic increase or will it be because of the distribution commission which you all are going save, it is largely going to come from there?

Ullas Kamath I am extremely happy that you have seen our all our commercials. I am happy that are we are all on the national level now Abneesh. Coming to your point, yes we are walking very tight rope, whatever the savings is happening now, wherever it's possible we are plowing back into the advertisement. We are not gone in full swing of spending 10-12%. As of now we are still at 8% but the next quarter we might go up to 9%, then we go to 10% and probably thereafter we will settle down at 12% in the coming year. But objective with the top management is what we have is that wherever we are saving; leaving enough behind to invest on advertisements. So target is to reach 12% to spend on brand in the next year, but this year over all we might be about 9 – 10% for the year 2012-13.

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

Aashish Upganlawar Just wanted some curve on the final gross margin that you see after all the re-structuring. You said 16% EBITDA the margin that you target after the advertisement spends increased, so approximately how much do you see at the stand alone entity making?

Ullas Kamath 16% EBITDA is for the stand-alone. That is what we are targeting for the March quarter. So if it is 16% EBITDA, end gross margin for the March quarter will be about 45% and in that EBITDA margin will have spent about 10-12% on advertisement.

Aashish Upganlawar Sir, you mentioned some good things about the Maxo brand that we have in terms of restructuring so as to make that brand profitable and we have seen some result of that this quarter. So how do you strategize to basically improve the profitability of that brand and where do we see going maybe two years down the line. How does this brand work for us?

Ullas Kamath In Maxo today the contribution of the liquid has gone up from 8%-12%. That's a 50% increase when compared to the same period last time. So the new team is definitely spending lot of time and bringing out the new variance. The liquid is already come and we are getting in a big way, we are getting into the spray. i.e. aerosol and over all we would like to have 60% contribution from the coil and 40% from non-coil. If that is the case then our gross margin there will be around 40% and there also we will be able to achieve our EBITDA margin say about 14-15%. So the strategy is in place. I will not be able to explain the strategy because of the competitive scenario in which we are working but the new management team is working very hard on repositioning the brand and focusing more on non-coil at the same time maintaining the margins what we have shown in this quarter maintaining that in the coil segment.

Aashish Upganlawar Okay. Sir but you said about 12% price increase that you have taken in Maxo, so this is across coils and the liquids probably. So how does that stack up against competition? Are we operating still at a discount to competition? Could you give an update on that?

Ullas Kamath Yes, Some of the SKUs we are premium. Some of the SKU we are at par. But we are not discount to any competition. Some of the SKU we are at par because they've also taken the price hike in the recent past but to some of them we are still expensive by about Rs.2 per SKU**.**

Aashish Upganlawar Okay. Sir Just wanted to comment on Henkel performance this quarter. I mean, It showed a de-growth in the numbers that were published, so any comments to offer on that?

Ullas Kamath Henkel de-growth that is happened only at primary sales level. It is only because when we have changed most of the distributors that were working in the past. Some of the stock what they had, we didn't want to take it back and we allowed them to sell it in the market place. So it is just a month hit what we had taken knowingly and we are fine with that. Secondary sale is not affected. The primary sale was affected when we were shifting the distributors. We had to settle lot of their old pending accounts and for that there was disruption in sales in all the states and that's the only reason . Nothing else.

Aashish Upganlawar So one month sales were lost because of this approximately.

Ullas Kamath Yes. Approximately 1 month. Restructuring the bills. We lost about a month sales in Henkel. But we are back. October month is absolutely fine under control.

Aashish Upganlawar Okay. Sir, On the distribution realignment that we did, are we selling/ cross selling the products of JLL and Henkel basically after the restructuring that we had in distribution or because the synergy benefits still are not probably visible in Henkel, so when would these be visible and how is it going on these.

Ullas Kamath It will be visible in the next year completely 2013- 14. As of now the 2 entities are different entities. There is JCPL and JLL. And right now we are billing the Henkel products to JCPL and we are billing Jyothy products from JYL. So what happens is that the entire synergy when you want to get it, that has to be a merged entity and that should happen. Nov 22nd we are having the AGM of both the companies with that if we are able to merge both the entities before 31st of March then there will be only one balance sheet as of 31st March 2013 and thereafter there will be one company which is supplying to all the distributors. So complete Synergy we will get in the year 2013-14. Until then we need to manage with the two companies, two billings and two recoveries with the same distributors but billing will happen from 2 different companies for their different products.

Aashish Upganlawar Cross selling has not started as such at all.

Ullas Kamath Cross selling will not happen because the distributor is the same for both. So that is the synergy we are getting now. But the difficulty is that if he has to get the JLL stock, he has to place the order with JLL and if he has to get the Henkel product he has to place the order with JCPL. Now to that extent the synergy has not come so far but it will come as we go forward in one or two quarters.

Aashish Upganlawar But does it matter if the billing is from 2 separate entities and the same guy is selling the brands of both entities.

Ullas Kamath I am saying that you won't get 100%, maybe you get 80%. But what happens is that he has to place the order, the truck has to go from here, the billing is different and that go-down is different, you cannot keep both at the same place. So there are lot of practical issues but otherwise I fully agree with you that synergy will be there at the end. The last mile-the synergy will be there. Because the sales staff is the same and distributor is the same. But managing the stock sometimes will be easier if everything is operating from one company and one go-down.

Moderator Thank you. We have the next question from the line of Gagan Burana from ICICI Securities. Please go ahead.

Gagan Burana Just couple of questions. First on the majors which you have taken to a fresh invoicing the trade margin and the dealer margin. Do you think it will have any impact on the top line growth in the coming quarters? Secondly on the insecticide business there is a slight de-growth in this quarter. Despite last quarter being a monsoon quarter and you know we have our break of dengue in the current quarter, how do you see the segment doing?

Ullas Kamath The answer to the first question is that you know like, despite us cutting down the trade margin – the distribution margin, still our top line has grown. That is only because of the power of the brand, which we have in market place for Exo. And Maxo sale has come down for the reason that we have increased the retail price when the competition has not increased the retail price. That's again the bold initiate by the new management. So they increase the price by 12% and they reduce the trade margin and also reduce a bit of sales promotion to conserve the money to spend the money on the brand. They have spent the money on our liquid vaporizer where we have taken Madhavan as the brand ambassador. Now it's all these tough measures taken against a brand which people used to call as a commodity which in reality our new management team has proved that no brand has its own pull. We have maintained the same business, same turn over but the profit has improved from 12% gross margin to 25%. So that's the money which they will be investing back on the advertisement. Exo has done exceedingly well. We have now gone national with Exo and Pril and Margo with TV commercials. So these are all the new things, initiatives taken by us.

Gagan Burana No Sir, what I mean to ask is we have seen some other companies as well. When they had time to rationalize the distribution margin or trade margin, there has been some impact on the top line growth. Do you see this kind of pressure coming on the top line growth for you?

Ullas Kamath Sir, I should have grown by 40%. I have grown only by 15%. So already I have taken that hit of 25%. If you see by the last quarter, if you see my half year – I have grown by 40%. This quarter in the way in which we otherwise will have worked I should have grown not less than 40%. The fact that I have grown by 15% means that I have taken a hit of 25% already which is not seen.

Gagan Burana Okay. So your this run rate of 15-20% would go on sir for probably how many quarters according to you?

Ullas Kamath Which one Sir?

Gagan Burana Sir, the current growth rate you said is 15% compared to 40% which you were doing earlier, you think this run rate is going to continue for at least couple of more quarters?

Ullas Kamath For the year 2013, we will be doing not less than 25% top line growth for the year 2013. Even with all these difficulties still we'll be crossing 25% topline growth. As far as the bottom line is concerned, we need to see how we spend the money on brand and do we do spend the money on sales promotion. Probably in the next analyst call we will be able to give a clear guidance because lot of things are happening with the new management team and we want to give them sufficient time to come back to us the way how they expect us to spend the money on the brand. To that extent the bottom line we will know after December quarter.

Gagan Burana Sir, Second question on insecticide. I mean how do you see the growth in the entire context Dengue outbreak you know in some part of the countries.

Ullas Kamath The category as of now is not grown for the last quarter but we should be growing in line with the category and the biggest season, 1/3 of the sale comes in February-March. And yes, your question about Dengue - the awareness keeps going up but it is on the spike here and there and people forget after sometime about it. However, the overall mosquito repellent business is growing at about 12-15%, we should also be able to grow at the same percentage if we are maintaining our market share.

Moderator The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah I just wanted to know - what is the kind of Volume growth that we have seen quarter across categories?

Ullas Kamath Volume for the entire quarter is more or less flat. Whatever we have gained is primarily because of little increase in retail price of Maxo and Exo. The trade margin rationalization is affected in the higher billing because of the higher yield. So this is all because of the many tough decisions we have taken and we are maintaining the volume. Going forward we expect at least about 10-12% volume growth in the coming quarters. By March we should be able to get at least 15% volume growth and with the volume and the value it should be about 25% for the year.

Grishma Shah The other question was on debt. What is the cost of debt for us now? Long term and short term put together the average cost and how are we planning to repay it given that we will also be evaluating the land sale at Henkel at various locations.

Ullas Kamath As of now the average cost for our debt is about 11%. We are going to repay it by the sale of some of the real estates which we are working on and converting our positive working capital towards negative working capital and also internal accruals. Once Henkel is merged with Jyothy Laboratories Ltd and we expect Henkel's profitability to help us to pay the interest in the principle. But we are keeping all our options open at this point in time. The entire management focus is it get the top line and bottom line in place at the EBITDA level and in the coming quarters we will see how best we can reduce our interest burden.

Grishma Shah To understand it correctly, more because we are changing our distribution network entirely and the trade margins.

Ullas Kamath We have not changed completely. Within the existing distribution set up, we have re-organized. Earlier we used to have every distributor of Jyothy Laboratories Ltd called as a distributor whether he is selling a crore per month or selling 10,000 rupees a month, he was a distributor. Now the new management team has just reorganized it saying that all the distributors who are doing more than Rs. 15 lakh sale per month will be called as a distributor. So that will be about 1500 distributors across the country. All the small distributors we now call them as a sub-stockiest and we will have a super stockiest in between. So we supply to the super stockiest and we don't expose on our credit sale everything on a cash and carry. The super stockiest will supply to the smaller, sub-stockiest. This is in line with the how the FMCG companies are working. This is the new initiative of the new management team who have worked with the other companies and have seen every kind of distribution. So we have gone into a final hybrid system of a distribution which is cost efficient and also at the same time there is no exposure on debtors. Because it will completely be Cash and Carry.

Grishma Shah But the inventory short up to 109 crores.

Ullas Kamath Yes. We have built up the inventory because of some of the national launches.So it is comparable to the industry.

Grishma Shah And lastly the outlook on key raw materials - how is that behaved?

Ullas Kamath As of now it is stable. There is not much in the key raw materials. As far as Ujala is concerned, everything is under control. It is comparable to that of the earlier quarter. **As far as Maxo is concerned, the gorgom cost has come down**, which is beneficial to us, but otherwise all packing materials has gone up a little bit, as in when the transportation cost goes up and the diesel price goes up, the packaging material cost indirectly will have an impact on that, but otherwise overall it is under control.

Grishma Shah Fine Thank you.

Moderator We have the next question from the line of Kunal Bhatia of Dalal & Broacha. Please go ahead.

Kunal Bhatia Just wanted to know, Sir- in case of Henkel, how much of our sales was lost in this quarter because of the change in the distribution system.

Ullas Kamath About 10-12 crore in the primary.

Kunal Bhatia 10-12 crore. Okay. Sir moving forward our average sales in case of Henkel has been coming down. What's your take on that? What can we expect going forward?

Ullas Kamath We have already done about 40% more in the month of October as far as Henkel sale is concerned. So whatever is the loss, we will try to make up in the coming month. At the end of the year you won't see any loss in Henkel. Because this is just a one time correction. When we say that we are integrating both the distributors and when we have our 3500 distributors and theirs about 2000 + distributors, then we have really given the town level and we want to shift one person to other person, there is a slump, you know hard winnings will be there, they will take about a week's time, 10 days, 15 days and till no sale will happen. This all what we have lost and with my experience what we have lost for about a month's sale is hardly anything when you see some of the big integrations that have happened in the country. These are all credits to our new management team.

Kunal Bhatia Okay. And Sir, what kinds of margins do we expect in the next 6 months for Henkel?

Ullas Kamath For both we should be targeting at 16% EBITDA margin. This is what we are keeping our target. May be here and there 1% but 16% is what we are targeting for both the companies.

Kunal Bhatia Okay. And any update on, We have been seeing your packaging for Exo has been changing quite a bit. So what's your outlook going forward under Exo business?

Ullas Kamath Exo is doing extremely well. Growth has been, for the last quarter, 18% but half year we have grown much more than that. Now we have gone national and you will see the similar growth happening in the quarters to come. So it's doing extremely well and every month we are gaining market shares. In Kerala we have become number one with almost 60% market share.

South India we are number two now and at national level we had about 12% market share. We are gaining market share month after month.

Moderator Thank you. The next question will be from the line of Rajat Budhiraja from Banyan Capitals. Please go ahead.

Rajat Budhiraja First question is regarding the canteen stores department channel. What percentage of revenue came from that particular one? And if you can comment on the trends you have seen in that particular segment.

Ullas Kamath Canteen stores, for both the companies put together is about 12 to 15%. Henkel is 12%, Jyothy is 2%. So both put together it is about 14% from canteen stores. And you are very right that all the FMCG companies got hurt by the CSDs not placing the orders for a month or two. But what we have done is that now we are not dealing with any of the intermediaries. We have created our own team now and we have started getting the orders back. So we lost a month sale from CSD but everything is back on track. The new management team felt that it is much better to operate on our own rather than with the intermediaries, which is where the problems was. So, immediately new set up has been made, this is there in our presentation which has been put up on the website. So there is a complete vertical created by the new management team for CSD alone, they are working across the country and they are placing the orders and sale is back.

Rajat Budhiraja My next question is about the sales employees you have in the company. Earlier, there was a particular incentive structure and with the changes that have been made in the whole sales and distribution side, could you comment on what that new incentive structure will look like?

Ullas Kamath The incentive structure will still be there but the way how they work will be totally different than they how it used to work in the past. So, now there will be like a 20%, entire field force of Jyothy Laboratories Ltd. working on 20% of our retail outlets. Earlier we used to cover only once in 15 days, now we are covering every week. So, there will be more effective calls happening at 20% of the retail outlets. And balance 80% of the retail outlets where we get about 20-30% of our sales will be serviced by the distributor salesmen, because now our distributor's minimum salability is 50 lakhs a month. So he will be providing the sales for us, so that effective footsteps coverage in the market place will be of our existing 1,300 plus people and from the distributor we should be getting about 1,500 more. So there will be 2,800 people or so, out which only 1,300 would be existing on the payroll. In addition to that we will be getting additional 1,000 to 1,500 people from the distributor salesmen. Together there will be 2,800 people talking about our brands across the country. As far incentive is concerned, we will hold on to the same incentive program which will be anyways between 20 to 25% of the salary. They should get as a variable incentives.

Rajat Budhiraja Okay my last question is, compared to the June quarter there has been new decline for Jyothy standalone. I was just curious what was the dynamic behind it? Was it a particular brand or it is just the way you are transitioning your whole distribution channel? Would just like to get the commentary on that.

Ullas Kamath One is that distribution channel definitely has made a difference. Second one is that they are all seasonal products, but in even in a particular season we are maintaining the same sales. But it is always Jyothy's quarter-by-quarter, if you compare the same quarter in the earlier period, you will get a better sense because of the mosquito coil business. The mosquito coil in the last quarter when compared to this quarter, this quarter will be less. The highest quarter mosquito coil happened in the March quarter. December quarter will be still less so, because it's a seasonal segment. The second one is that some of the brands have gone national in the last quarter, and so we have got additional sales because of pipeline selling. So, it is the combination of new launches, going to new geographies, seasonal products and fluctuations, but my advice to you is to compare the same quarter of the same period last year. You get a better sense on that. But sequential quarter it would take probably a year for us to streamline, because if you have 10 brands together then probably one seasonal product will not affect your sequential quarter. But in Jyothy Labs Ltd., Maxo sales are almost one-third.

Moderator Thank you. The next question will be from the line of H. R. Gala from Quest Investment Advisors. Please go ahead.

H. R. Gala I just wanted to know one thing that in Q2 of standalone Jyothy Lab if you see, the total material cost to sales has come down drastically from 58% to 51%. So you know that has straight away reflected in our EBITDA margin. Now, if you look at the Jyothy consumer products, YoY their material cost has gone up from 55 to 62. So, what could be the reason?

Ullas Kamath In the case of Jyothy Laboratories Ltd., it is because of the combination of increase in the MRP of the product, acceleration of the trade margins, down the trade margins from 12 to 10 and distribution margins from 8 to 6. A combination of all this has resulted in the improvement in the margin. And also now the product input cost has come down other than SDP and things like that. Whereas in the case of JCPL we are not able to increase any of the retail price, because that we have not taken up so far. We have not done that because there will be some correction in the coming quarter due to the distribution, packaging and the new advertisement being put in place. However, so far we have not done anything there. The second one is that there because of the lower sale, most of the fixed expenses have been absorbed especially at the factory levels. Also in the last quarter, one of the good things that has happened is that in our Karaikal plant, in entirety labour issues were solved. To that extent some expenses have gone in which has provided in the past. With the combination of all that we were not able to get as much as the benefit otherwise we would have got.

H. R. Gala But my question was pertaining only to the material cost. What basically I wanted to know was, is that, directionally the input cost is moving differently for Jyothy Labs as compared to Jyothy Consumer Products?

Ullas Kamath It is the percentage, because we are not able to increase price. Otherwise the rest of the things are all the same.

H. R. Gala Okay. Is there any development on getting some new products from Henkel? We had some thinking that they had certain very interesting products.

Ullas Kamath All the interesting products are there in the pipeline and the new management team is looking at every item because now we are taking in the category heads and so far we were able to get only one category head and the other two people we are still scouting for. So, Raghunandan is working very hard to put the people in place of marketing and rest of the things all are in place. In the current year, Raghunandan has specifically put up the existing set up in order. All that is there and consolidation take place and reorganisation takes place and both the entities are merged together, next year you will see more brand extensions are happening in existing portfolio. If at all we need to bring in new products, we are free to bring it.

Moderator Thank you. The next question will be from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor Just on the Jyothy standalone portfolio, wanted to understand, we spoke at a length about how the increase in retail price has affected Maxo. Just wanted to understand sir, what has happened on the Ujala front, because a similar kind of flat-ish growth we have seen in Ujala as well. If you could just throw some light with what has happened on that front.

Ullas Kamath It is the same reason. That when we increase retail price and decrease trade margin, there will be some resistance. So, you will have some muted sales for 15 days to one month. All of the things have come back to us now the market share will show you. As far as the market is concerned we have not lost any market share to the competition. And these are all one time correction which keeps happening whenever we increase the retail price, when we decrease the retail margin, when we decrease the distribution margin, and we also ask them to hold in less stock. With all the billing will come down. And when we go back to our distributors saying that your margin is less, retail margin is less, distribution margin is less and you keep less stock, and it is hard to ask them to give order for next one month. So, a lot of rationalization is happening. It is all looking at very long term point of view. Short term there will be pain, which we have already done with. As I replied to one of my other friend's question, what otherwise I would have grown 40% in the last quarter, I could grow only 15% is because of these difficulties and that is behind us now. Coming quarters top line will be back in order.

Harit Kapoor So, what was the quantum of price increase in Ujala?

Ullas Kamath Ujala we have not done, but we have done in the case of Maxo by 12%. Exo we have taken a small price hike.

Harit Kapoor On Exo, is the product now available across markets?

Ullas Kamath In all big cities it is available now. Modern Trade we are still negotiating for Exo because historically Henkel used to give modern trade 17-18% discount whereas Jyothy used to give 20-25% discount. So the new management team feels that we should settle down only at 17-18% and not more than that. So, we are still negotiating. Modern Trade it will take some more time for you to see the Exo rounds there, but otherwise across the country, all big cities Exo is available and also the national camping is on.

Harit Kapoor In Jyothy standalone portfolio, there is another product's segment which has grown 2x for the half as well as 157% for the quarter. So, just wanted to know what has been driving growth there?

Ullas Kamath These are some of the products of Henkel which were not being represented in some of the states and some of the towns, which we have supported with Jyothy Laboratories Ltd. Other products is our Jeeva, our Morlite, our Maya Agarbatti and also some of the Henkel products which were not available in the towns, they were not represented by anybody we started supplying from Jyothy Laboratories' distributorship. But all these things will be merged once the entities have been merged.

Moderator Thank you. The next question will be from the line of Atul Patel from ICICI Prudential. Please go ahead.

Atul Patel My question after this distribution reorganisation exercise is done, you are targeting EBITDA of about 16% for March quarter. So what is the EBITDA margin you are looking for the FY14 basically for the full year? Do you think that distribution reorganisation will lead to further increase in EBITDA margin for FY14 also?

Ullas Kamath No. In FY14, we will be retaining for entire year 16% and any money more than that we will put back in advertisements. So there are two things which we want to achieve in the year 2013-14, advertisement spend should be about 12% and EBITDA margins should be 16%. And once we achieve both the numbers in the year 2013-14, then 2014-15 we can see whether 16% can become 17%, 18% or 19%. Because once we have the sales in our control, when you spend the money on the brand then you would know how all the 10 brands together will perform. So, we will have some kind of rationalization happening at the sales and promotion in the year 2014-15. But, for 2013-14, it is very well planned 12% advertisement and 16% EBITDA.

Atul Patel And that 16% is valid for Henkel's part also right?

Ullas Kamath Yes because by 2013-14, there will be only one balance sheet.

Atul Patel Sir, this year you have done about 200 crores of sales for Henkel. You had earlier added somewhere around 500 crores for full year FY13. So, do you still maintain that target or do you think that 500 will not be achievable?

Ullas Kamath No, I still have 6 months' time and we are working very hard. The guidance we have given of 25% growth, we definitely want to achieve that. As of now in Jyothy, as against 25% guidance that we have given, I am up by 40%. Actually, I have 40% for the six months ended. And in Henkel because of the reorganisation, we are taken a hit for about a month. But we will work back and try to see how much we can make up. And our hope is that the March quarter should be the completely turn around quarter for Henkel in all respect, because there is nothing more to add then other than doing the sales.

Moderator Thank you. The next question will be from the line of Mohit Jain from Trust Group. Please go ahead.

Mohit Jain Sir, one thing on the presentation. When I look at fabric care segment, decline is around 1% YoY. My only doubt is that this is the net of trade margin. Is that correct?

Ullas Kamath Yes it is the net of trade of trade margin.

Mohit Jain Decline will be much higher because the previous year's numbers will not be comparable? What would be that decline line on YoY basis?

Ullas Kamath Yes you are correct. It is a 4% because the trade margin reduction that we have done is more or less about 4% including the distribution margin and trade margin together. But, for the quarter it will be less than 4% because it is not effective exactly from first of July. Most of the changes we have done after August 15, so effectively you can take another 1% reduction. That is all, 1 to 1.5%.

Mohit Jain So, it could be 3% on a like-to-like basis? And when do you expect this to recover? Can it be as dramatic as last year?

Ullas Kamath Yes it is 2.5 to 3%. It has already recovered in the month of October. The seven days stock holding has made lot of difference for us, because around 22 days to 15 days sales you will lose. That we suffered in the month of September. So, October onwards we are into normal sales.

Mohit Jain I heard that in October, you are talking about YoY of 40%?

Ullas Kamath For the month-on-month for Henkel. When compared to the same October month last time, we are up by 40% that means to say that the things are in place.

Mohit Jain Second is on Henkel, what is the full year '13 EBITDA margin guidance now?

Ullas Kamath Full year '13 will be difficult to predict. But in the March quarter standalone we are targeting 16% for Henkel EBITDA margin.

Mohit Jain Any one-offs during the quarter in terms of cost for Henkel?

Ullas Kamath No. The Karaikal settlement what we had, we had provided for in the past. We are not expecting any major one-offs.

Mohit Jain The significant improvement in margin that you are expecting primarily comes from sales?

Ullas Kamath Yes.

Mohit Jain Coming back to Jyothy's standalone results, other products have grown by 157%. If I remember correctly this also includes the outsourcing work that we do for Henkel.

Ullas Kamath Yes you are right. Partially that and partially in some of the unrepresented areas of Henkel we have sold their products through Jyothy Laboratories Distribution. And that is a component as well, but even otherwise the Maya, Jeeva and Niki which are all included in the other products, have also grown on their own.

Mohit Jain If I have to consolidate these two company's sales, what percentage would be knocked off?

Ullas Kamath Maybe about 6 crores will be knocked off, all put together. That is only which we have manufactured and sold it to Henkel.

Moderator Thank you. We will take the final question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy Sir, wanted to understand on Pril and Exo, some of the products seem to be similar and it is in the same product category. So, what is the strategy in terms of segmentation, in terms of the overall positioning?

Ullas Kamath I request Mr. Raghunandan to explain this. This is too much on the marketing.

S. Raghunandan Hi. Basically Exo, we are going to position it as a mass market trend. It will compete with Vim and it will compete with Vim on value. So, that will be our value brand in the dish wash segment. And we look at Pril, it is pursued by consumers to be more a performance brand. It has more premium imagery compared to Vim and therefore what we wanted to do with Pril is to position it as a premium brand, as a performance driver brand in this category. So, what exactly we will do on brands is something which I would not like to talk today, because that is part of our innovation plan going forward in the future. But to just give you at a very broad level, one will be a value player competing with Vim which talks about value and therefore Exo will also be positioned on value. And Pril will be our performance brand which will be at a premium to that.

Abneesh Roy Sir, my question was not on the strategy. In that segment does the customer really want two different brands in terms of positioning, because if you see in Pril there would not be any competition as such by whatever I have understood? In terms of advertising will it makes sense to advertise on both brands or will you be largely focusing on one of the brands?

S. Raghunandan No, it does. There is a need for consumers to have a performance brand in this category. So, Pril will be positioned as a premium brand and Pril is also predominantly a liquid brand. If you look at Exo today, Exo is by and large a dish wash bar brand.

Abneesh Roy In the PPT you have given the photo of liquid also, so that got my concern.

S. Raghunandan There is a small presence of Exo liquid which also we need to expand going forward in the future. If you look at Vim, it has a gel and a bar. Vim has both the offerings and both the formats. So, what we will do is to drive Pril through performance and Exo through value.

Abneesh Roy One last one, on Fa Deodorant if you can give us some insights? Earlier you have been in this category quite well in your earlier role. This category is exploding currently. So, wanted to understand the focus for this.

S. Raghunandan Our plans for the summer is ready. So, we would re-launch Fa Deodorant next year.

Moderator Thank you. I would now like to hand the floor over to Mr. Kamath for closing comments.

Ullas Kamath Thank you friends. It was nice talking to you as always. Any more queries and any specific questions you have, you can always contact me or Neetu. Thank you very much and thanks for your patient hearing.

Moderator Thank you very much sir. On behalf of Jyothy Laboratories Ltd., that concludes this conference. Thank you and you may now disconnect your lines.