“Jyothy Laboratories Q2 FY14 Earnings Conference Call”

October 22, 2013

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

Moderator: Ladies and gentlemen, good day and welcome to the Jyothy Laboratories Q2 FY'14 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. Raghunandhan – Chief Executive Officer. As a remainder for the duration of this conference all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. M.P. Ramachandran. Thank you and over to you Mr. Ramachandran!

M.P. Ramachandran: Good evening friends, I welcome all of you for this call to discuss our second quarter as well as first half-year results of 2014. Mr.Ullas Kamath will take you through the results and other developments during the quarter with Mr.S,Raghunandan. Now I handover the call to Mr. Ullas Kamath.

Ullas Kamath: Good Evening everyone. We have already shared our results with all. Net Sales for the quarter is at Rs. 305 Crore, up 33% and net profit is at Rs.20.8 Crore. EBITDA for the quarter stood 13.9% and EPS is at Rs.1.26 as against Rs.0.08 of earlier period. If you see the half yearly numbers, Net Sales is up by 22% at Rs.624 Crore, net profit is at Rs.49.6 Crore up 21% and EBITDA at 14.6%.

We had given a guidance of 20-25% topline growth. We are already at 22% during the first half of the year and we are sure that we will be able to make up the rest in the coming six months. EBITDA we had given an indication between 14% -15%. Despite the difficult scenario what the industry is going through, our EBITDA for the first half of the year is at 14.6% as against 10.5% when compared to the earlier period last year. Net profit is at Rs.49.6 Crore, up 21%. This is after taking a hit on amortization cost for two quarters, which is Rs.20-odd Crore

In the board meeting, apart from the regular business we did discuss on couple of other things. One was to authorize the board to raise an NCD of Rs.400 Crore. As you all know, we are getting healthy numbers and so the board felt that this is the time for us to conserve the liquidity because right now we are paying the principle and the interest. We need more money to grow the business in the coming quarter. Hence the board has authorized us to raise the NCD up to Rs.400 Crore with 11%, 0 coupon redemption and premium payable for the three year period. Also promoters are now entitled for 1.5 Crore of equity shares that should get us about Rs.250 Crore. So together with Rs.650 Crore of money coming in over the next 30 to 45 days, based on all the compliances, our existing loans, what we have in the books of about Rs.600 Crore, completely becomes zero. The NCD repayment will happen only after three years along with the redemption premium and to that extent we will have enough surplus within the company to invest back in the business for the next phase of growth. Now I will request Raghunandhan to take you all through our performance during the quarter in detail.

S. Raghunandhan: Basically I will be starting with the result's sheet, which was declared today for the quarter and for the half-year. Basically I will be only talking about the environment in which we are operating instead of just repeating the numbers, which are already there in front of you. Basically some of the negative factors that have happened in the quarter as far as environment is concerned is the high inflationary situation in the economy and it did had an impact on our margins to some extent, we have quantified about Rs.6 Crore as the impact in the quarter because of inflationary impact largely coming through freight increases that we had to grant to the transport operators. So, roughly about 2% EBITDA impact has happened because of an inflationary situation in the economy.

The second issue was of course, a very competitive context in the detergents business both are big multinational competitors in this space have cut prices and offered more consumer offers in an inflationary environment. So the detergents business did go through some stress. Even though we have grown in the detergents business in this quarter, our growth could have been far better if not for the very competitive intensity that we saw in this quarter largely through competitive efforts.

Other than these two factors we have also had issues around a lot of disturbances in Andhra Pradesh, which has impacted our business in South to some extent largely in coastal Andhra and to some extent in Telangana. We also had floods in Gujarat and Madhya Pradesh during this quarter and also did not have a great season on mosquito replants in UP. The season had not set in properly this year because of temperature fluctuations. So there are some issues, which happen in environment as it could happen in every quarter, this quarter also there had been some impact because of these three issues.

So one needs to look at the results in this context, notwithstanding these negative environments we continue to invest behind brands as we were speaking about. So we have invested more than Rs.20 Crore in advertising and promotions this quarter as well we have done overall Rs.23-24 Crore of advertisement on mass media, which has started yielding results. Even last quarter we started spending money media. Hence most of our categories and power brands have grown very healthily in this quarter. We had 33% revenue growth, our power brands grew by 36% in this quarter. So overall very healthy topline growth in this quarter and an EBITDA margin 14.6% at a half year level.

We have also spoken about 20%-25% revenue growth for the full year. We do not see any reason why we should not continue to stand by the overall guidance. So if you look at the results it is extremely good and the results highlights are there in the next sheet for you. So basically you can go through we have had 33% revenue growth and the large portion of it has come through volume growth of 25%. If you look at our gross margins it stands at 47% today as compared to 46% in the same period last year. So obviously if it is just 1% improvement at the gross margin level it is also because of some inflationary impact that we have seen in this quarter. But in spite of that there has been a healthy improvement in EBITDA margins from 9.3% last year to 13.9% this year and our PAT therefore stands at close to Rs.21 Crore for the second quarter.

The cash profit for the quarter is at Rs.36 Crore because we also have the amortization impact in the quarter. The whole portfolio has done very well. The power brands have grown by 36% in this quarter. The detergents business growth has been slower as I explained to you before and our new campaign of Ujala actually has been well received and we have grown very healthily in this quarter on Ujala brand. Our investments in the non-South markets continue to be high and we had spent much more money in the satellite media like last quarter and our non-South markets therefore are growing at a far healthy growth rate of 42% in this quarter.

If you see the next chart you see that our non-South contributions today stand at 55% in this quarter and for the half year 57% of our revenues are coming from non-South.

Going to the next chart which is on EBITDA analysis we are just trying to give you a breakup of the reasons why EBITDA was slightly lower in this year. There has been some mix impact as well. You can see that the Ujala Fabric Whitener contributions to total sale is 15% in this quarter as opposed to 20% last quarter and Maxo, because of the season, we had 17% of overall revenue contribution through in this quarter as opposed to 11% last quarter. Maxo is lower margin than Ujala and therefore there is some mix impact which is getting reflected on the overall EBITDA margin. But in spite of all these situations, I think our EBITDA margins are still healthy at 13.9% and going forward it can only improve marginally.

So the next chart gives you some breakup of how we are progressed on EBITDA from last year to this year. If you just see the column two where we are trying to compare vis-à-vis last quarter what happened on the EBITDA margin we can see the only impact is that we have spent slightly lower on advertising and sales promotion.

So coming back to the next chart, this is about segment wise sales growth. You can see that across the portfolio we have delivered very healthy growth of soaps and detergents. Segment result which includes all detergents and includes Pril and Exo all of them have done extremely well. We have grown by 35% in this quarter. Our home care portfolio, which largely includes Maxo and scrubbers in dish wash have also grown by 37% in this quarter. So, overall all brands have grown healthily resulting in an overall revenue growth of 33% for the quarter.

Moving on to the next chart, which is about A&P spends, you can see that we had spend about 10% of our revenue on A&P. We started investing on our brands last year and also in this quarter we did spend close to 10% on A&P. Broadly we had indicated that we will spend 10%-12% behind brands.

The next chart shows the cash profits for the quarter and for the half year. So we have generated a cash profit of Rs.36 Crore for this quarter and cumulatively for the first half year we have generated a cash profit of the Rs.50 Crore. This includes amortization impact, basically 45 Crore, which we are writing off as goodwill after the acquisition of Henkel. Rs.11 Crore per quarter comes as amortization hit every quarter.

So the next chart is on the debt status. If you look at the debt status, we are currently holding Rs.635 Crore of debt as on September 30 and hopefully it should not be there by the end of the next quarter.

The next chart is on market share. In most places our market share has remained steady as reported by Nielsen. But in my experience, there is always a bit of lagged effect of two to three months. We expect that in line with the sales force which we have delivered, the market shares will also show a rising trend when we start looking at it on the next quarter onwards. So no great story on market share and in most places we have held shares and in only one place we have dropped the market shares, which is in this dish wash liquid. But notwithstanding these drops, every single brand has grown excess of 35% in this quarter.

In terms of key business initiatives and what have we done as a team, there is one good news that I wanted to be share with all of you. We have appointed a new Vice President Sales and Marketing for the business The next chart is about Bangladesh operations. We have started commercial operations. Ujala production started on August 29, 2013 and going forward we would see more brands being launched in Bangladesh.

As regards to the R&D facility, which is the next page, we have a full fledged R&D lab, which is running in our head office since July 9. We have an inhouse analytical product available and microbiological facility. Now we have the entire wherewithal to do consumer relevant innovations on our brands.

In terms of supply chain efficiencies, we have taken some initiatives in this quarter. Inventories have come down from 55 days to 47 days. We had talked about our supply chain project with IBM. We commissioned that project in December quarter and will be receiving some results in terms of inventory reductions because of the seamless supply chain which will start functioning through new software. We would be implementing it in October and going forward we will see some efficiency in the way we manage working capital.

The key initiatives chart remains the same what we had mentioned during last quarter, which is basically continued investment behind brands on a Pan India basis, gain market shares across all power brands and consolidate our sales and distribution network across India and definitely do some power breaking innovations in the detergents business and the household infecticide business, which we have talked about in the past. So we will see some innovations, which will happen in a few months both on flagship detergent brands as well as on our household infecticide brands. So basically these are the highlights of the business.

Now we would like to open the floor for questions & answers. Thank you very much.

Moderator Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Hemant Patel from Axis Capital. Please go ahead.

Hemant Patel: Hi everyone. Congratulations on a great set of numbers. Just a few questions. Firstly Raghu, you mentioned that there is a delay in terms of sales reflecting on the Nielsen's numbers. Just wanted to understand whether the primary sales, which we are doing right now to the new distributors that we have recruited over the last few months is probably one of the reasons why we are seeing this kind of a volume uptake in the sales and when are we likely to see more of a transmission or full demand coming in from the secondary sales?

S. Raghunandhan: See we do have secondary sales software in the company. So our primary sales are moving in line with secondary. We are not up-stocking the trade. So whatever sales increases, primary sales that we are reflecting is also getting reflected through secondary sales numbers, which means sales from distributor to market and there is no up-stocking happening at the distributor end. If you look at the first and the second quarter numbers there is no up-stocking at all and we have numbers to prove that. So what it means that Nielsen has the sample of around 4000 shops across the country and therefore if there is a lag effect which impacts the market share. So we have started doing well in the last three to four months and we hope that it will start reflecting in the market share unless and until the whole industry is growing at 30% to 40%.

Hemant Patel: What is the typical inventory that is there in the dealer level?

S. Raghunandhan: Close to 30 days.

Hemant Patel: So that 30 days is what you are saying is more or less maintained over the last quarter as well?

S. Raghunandhan: That is fairly constant.

Hemant Patel: In terms of detergents, we did launch the Ujala IBF at around Rs.85 a Kg and I think that is pretty much fairly priced compared to Rin, which is at close to around Rs.84 or 85. But I guess Rin is giving some sort of freebies. Is that the only reason why we are feeling this pain in terms of growth or am I missing something else out here?

S. Raghunandhan: Actually a big reason for this is promotional activity done by both the competitors, P&G and Unilever. Saying that we are still selling Ujala IBF worth about 1.5 Crore a month even in these market and going forward we need to significantly step up spends because what these competitors have done is they have also given price off and also their share of voice has been extremely high over the last three months. So both advertising and promotion impact has been at the highest level and what we understand is that the whole market is cracking because clearly this is the strategy to gain shares in this environment. So detergents business is one bad news for us as of now. When I say bad news we have not declined. We have grown even in the detergents segment in this quarter but obviously the growth has been lower than the other categories that we have witnessed.

Hemant Patel: Could you highlight how Henko has done on the premium end?

S. Raghunandhan: We have grown by around 18%-20% in this quarter.

Hemant Patel: Two final questions. First one on the A&P spend. I recall that you did mention that 10%-12% is the level of A&P spends that you will have in FY14. But I probably presumed that you will have a much larger spend on advertisements rather than promotions. Is the mix between above and below the line likely to change going ahead?

S. Raghunandhan: Not really.

Hemant Patel: Where are we spending, in terms of promotions? Is it mainly on the detergent portfolio is it?

S. Raghunandhan: It will be on dish wash and detergents.

Hemant Patel: One final thing, I guess Ullas can answer this. In terms of the capital raising from the promoters, there was a mention on the press release that there will be a buy-out of the fabric spa stake from IL&FS. What proportion of this would actually go into that buy-out and how much would be actually retained within the company if any?

Ullas Kamath: IL&FS stake is at Rs.50 Crore and if I take the IRR of 14% it should be about Rs.70. But we have not negotiated yet and the documentation has to happen. At the company level, the entire business is under control and we are getting the normal sales and profitability. But one of the line item what you see and has a major impact on us is an interest payout. So objective was how we get out of this interest payment of about Rs.60-61 Crore every year. Also we do not see any likelihood of interest coming down in the near future. So we the board felt that why not we go for a long-term debt in the form of NCD with the zero coupon interest and redemption payable at the time of maturity. This helps us to retain the entire EBTIDA with the company to use that for the purpose of the growth. Now as Raghu said that now we have to spend more money on business because we have to grow at a higher level in the coming three years. The second one is that promoters are interested in investing so that the entire interest payout will go out. Out of the total Rs.650 Crore, Rs. 400 plus Rs. 250 which comes from promoters 650 Crore will be there and then indirectly the IL&FS, whatever they have invested in JFSL that also carries the indirect IRR. We thought that why not consolidate everything. To answer your question, pay out to JFSL buyback should be about 70 Crore.

Hemant Patel: Just one final question. The primary infusion from the promoters and the benefit of lower interest cost from NCDs, is there a working in terms of how much interest benefit that we would get, for let us say from the next quarter because this would happen in a over this quarter?

Ullas Kamath: Rs.60 Crore.

Hemant Patel: Around 60 Crore, interest cost reduction?

Ullas Kamath: Now on 600 Crore we are servicing 11% and quarter-on-quarter more or less our debt is remaining the same because we are flowing cash back into the business. The new launches will happen in the coming quarters and for working capital we are investing back. So if you see the last two-three quarters, our payout for quarter on a interest alone is about Rs.15 Crore. And again the other one is that we have now started paying the principal back to the term loan. We have already paid an installment of Rs. 68 Crore. So we do not want to have any kind of pressure on our liquidity and hence this decision.

Hemant Patel: Fair enough. Thanks a lot.

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

Atul Mehra: Good evening Sir. One question in terms of growth between the two quarters like Q1 and Q2. So in Q1 we had about a 13% growth and Q2 we have seen that growth at 33%. Another thing, in Q1 we saw growth in south markets little bit on the lower side and Q2 we have seen south markets being robust in terms of 20%-25% growth. So what is the reason behind this difference?

S. Raghunandhan: I think it is fair to say that you should take the first half figures, which you see as a more accurate reflection of reality. So if I have to look at the business at the end of first half we have grown by 22% in revenue terms and we had given a guidance of 22%-25% growth. There are always changes in the brand mix and change in the way we operate during every quarter. So you should look at the first half situation. I would not expect you to hazard a guess and say that we will again grow by 13% that is also not reality, again taking an assumption of 35% growth quarter-after-quarter that also may not be reality. So I think first half results would be more accurate in terms of understanding where we are in terms of trend lines.

Atul Mehra: Right and my second question was in terms of the other expenses component generally that we have seen on a QOQ basis. So what would that entail to?

S. Raghunandhan: At an overall level I think you can take the whole first half figure. We have indicated to you that other expenses have gone up in the second quarter because of increase in freight charges

Atul Mehra: Thanks for taking questions. Congratulations for good set of numbers.

Moderator Thank you. Next question is from the line of Sanjay Dham from Motilal Oswal. Please go ahead.

Sanjay Dham: You are saying that you want to replace the interest cost with the equity infusion. Because you are replacing a lower cost fund with higher cost fund right, I mean, could you give us a little bit more insight into the same?

Ullas Kamath: It is a simple working what we have. Presently company is paying 11% interest on overall debt and we want liquidity in place to build the business for the next three years. We are hoping that the interest cost will come down but it looks like it is not coming down in the near future. The objective for us was that how do we bring down, should we raise in entirety through NCD or entirety equity. So we felt that it is a combination of both and this is what we have done due to which the organization will not pay any interest for the next three years.

Sanjay Dham: Both will happen in Q3 itself?

Ullas Kamath: Yes, it will happen once we get the regulatory clearance. The objective is to get in the money and that is why we are going for a safe allotment of shares on the preference basis and not through the warrant route.

Sanjay Dham: You have decided upon the prices the same?

Ullas Kamath: As per SEBI guidelines.

Sanjay Dham: Thank you.

Moderator: Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: How will the shareholding pattern look like post this buyback of stake from IL&FS?

Ullas Kamath: What we are buying back is basically the convertible debentures. So those debentures will be in the hands of Jyothy Laboratories Limited, but otherwise the shareholding remains the same as I talked before.

Avinash Agarwal: So, basically now the shareholding would be with Jyothy Labs, you and some amount of private equity?

Ullas Kamath: Private equity is what we are buying out now. So there would not be any private equity. We are reorganizing the entire balance sheet of entire group companies together to get the NCD and with the promoter's investment coming into Jyothy, we are trying to manage the entire group holding together in the best interest of the organization.

Avinash Agarwal: So, even in terms of convertibles or preference shares there would be no other private equity holding in JFSL now?

Ullas Kamath: Not at this point in time. But because we are trying to convert JFSL profitable at EBITDA level and probably require for second phase of expansion then we will try to see what to do. But at this point in time the objective is to consolidate everything at one place.

Avinash Agarwal: Sir, what would have been the topline for JFSL for the first half and what kind of growth are we looking at? Also on profitability if you could share some numbers?

Ullas Kamath: For the first half, topline of JFSL is at about Rs. 28 Crore. For the second half we expect the same, and EBITDA to be positive by March 2014.

Avinash Agarwal: How much have we done in EBITDA for the first half?

Ullas Kamath: First half is around negative of about a Crore or two.

Avinash Agarwal: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Amar K from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar: Thanks for the opportunity. Ujala Liquid Fabric Whitener seems to have grown by about 70%-80% for the quarter. What is driving this kind of growth?

S. Raghunandhan: Yes we have seen very healthy growth for Ujala liquid, both in Q1 and Q2. One of the reason is it is not reflecting in market share increases. So, I am also quite puzzled in terms of understanding this because the value and volume growths have been healthy but the same from a market share perspective is still showing 71% share. Volume growth has come in all markets but to understand the growth, it has been better in the markets where there are a lot of unorganized brands and healthier than in other markets wherever low priced competition seems to have been there.

So my own hypothesis is that there is upgradation, which is happening from following sources. One your total ml users are moving to 75 ml and 250 ml. So we are seeing some consumption increases which have happened on this brand post our new packaging and communication. The second trend we are seeing is that growth is better in the markets where there are more low priced competitors. The third thing also is because of our sleek packaging, it seems to have put some spurious manufactures at bay. So there is some much less spurious activity on Ujala which is happening today than what was happening historically. Since so many things have changed, it is very difficult for me to pinpoint one single thing for these growths. What we are trying to do as a business is not take these growths for granted and we are working hard on Ujala to ensure that we are able to sustain these levels of performances going forward in the future, but there are three impacts. I hope you understand what I am trying to say.

Amar Kalkundrikar: Thanks. The last question is that you mentioned that the purpose to bring in promoter's infusion and to take the zero coupon bond is to bring in liquidity and drive growth. Does it mean that your A&P spend will spike up significantly going forward after this money comes in?

S. Raghunandhan: No. As mentioned in past, 10%-12% of money will be going in for advertisement and sales promotion. But having said that, if in a particular quarter we have to spend 15%, we will do that. There are no doubts in our mind because typically when we are launching new products in the category where we are present we should have some kind of freedom to spend more because finally it is a competitive market. We need to gain the market share and we need to be there. Also, if I want to go for some kind of an inorganic growth, we need to have money with us. Hence we have decided to have a complete liquidity freedom, which we would say for the next three years, which will help the entire management team take the business to the next level.

Amar Kalkundrikar: Great sir thank you very much and congratulations on superb set of numbers. Good luck for the next quarter.

Moderator: Thank you. Next question is from the line of Rahul S. from Geojit BNP Paribas. Please go ahead.

Rahul S: Good evening Sir. How are we going to meet the gross margin expectation? Will there be a price increase in the coming quarters or will it be largely based on the supply chain efficiencies that we expect?

S. Raghunandhan: We are very confident that we will be able to meet our guidance. Even today we are at 13.9% in spite of all these issues. So we have indicated EBITDA margin of 14% to 15% and we will broadly be there.

Rahul S: So will there have been any price increase in the coming quarters?

S. Raghunandhan: As of now no.

Rahul S: Sir in the last quarter we were talking about some breakthrough innovations in Henko and Maxo right?

S. Raghunandhan: Yes you will see it in the market in next three to four months time, may be by March quarter.

Rahul S: Thanks. That is it from my side.

Moderator: Thank you. Next question is from the line of Ashish U from Elara Capital. Please go ahead.

Ashish U: I just wanted to understand that you mentioned Rs.80 Crore of cash generation happened in the first half. But if I look at the borrowing in the balance sheet during March to September it almost the same. So could you help me reconcile this?

Ullas Kamath: Mainly the dividend payout of Rs.50 Crore happened in the last quarter and then subsidiary investment has happened about Rs.15 Crore and interest income, what we have shown as an income from the subsidiaries there is inter-company transaction.

Ashish U: Sir there was one concern raised by the previous caller. As we are keeping excess funds with us, we can invest whenever it is needed. That essentially leads to understanding that your A&P might be much higher or whatever steps we take to support sales would be much higher and that would essentially impact our operating expenses and the margins. These two are basically to my mind to be linked. Is there any other way?

Ullas Kamath: No, everything is linked. There is no doubt in my mind. We are happy that by spending 10%-12% our management team is delivering 33% topline growth. All we are trying to say is that there should be some freedom for the management team as we have some new launches lined up in the coming quarters. As we have seen in the last three quarters delivery of numbers is there in place and we are very confident of whatever is happening now. Keeping all these in mind, we felt that we should not have hand to mouth situation. If you see our bank balance and our debt status during the last three quarters, we are hovering around 600 Crore. That means whatever we are earning we are paying to the bank, both in terms of interest and to add more on to it, the principal repayment is happening every quarter at Rs. 34 Crore. Going forward, it would be the arrangement what we have with the Axis bank on the present term loan is that is the bellowing effect. In the second year and the third year from now on I need to pay almost Rs.750 Crore every year and that becomes difficult for me. So we thought that why not we restructure the whole thing based on our existing business plan. And yes we will have definitely excess liquidity and there is nothing wrong in that. That will explore the possibility of doing a bigger business and that is the whole idea.

Ashish U: So despite all these you believe that sales growth at operating leverage will take care of your 15% kind of margin expectation?

Ullas Kamath: Absolutely we are in line with that whatever guidance we have given.

Ashish U: Sir just one more question from my side. The growth in the homecare segment seems to be pretty robust on sales but our profitability is flat YoY. One would have expected that since Maxo has grown lower, the margins should have been higher in the overall mix of homecare products. So any comments on this sir!

S. Raghunandhan: Yes, historically Maxo margins have been lower than the overall business margins but having said that overall at a net margin level we are better than before.

Ashish U: I think it is Rs. 2 Crore of profits YoY which is flat. And if Exo and others have driven the topline growth in homecare, the margins should have been a bit better. That is my question.

S. Raghunandhan: But we are also advertising behind Maxo brand. So you should look at the overall totality. But if we are driving revenue growth in a quarter when we were spending for two months on advertising, then we will have these issues in profitability.

Ashish U: Sir what would be your expectation from this segment on margins once we achieve a certain kind of scale? May be 18 months down the line, would you assume the margins to be much better than what it is today?

S. Raghunandhan: See if you look at these kinds of categories, you have to look at revenue growth and market share. Not really net margins. So if we have to grow our liquid insecticide business that would require lot of investments behind brands. As long as we keep growing revenues and invest behind brands until we reach a critical market share, which is at least 10%-12% market share, it is futile to look at margins. So we have to keep growing and if the sales growth is good and if it is growing ahead of category, one day we will reach 10%-12% market share. That is when you start looking at how much is my margin. So as of now, I would be very happy if we can grow every quarter healthily in this category and at the same time grow our share.

Ashish U: Thanks a lot for your answer.

Moderator: Thank you. Next question is from the line of Mohammed Shakil from Banyan Capital. Please go ahead.

BP Rajesh: First of all congratulations for a good set of numbers. I am on the slide #9 of your presentation which is showing the graphical breakdown of regions. In that, the non-south proportion has increased from 51% to 57%. My first question is this breakup is on volume or value?

S. Raghunandhan: It is on value.

BP Rajesh: Okay and the second question is what is the primary reason behind increasing the contribution of 51% for non-south to 57%.

S. Raghunandhan: Historically, we used to spend on the south regional media. Now we have also added a huge component of spends on Hindi satellite media because we wanted to take our brands national. So some of our brands for example Margo use to be advertised only in south earlier and east earlier now we are advertising nationally. Exo we use to spend a lot of our media investments only in the south, now we are spending on a pan Indian basis. So obviously one of the measures for us to grow sustainably in the future is to grow our non-south business where our market shares have been historically lower than the market shares that we enjoyed in south. So that is the reason why we are showing you non-south versus south every year. Not that we want to expand our non-south business but we want to make them grow much faster than the overall business so that our brands become stronger in our weaker geographies which will give us sustainable growth going forward.

BP Rajesh: Do you have any target for this breakup over 2014 or 2015?

S. Raghunandhan: As long as we keep growing our non-south business, at least at double the rate at which our south growth rates are, we should be happy. That is our internal target.

BP Rajesh: My next question is on Pril Liquid. I want to know what is the volume or value growth YOY for the last quarter?

S. Raghunandhan: We have stopped giving you brand wise results. We are giving you at a category level.

BP Rajesh: Why I am asking this question is because your market share has dropped from 21% to 16%. May be these numbers are not really very good because you are saying that there is always a lag affect, but still it has gone down. So I want to know that even though you have been growing in most of the categories by 25%-30% and still losing the market share, how is this category as a whole growing and how are you growing in this category?

S. Raghunandhan: See if you look at market share growths which Nielsen is talking about, it is not showing very healthy growth. In fact there has been a slowdown across all categories. So if you look at Nielsen growth in these categories, dish wash bars, which used to grow at 20% now the growth rate is only 12% during the last six months. In most categories the growth rate seems to have slowed down but in dish wash liquids the category growth rate is more like 20% even today. So if I look at our sales growths it is in line with category growths.

BP Rajesh: The last question is what is your view on Fa segment? Because you are spending on advertisement in this category and I am not sure whether it is going well up to your expectations.

S. Raghunandhan: Yes it is not up to our expectations definitely, but we also had to launch this brand in May. So we were a little late for this season. But having said that we have earned almost Rs. 9 Crore of revenue in the last six months from this brand.

BP Rajesh: Thanks a lot that is it from my side.

Moderator: Thank you. Next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Congratulations on a good set of numbers. On detergents you mentioned that the intensity of competition was quite high on both promotions and advertising. So are you seeing that it will continue even in this quarter or it will come down? What kind of pressures will you face because of that?

S. Raghunandhan: In spite of competitive efforts we have done well even in this quarter. We have not only grown on Henko as a brand but have also grown in detergents as a category. The only thing is I want to say is that we have not done too much on detergents. We are expecting a major relaunch on Henko brand in three-four months from now and that will be our answer to competition and post that we should expect much better growth in detergents.

Arnab Mitra: Then any pressures on the premiumization trend in detergents because of the slowdown, which could impact you because your brands are more in the mid to premium segment.

S. Raghunandhan: Henko we have operated at the premium end and it is growing. So there is no problem there. The category is Rs. 2000 Crore. So it is not very small and there is enough room for us because we will be virtually a player with low market share entering in the premium category. So the category is there for us to gain shares.

Arnab Mitra: On dish wash liquid, just to come back to Pril. Is the share loss mainly due to the new entrant from Reckitt? Leaving aside Nielsen numbers, on the ground whatever you are seeing, has that changed because of the new entrant?

S. Raghunandhan: On the ground when I see, definitely competitor has gained shares. But the off takes are not so healthy for them as of now. On the ground when I go to the market, I see Pril being fairly healthy and we should be able to show higher shares in the months to come because we are doing well on the brand and there has been a distinct slowdown in the off take of the competitive brand.

Arnab Mitra: Thanks so much. That is it from my side.

Moderator: Thank you. Next question is from the line of Amrita Basu from Axis Mutual Fund. Please go ahead.

Amrita Basu: Thanks for taking my question. You had rationalized your channel margins last year. In the P&L, which line item has the benefit of this being captured?

S. Raghunandhan: On topline.

Amrita Basu: So then out of this 33% would it be fair to say that a part of this is because of this channel margins?

S. Raghunandhan: Yes we have already spoken about it that out of this 33%, 25% is through volume and 8% is through price. So when it is price that in all these impacts, channel margin impacts and price increase impacts etc.

Amrita Basu: Thanks.

Moderator: Thank you. Next question is from the line of Sagarika Mukherjee from SBI Cap Securities. Please go ahead.

Sagarika Mukherjee: First of all I would like to congratulate the senior management for an excellent set of numbers. I have two questions. One is that the gross margin for the first half has somehow been around 47% now, and it is 400 odd bps higher than last year same period. I would like to know if this is the trend that we are going to see ahead. And has the volatility in crude oil prices and the rupee depreciation has been captured in the first half numbers or will there be a spillover impact in the second half? The second question is on the rationalization in the employee cost to the tune of around 200 bps. If you could explain it, whether that trend will also continue for the second half?

S. Raghunandhan: In terms of the gross margins, I think it is safe to assume that our gross margins going forward will be in the region of 47%-48%. That is something which is fairly stable, what you are seeing in terms of numbers out there. So obviously we have improved on gross margins over last year because of various initiatives that we took. The full impact of inflation and rupee depreciation has got captured in our results and therefore it is very safe assume that we do not expect any deterioration in these ratios going forward. So that is very clear from our side that whatever gross margin percentage that you are seeing now will be after absorbing the full impact of rupee depreciation and inflation, so that is point number one. The point number two that you raised was on employee remuneration. I think there were lots of changes, which we did basically in last year and this year there have been lot of people who exited the business because we integrated with Henkel and there are lot of new people also who came into the business. As the sales have been better, the employee cost ratios have come down. But when you look at the absolute sum of money, it is absolutely flat. So whatever employee cost that you saw in quarter two last year and it is the same as quarter two of this year. So there is no increase at an absolute level on making employee cost and therefore that will continue to remain for the coming two quarters as far as employee cost is concerned.

Sagarika Mukherjee: Thanks a lot.

Moderator: Thank you. Next question is from the line of Sundar S from Spark Capital. Please go ahead.

Sundar S: Thanks for the opportunity Sir. Congrats on the good set of numbers. My first question is what is the kind of price increases which we could expect for the second half of the year?

S. Raghunandhan: As of now, we have not planned anything because our competitors have dropped prices in detergents and therefore we are not planning to take up prices in this environment.

Sundar S: Last quarter, I remember when I had asked this question you said that we were too small to be impacted by the economic slowdown. But right now we saw that our competitor's activities are in fact impacting us. So how do you exactly see the inflationary environment and the consumption environment panning out in the next six months? Any trends that we are suppose to look out for considering the rural market would grow faster because of the monsoon and stuff like that?

S. Raghunandhan: We still maintain that. We are too small to get impacted and if you see, our topline growth has been healthy. So the slowdown has not impacted us and it won't impact us. So I still stand by those statements. But however, small margin dip because of the global macroeconomic conditions will always remain in any business. So that is something that we need to manage every quarter and we have not had a very sharp dip. We have still managed our P&L even in this environment and we have avoided giving any shocks. So we are confident that we will be able to manage like this in a tough environment. As far as demand is concerned, there is a lot of forecast which is coming in saying that since the monsoon is good they expect the second half demands from rural will be more robust. But what you have to understand is that rural economy is anyway doing well. There is a lot of government support to rural India. The problem for FMCG has been in urban India and that to in the large cities. It is the smaller cities and the mid-India which they call that is where the growths are as of now. So the way at least I look at the business is I would assume that this situation will continue for at least a year from now and only post elections probably things will change.

Sundar S: Sir, one last question. Is there any increase in distribution network which we have in our mind for the next one-year?

S. Raghunandhan: Distributor numbers are not likely to go up but what will happen is that the sub stockist numbers can go up. Sub- stockists are there in rural India. So basically the thrust is to increase the number of sub-stockists for us. Currently we have around 2000 odd sub-stockists.

Sundar S: Any ballpark number that we are looking at.

S. Raghunandhan: Say around 2400, so you can say a 20% increase in sub stockist numbers.

Sundar S: Congrats and that is it from my side. Thank you.

Moderator: Thank you. Due to possibility of time we will take the last question from Gautam Duggad, Motilal Oswal. Please go ahead.

Gautam Duggad: Thanks for taking my question. My question pertains to detergent category. You did mention that it is seeing a lot of promotions. But over the last two three months, we have seen some inflation in the key raw material components of detergents. So the question is, has that led to any change in the underground competitive intensity at the ground level or is it still has high as it used to be three months back?

S. Raghunandhan: It is still high. The only thing is the bigger players are trying to gain market share from smaller players. So the competitive intensity continues to be high. Thankfully it has not impacted our business so much. Yes our growth rates have been slower than other categories but still we have grown in these categories even in this quarter. So I would expect that they will continue to do this for another six to nine months.

Gautam Duggad: Okay and this will be irrespective of the raw material cost movement you are saying?

S. Raghunandhan: Yes it will be irrespective of raw material cost movement and the only thing that we have picked up is that they have also drop quality, which we do not want to be.

Gautam Duggad: Can you elaborate on that a bit if possible when you say drop quality what does it basically means?

S. Raghunandhan: Basically it means we have observed that competitors have managing the quality price equations in a way in which they are able to drop prices more than us but we do not want to compromise on quality so we are continuing to be there where we are.

Gautam Duggad: Okay and from a category sense what explains this certain change in momentum in that category in terms of competitive intensity?

S. Raghunandhan: It is a normal strategy to gain shares.

Gautam Duggad: But this is not happening in other categories. That is why I was just wondering. And then there are many other commodity categories where we are not witnessing the competitive intensity with notwithstanding the raw material cost equitation. But this is one category where we are seeing continuous pressure in terms of competitive intensity and that is basically the question?

S. Raghunandhan: See what happens if you have a very commoditized category, if you look at hair oils where 50% of consumption happens only through loose oils and inflationary situation always benefits a branded player because then the difference between loose oil and branded oils becomes less and the branded player start gaining shares in an inflationary situations. But in a market like detergents where multinational competitors do not have as dominant market share as in other categories they will stand to gain a lot by dropping prices. So there is a fundamental difference between largely commoditized categories and semi-branded categories like detergents.

Gautam Duggad: Thanks that is all.

Moderator: Thank you. I now hand the conference over to Mr. Ullas Kamath for closing comments.

Ullas Kamath: Thank you very much for all of you and still if you have any doubts you can always contact me or Neetu. We are always available and thanks a lot for all your support and we continue to work hard to deliver the numbers in the coming quarters. Thanks everybody.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Jyothy Laboratories that concludes this conference. Thank you for joining us. You may now disconnect your lines.