“Jyothy Laboratories Q3 FY13 Earnings Conference Call”

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MANAGEMENT: MR. M.P. RAMACHANDRAN
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Moderator: Ladies and gentlemen, good day and welcome to the Jyothy Laboratories Q3FY13 earnings conference call. We have with us today Mr. M.P. Ramachandran, Chairman and Managing Director, Mr. Ullas Kamath, Joint Managing Director, and Mr. S. Raghunandan, CEO. As a reminder for the duration of the conference, all participants' 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 any assistance during the conference call you may signal for an operator by pressing "*" and then "0" on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. M.P. Ramachandran. Thank you and over to you Sir.

M. P. Ramachandran: Good evening friends. I welcome all of you for the discussion on our last quarter results. Mr. Ullas Kamath will take you through all these facts and figures. We will try answering your questions. I will now handover to Mr. Ullas Kamath.

Ullas Kamath: Good evening friends. Mr. Raghunandan is also with me. This particular quarter has given us a lot of positive numbers. The integration is almost in the last phase and we hope to complete the integration in all respects, maybe before March end. We are waiting for the final order which is expected on February 22nd , 2013 for the merger by March 31st , 2013. Post that, there will be only one balance sheet of Jyothy Laboratories as a merged entity.

Some of the highlights of the quarter, as you are already aware, that Sales has gone up by 23% when compared to the December quarter last year. EBITDA, on which we had been working very hard, the new management team has been able to deliver 17.9% of EBITDA. This is despite of lot of resistance due to change in sales structure. We hope to maintain the same in the coming quarters.

The entire restructuring is in place. We have given the organization chart as a part of new management team in the presentation. If you see that on our sales, finance, commercial, marketing, supply chain, manufacturing R&D, HR and IT side, everything is in place and now the new management has complete control of the business both at JLL and also the Henkel. I and MD we are extremely happy of having brought Mr. Raghunandan, and he has brought in the entire team. We are confident that we will achieve the numbers as promised in the quarters to come.

Now straightaway we will get into the question and session. Between Raghunandan and me, we try answering maximum questions.

Moderator: Thank you very much Sir. Our first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: I was just looking at your presentation and there is a slide on rationalization of channel margins. It is written that the total estimated savings is 4% of net sales from December 2012 quarter. So I just wanted to ask whether this 4% has come in.

Ullas Kamath: Most of it has already come in and the December quarter has already captured it.

Percy Panthaki: My second question is on your brands Margo and Fa. Just trying to understand what is the upside there? Would you be able to guide in terms of the peak market share that these brands had commanded in history and what their market shares are currently?

S. Raghunandan: Margo's peak market share was about 2% and currently we are at 1% levels. On Fa I will give you the turnovers. Whatever turnover we are reporting, the peak turnover on this brand has been five times today's turnover.

Percy Panthaki: Will your efforts be concentrated geographically towards the south or how would you look at it in that way?

S. Raghunandan: We had expressed in past in our analyst calls that Margo and Fa are two of our seven power brands which we had spelt out in our previous meetings. Therefore they will be national in character and in terms of focus.

Moderator: Thank you. Our next question is from the line of Mr. Ajay Thakur from Axis Capital. Please go ahead.

Ajay Thakur: Congrats Sir for the good set of numbers. I have a couple of questions. First is Sir I just wanted to check on the Ujala brand. We have seen some kind of a weakness in the overall brand portfolio of Ujala. How is it likely to pan out in the coming quarters? And also can you share in specific to Ujala Detergents, what is the plan over here?

Ullas Kamath: Coming to Ujala, the Ujala has maintained the market share. As of now, we are still holding on to 73.2% market share in the category and the competitor who had launched the product, which all of you are aware, is still at about 2%. It has been more than a year since they have launched the product. People are working on how to grow the brand beyond that. Definitely as a company, we would be keen to see that the Ujala, the multi-brand, will grow as quickly as possible in volume terms. As far as the detergent powder is concerned, it is doing extremely well in the South and in Kerala we are number one in the mid-segment. We are extending that from Kerala to Karnataka to Tamil Nadu and thereafter at an appropriate time probably we will go beyond South.

Ajay Thakur: Sir, I just wanted to check on the what is it trade discount that we have currently on the Maxo brand and in future can we expect some kind of a further reduction in the trade discounts?

Ullas Kamath: In entirety Maxo that Raghunandan's focus has been on profitability and for that most of the discounts what we have in the market place are less than the competition. To that extent we are able to gain some contribution from Maxo, which was the EBITDA negative till a year back and now it has become EBITDA positive at a contribution level, which implies of 15% is what we are getting from Maxo. So he is working out on his strategy on how to build the Maxo brand along with our creative team. There would not be any further or more discounts from our side.

Ajay Thakur: Sir, can you also share some outlook on the Fabric Spa business? How it is shaping up and what is the current profitability level or what would be the future profitability level in the segment?

Ullas Kamath: Current year, the board has taken a decision at JFSL that we should concentrate on making the venture profitable. So the entire year we have not expanded anything. We are still in Bangalore, Delhi, Mumbai and Chennai and Pune and a couple of stores in Chennai. We have not expanded anything other than putting up the world class laundry for Western Railways in Ahmedabad, that is something we are proud of. Our target is to make JFSL EBITDA positive by March 2013. Last year, we did about Rs.40 Crores turnover in JFSL and this year we expect about Rs.60-65 crore without spending any money or advertisement or without expanding it.

Ajay Thakur: Sir, my last question is on the tax rate. Can you just guide us to what could be the tax rate in the coming future?

Ullas Kamath: As of now we are in MAT. Next year we are hoping that once the merger takes place, we will have losses coming in from Henkel India. With that we will be still in the MAT for at least next three years. That is the 21% or so.

Moderator: Thank you. We will take our next question is from the line of Ms. Parineeta Poddar from ICICI Direct. Please go ahead.

Parineeta Poddar: This is a question regarding Jyothy Consumer Products Limited. The raw material cost has been high during past two quarters. Do you see that prevailing? Secondly, your other expenses in the company have been very high. So do you see that continuing or do you see some kind of those two coming down in near future once your sales gets in track?

Ullas Kamath: Parineeta as far as JCPL is concerned I do not want you to spend more time on P&L for the simple reason that most of the sales are happening through the distributors which are common for Jyothy and Henkel. All the employees are working in the market place are JLL employees and wherever the distributors are not there in JCPL, we are distributing on behalf of them. So it is routed through JLL. This is the last quarter of JCPL. When we merge both the entities, for your understanding you can safely take both the entities at 17% EBITDA margin because both the entities are doing the same business. What you see now is that some of the raw material, which we are buying from them, some of the finished goods we are buying from them that is shown as sales there. Eventually we show the purchase here because they are two different companies, but for your analysis purpose you just think that both the turnovers topline will be added and on top of that we take 17% EBITDA margin in the years to come. This is what I can guide you in a simple term.

Moderator: Thank you. Our next question is from the line of Mehul Desai from HDFC Bank. Please go ahead.

Mehul Desai: Could you split your topline growth in terms of volume and price? My second question would be pertaining to your interest cost. If you look in the last two- three quarters from around Rs.14.92 crore it has moved up to Rs.17.19 crore. So do you see this trend gradually increasing or do we see it is stabilizing at these levels?

Ullas Kamath: In our topline, 10% has been volume growth and 11% has been the price growth. The second question is that we were targeting Rs.15 Crores as our interest cost. But because of stocking of Maxo, which always happens in the December quarter as the season starts in February, we have drawn more working capital. The working capital won't be the same in the next quarter. So going forward, you can safely take interest cost as Rs.15 Crore. As we reduce our debt, it should come down. But right now we have something at 11%, which we are negotiating on.

Mehul Desai: Sir, if you could just split your topline in terms of different categories?

Ullas Kamath: In the past, we used to be very nice and used to give all the details. But Mr. Raghunandan and our new management team felt that we should not be really give all those information when the competitors also don't share the same. So from now onwards there will be only two columns, Soaps and Detergents and the other one is Home Care.

Moderator: Thank you. Our next question is from the line of Atul Patel from ICICI Prudential Mutual Fund. Please go ahead.

Atul Patel: Good evening Sir. Sir my question is pertaining to Henkel. Earlier you had guided for a top-line of around Rs.600 Crores for this year. Thereafter then you had mentioned Rs.500 Crores is possible. But given the nine months topline is just Rs.270 odd Crores, so how do you see this figure to be for the whole year?

S. Raghunandan: I think it would be in the vicinity of Rs.400 Crores.

Atul Patel: Sir if you can tell us what has gone wrong?

S. Raghunandan: Nothing has gone wrong. In fact we are very confident about the growth prospects of all Henkel brands. If you remember we started integrating only by end of September quarter and December quarter is the first quarter of integration. The numbers in March quarter are looking very healthy to start with. So what I want to say is that yes our plans have got delayed but there is nothing that has gone wrong fundamentally in the business and we expect very robust growth is on Henkel portfolio going forward.

Atul Patel: Okay, Sir my next question is pertaining to your debt. Any plans of repayment of debt in near-term?

Ullas Kamath: It all depends on our fund flow position in the next year. Definitely there will be some repayment. In June, there is one installment which we need to pay to Axis Bank. So we are following the terms which we had agreed with Axis Bank. And yes there will be a reduction in the debt in the coming year based on the terms what already did with Axis Bank.

Atul Patel: So as of now no plans of unproductive land sale? Basically the factory sale of Henkel.

Ullas Kamath: It is there. We are just waiting for the merger to happen. We do not want to keep more than what is really required. We are waiting for the right price.

Moderator: Thank you. Our next question is from the line of Mr. Sagar Parekh from Enam Holdings. Please go ahead.

Sagar Parekh: Sir I wanted to know what is this other income of Rs.18 Crores in the standalone?

Ullas Kamath: That is the interest on subsidiaries. The loan which we have taken to pay the debt of Henkel. We lend that money to Henkel and Henkel is giving us the interest.

Sagar Parekh: But then in Henkel’s accounts it is only Rs.5 Crores of interest cost that you have booked. I just wanted to understand the difference?

Ullas Kamath: There is one more subsidiary of Henkel India Limited called Henkel Marketing India Limited and there is the interest component of JFSL. Henkel Marketing India Limited and Henkel India Limited put together is the other income in Jyothy Laboratories Limited.

Sagar Parekh: So this Henkel numbers that you have published is the standalone numbers?

Ullas Kamath: But consolidate is also will be there.

Neetu Kashiramka: Column number 5.

Moderator: Thank you. Our next question is from the line of Navin Trivedi from Karvy Stock Brooking. Please go ahead.

Navin Trivedi: Good afternoon Sir. During the last call, we had mentioned that there is a chance that we can improve our EBITDA margin by around 800 basis points through 2% saving through Own Depot to C&F, 4% through channel margin and 2% is from the raw material sourcing. How much these initiatives have paid out in the current result?

Ullas Kamath: About 5% is what we have got so far and some more we may get in the next quarter.

Navin Trivedi: This 5% I am assuming 4% is though channel margin.

Ullas Kamath: Yes.

Navin Trivedi: So still this raw material sourcing side we expect some upside?

Ullas Kamath: We are expecting most of the things in the next year because still we are negotiating very hard and most of the contracts which we have signed are valid till March 31. So I do not want to put more pressure on my procurement team. But the targets has been taken is for the next year and you will see a 2% savings coming in from procurement in the next year. For the current year I will be happy if I am able to stay on with this 17% EBITDA margin.

Navin Trivedi: Sir my next question is on the rationalization of distributors that you were planning. What is the status of this rationalization of distributor?

S. Raghunandan: I think the consolidation process is completely over. We now have 1450 distributors and another 200 super stockiest in the system dealing with both Jyothy Laboratories products as well as Henkel products. Integration and consolidation of the network will be completed by end December and January. March quarter will be the first quarter which will be the post integration quarter.

Navin Trivedi: There is a 1450 distributor, how many have been new distributor?

S. Raghunandan: 75% of them are new distributors.

Navin Trivedi: Okay, Sir just one thing. I wanted to understand that we have also reduced our distributors channel margins parallelly. What was the response to it? Because on one side we have already reduced the channel margins and on the other side we are also giving higher business.

S. Raghunandan: I think the response has been very good. We are consolidating our network. Now we have fewer numbers of distributors, but bigger distributors. They are happy with the increased turnover coming in from Jyothy as well as Henkel. So whatever results we are showing now and will be showing in the future will be strong and stable results.

Navin Trivedi: Now onwards as we are not sharing the Exo numbers separately, I just wanted to know has the growth escalated from Q2?

S. Raghunandan: The growth rates are as good as what we have had in the past.

Navin Trivedi: Okay, Sir one more thing on the A&P. Are we changing any guidance on A&P in the quarter four on the FY14?

Ullas Kamath: We will be at 10-12% range for next quarter and FY14.

Moderator: Thank you. Our next question is from the line of Mr. Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar: Thank you very much for the opportunity. These two companies have some intercompany transactions. Can you just share with us what are the consolidated sales and consolidated EBITDA because we cannot just add up these two and derive at those numbers?

Ullas Kamath: Overall the intercompany transactions should be in the range of Rs.35-40 Crores and it is the one which we need to eliminate when you put both the numbers together because some of the things we buy from them and we sell it in the market.

Amar Kalkundrikar: Profits, how much should one adjust for that what could be the consolidated EBITDA?

Ullas Kamath: We can safely take 17%.

Moderator: Thank you. The next question is from the line of BP Rajesh from Banyan Capital Advisors. Please go ahead.

BP Rajesh: Thanks for taking my question. I just wanted to confirm what you just said on the EBITDA margin the consolidated EBITDA margin for both the entities together will be about 17%?

Ullas Kamath: Yes.

BP Rajesh: I just wanted to understand if you remove Rs.35- 40 Crores from 279, you are roughly left with Rs.240 Crores of revenue. What is the corresponding EBITDA for this particular quarter?

Ullas Kamath: It is about12%.

BP Rajesh: My second question is when I look at your slide #5, your employee cost have actually come down from the last quarter and my expectation was that given all the senior folks that have joined the team, this line item should have gone up. So should we assume that all the costs are not reflected or may be perhaps you can just throw some light on that?

Ullas Kamath: There are two aspects on that. I would say that about 150 to 200 people have left the company in the last three months or so. Most of them are at ground level sales because when we are merging both the entities we would not need two field officers coming from the two companies. So there is sudden attrition which is a saving and that has been compensated by the new recruitment. Net-net our staff costs remains the same because the new employees have joined at the top management level. That has been more or less taken care of by the savings which we have got in a staff reduction and that is the answer for your question.

BP Rajesh: Okay, just a quick followup on that. So with the merger that is anticipated in next quarter, would this line go down further or we should assume that this 17% EBITDA margin going forward that you had just said incorporates all that restructuring that may come from employee as well?

Ullas Kamath: Absolutely, the 17% is the one which we have stated after incorporating all this increase in the cost and for the next year, the staff cost line item will remain the same because all recruitments have been done and barring some increment here and there more or less it will be in the same range keeping 10% to 12% as our marketing spend. There might be one or two percentage here and there, because of the competitive scenario in the market place or if the raw material price goes up which is out of our control. We are very hopeful of achieving 20% to 25% topline towards on the combined entity in the coming year.

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

S. Sundar: Good evening. The first question is regarding Maxo which has de-grown by 3%. What will be the split between volume and value?

Ullas Kamath: Actually, it is a pipeline reduction. After integrating both the companies, we have taken out most of the sales promotion scheme in the quarter. This is because we have focused in entirety on converting into very healthy double digit contribution level which we have achieved in the current quarter. Going forward you will see lot of new initiatives. We have a separate team now within the marketing department working on household insecticides.

S. Sundar: Can you share some updates on Henkel per se, the brand Henkel per se?

Ullas Kamath: No Sir, there is a more sensitive information what you are asking, because competition just want to hear what we have to do with that, so I am sorry.

S. Sundar: No just other thing not about Henkel per se, but some of your competitors have indicated a bit of discretionary spending slowdown. I am just looking at Henkel from perspective as to what kind of macroeconomic pressures currently are we seeing on our premium end products, Henko, Fa probably?

S. Raghunandan: It has not affected Henko at all and I would also say that Henko is too small to get affected by these changes. I think we have a big job ahead in terms of improving market shares and investing more behind brand building. That is the effort that we will do. At least currently I am not looking at slowdown in discretionary spending to be affecting our growths going forward.

S. Sundar: Again on market share, is there any thing that you can indicate to us as how is it been?

Ullas Kamath: We have given the market share details in our presentation just to recapture, we are holding onto our Ujala market share at 73.2%. It has not affected with the competition’s launch.

S. Sundar: No Sir specific to Henko only, because I have seen Ujala, Maxo and Exo?

Ullas Kamath: They are too small brand as Raghu had said to capture the market share.

S. Raghunandan: We have 4% or 5% and it will remain there, so it would not change too much in a quarter's time.

S. Sundar: Okay, so what would be the approximate field force strength trend that we are having currently?

Ullas Kamath: We now have 1200.

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

Nikhil Vora: One thing, which I could not understand you have guided for 20% topline growth. You have also guided for a 17% margin structure. If you just take that into account it seems that will have an extremely robust mix next year from where we will end this year from. It theoretically indicates 130 to 140 Crores of post tax profit. Is that something that we are looking at right now?

Ullas Kamath: Your understanding is correct. We are optimistic on the future growth prospects.

Nikhil Vora: Okay, second part was on the entire management team that we now have on board and I am presuming all the 15 guys are already operationally involved with the company right now?

Ullas Kamath: Yes.

Nikhil Vora: Are these all the gaps, which were there in the existing organization or this also build into account on NPD launches or extensions that we will end up doing with the incremental Henkel acquisition?

S. Raghunandan: We had factored re-launches and one or two extensions.

Nikhil Vora: Lastly Raghu, just on the Fa brand. I understand that obviously it is not really about brand strategy but if Fa was four to five times a size of what it is today, and it has pretty much remained in one category, how much time do you think we will take to get Fa up in running? Which I would presume is amongst the strongest brand portfolios that we have?

S. Raghunandan: Nikhil, you know these categories very well. I think they will swing very fast. Fa is going to be one of our good growth drivers in these categories in the coming year. So we are going to invest significantly more money on Fa brand and we are also looking at some extensions coming through shortly.

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

Bhavesh Jain: Good evening Sir. Sir, would you like to share the share of liquid versus coil in Maxo?

Ullas Kamath: As of now, it is about 80: 20. 80% is coil and 20% liquid.

Bhavesh Jain: You have mentioned that we have plan of consolidation of manufacturing units. Currently we are having 28 manufacturing units. What is the plan going ahead for key priorities?

Ullas Kamath: We have taken the manufacturing head and they are working on good manufacturing strategy. Going forward and from the next year, you will see some changes happening in our manufacturing strategy. Once they come out with there is clarity on the strategy going forward.

Bhavesh Jain: How much revenue have we generated from Maxo for the outdoor cream?

Ullas Kamath: Not much, because we are still working with the Government of India on that. Focus has not being there because there are certain compliances which we have to do with the Government of India through some government sponsored program and also we did not want to spend the money on advertisement. So right now we are focusing only on government supplies which we are doing it now military, CSD canteens. At least for the next couple of years we will be concentrating mainly on government orders and we will be supplying to them and thereafter will get into the domestic market.

Bhavesh Jain: Sir, regarding the CSD sales. Have we observed growth in that particular segment?

Ullas Kamath: We have seen growth in CSD business during last quarter. I know that the industry had suffered on CSD business, but we have a new team now which is handling the CSD business and probably the increased focus by the team has resulted in giving us growth. We expect this to continue because even in adverse situation we have grown in the CSD business.

Moderator: Thank you. Our next question is from the line of Subramaniam P S from Sundaram Mutual Fund. Please go ahead.

P.S. Subramaniam: Congrats on a good set of numbers. I just wanted to know this road to margin improvement, how would you actually play out? Where do you see levers where you can deliver this? You were also talking about spending heavily on some of the new brands of Henkel. How do you think or what kind of timelines do you have for margin improvements to happen?

Ullas Kamath: This is with continuation of discussion what we had last time. Our objective was to achieve 16%-17% EBITDA margin and our objective was to spend 10% -12% on advertisement and build a company at 20%- 25% topline. As of now we are at that level now and consolidation is happening at all levels. Some more has to happen which will happen before March 31, 2013. Raghu has already activated most of the levers which are available to us, the results of which can be seen from this quarter numbers.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Anand Rathi. Please go ahead.

Shirish Pardeshi: Hi Raghu, congratulations, finally you have got the team together.

S. Raghunandan: Thanks Shirish.

Shirish Pardeshi: Just three questions from my side. You mentioned in the presentation that you are putting up a new modern R&D facility in Mumbai and this will be operational by March'13. Does that mean that earlier there was no facility, which is there or building the entire new facility?

S. Raghunandan: Earlier we used to have facilities of Henkel in Chennai and Jyothy in Salem and Trichy. So we had to bring into Bombay and under our eyes, under the new management team in the head office.

Shirish Pardeshi: Okay, so what kind of Capex or outlay you would be putting or setting aside R&D budget for next year?

S. Raghunandan: For putting up the labs I think we have spent more than Rs. 2.50 Crores.

Shirish Pardeshi: Okay, my next question is on sales restructuring. You mentioned that you have already completed this sale structuring. That means that all your earlier depots, which would have 67 or 71 whatever, is dismantled and now, you have mentioned that company to CFA and then stockiest to market. So that structure is urban?

S. Raghunandan: No, we have talked about it in the presentation. We have implemented 50% of those changes in December quarter, but we have not got any financial benefits because for a certain period of time we have retained old depot as well as new C&F. So in December quarter results no efficiencies have come because of these changes. The efficiencies are expected to come partly in this quarter that is March quarter and fully in June quarter after changes of moving from depot to C&F.

Shirish Pardeshi: Do you think by March you will be able to complete the depot restructuring?

S. Raghunandan: We have indicating that 100% of it will get completed by March.

Shirish Pardeshi: My next question is on the margin structures. You had mentioned that the stockiest margin is around 4%-5%, which is for the industry. Is this the standard structure and on top of that your sales promotion will vary or this is the standardized margin what you are offering 6%?

S. Raghunandan: Industry operation is 5%. We already have 6% distributor margin and we expect it to continue.

Shirish Pardeshi: But do you intend to bring it down to 5% indices standard or you will continue for sometime?

S. Raghunandan: No, we do not intent to bring it down.

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

Aabhash Poddar: Thanks for taking my question. I just wanted to understand two things. On standalone basis, our gross margins have come in a bit lower say around 3%-3.5% and in this quarter, we have spend only around 5% on advertising. Could you just shed some more light on this, why has it happened this quarter?

Ullas Kamath: The gross margin has come down because of the product mix, all the products have different gross margins. The second one, the advertisement spend is at 5% because most of the new people have joined in the current quarter and they are working on lot of new creations. You will see the spend happening in the next quarter. We were able to achieve the EBITDA 17.9% because of margin rationalization and also some kind of a reduction which is happened at other expenses because we have closed some depots which were not required.

Moderator: Thank you. The next question us from the line of Amruta Basu from Kotak. Please go ahead.

Amruta Basu: In response to one is the earlier questions you had mentioned that the intercompany sales is around Rs.35 Crores, which is sitting in the standalone numbers, if I knock that off I arrive at the 2% sales growth on YOY basis. Is that correct?

Ullas Kamath: It is definitely correct because what we have done is that wherever the Henkel distribution was not present, we have build that business through the distributors of Jyothy Laboratories Limited. So that sale has captured.

Amruta Basu; In that case, what would be the nine month consolidated sales of Henkel and Jyothy if I were to do that?

Ullas Kamath: Mainly it is in this quarter because earlier we used to have two distributors separately dealing with the JLL and Henkel. During the consolidation process this has happened because we want to have one distributor at place to distribute to all the products.

Amruta Basu: Thank you so much.

Moderator: Thank you. The next question is from the line of Anshul Sehgal from Kotak PMS. Please go ahead.

Anshul Sehgal: We see that this quarter the advertisement expenditure has come down as a percentage of total sales and we are at about 17% EBITDA margin. Now for the next year we are saying that for the whole year of the consolidated entity we will be at around 17%, for that to happen will gross margin materially go up?

Ullas Kamath: Yes, we did speak about it. You know some of the changes which we have done, the full margin improvement has not happened in December quarter. So we have given you sense whether it is depot consolidation and to C&F whether it is sourcing benefits that we would not get, now these efficiency improvements have not reflected in December quarter results, which are expected to come in March quarter and June quarter results. So the extra improvement in efficiency will help us pay for the advertising & promotion expenditure increase.

Anshul Sehgal: That of course and then on top of that 5% goes to 10% in the next year that is the guidance you have given and on top of that we are saying that EBITDA margins will also expand on the consolidated into 17%, again if that has to happen clearly the gross margins have to go up?

Ullas Kamath: It is a combination of gross margin improvements and overhead optimization.

Anshul Sehgal: Okay and which show up in the other expenditure, other expenditure will come down?

Ullas Kamath: Exactly.

Anshul Sehgal: Okay and the number for our sales growth will be between 20% and 25%, any guidance for gross margins?

Ullas Kamath: We will assume that we will stay where we are.

Moderator: Thank you. The next question is from the line of Charul Gaidani from Quest Investment Advisiors. Please go ahead.

Charul Gaidani: My question was on the home care segment. How much do you expect it to grow?

Ullas Kamath: I think we expect growth rates to be 20% to 25%.

Charul Gaidani: Okay and second thing in this current quarter, did you have any new product launches?

Ullas Kamath: No, we didn't.

Charul Gaidani: Which of the product line has been in the maximum contributor to the growth?

Ullas Kamath: Dish wash.

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

Aashish Upganlawar: I just wanted to dwell more on the gross margin a bit. You said that about 4%- 5% reduction that happened in the distributor margin that has already flown into the numbers this quarter, so gross margins will be lower YOY then that?

S. Raghunandan: Basically mix and it is also because of Henkel products getting sold through JLL distributors and vice-versa. So it is a combination of several things. That is why to make it easy for you Mr. Kamath has given you guidance on the way forward.

Aashish Upganlawar: Okay, Sir the Henkel product that was sold through JLL, which segment they have come is it soaps and detergent?

S. Raghunandan: Soaps and detergent.

Aashish Upganlawar: Is that the reason why the topline growth would look better than what it would have otherwise looked actually?

Ullas Kamath: One of the reasons.

Aashish Upganlawar: On a Maxo and Exo, just wanted to know how the growth part would be specifically on Maxo. I mean what we can to do increase the topline there? We are aware that you are looking at profitability at this moment, but just some guidance on how just can look on the topline going ahead?

Ullas Kamath: We are implementing a new strategy on Maxo and therefore the focus on Maxo will be to improve both topline and bottomline. Going forward in the next financial year and it is not really only bottomline focus as it is today.

Aashish Upganlawar: Okay and on Exo I just wanted to know which stage are we in terms of its expansion outside of South India markets.

Ullas Kamath: We are available nationally now. Our sales and distribution system is distributing Exo across the country today and going forward we expect this brand to sustain a strong growth rate, which it has had in the past.

Aashish Upganlawar: One more thing on the raw material cost. Any outlook that you can share on the raw material cost overall?

Ullas Kamath: Inflation has not been too much in our portfolio in the last one quarter.

Aashish Upganlawar: Okay, the necessity for price increase is not actually there going ahead?

Ullas Kamath: There is no necessity of any price increases in the short term.

Moderator: Participants we will take a last question from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Good evening everyone. Just one question, you mentioned that there are 1450 distributors and 250 super stockiest currently this was rationalized because the margins have gone down for them, the number were much higher previously?

S. Raghunandan: I did talk about it. In the larger towns we have consolidated the network, so fewer distributors but higher turnover per distributor. That is the strategy in the large towns.

Mayur Gathani: Okay and just to get this going I mean consolidated numbers can be seen from quarter four or will be seen in quarter one?

Ullas Kamath: Quarter four.

Mayur Gathani: This quarter we will be seen consolidated numbers coming out?

Ullas Kamath: Yes.

Mayur Gathani: Thank you very much Sir.

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

Ullas Kamath: Thank you very much friends. I hope we have clarified all your queries. In case if some are left or some were not able to ask the question, you can always contact me or Neetu. We hope to deliver the numbers the way we have delivered. Thank you very much.

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