JYOTHY LABS LIMITED

Q2 & H1-FY20 Earnings Conference Call

October 22, 2019

Management: Mr. M. P. Ramachandran - Chairman and Managing Director,
Mr. Ullas Kamath - Joint Managing Director,
Mr. Rajnikant Sabnavis - Chief Operating Officer
Mr. Sanjay Agarwal - Chief Financial Officer.

Moderator: Ladies and gentlemen, good day and welcome to Jyothy Labs Limited Q2 FY20 Earnings Conference Call. We have with us today from the management of Jyothy Labs Limited, Mr. M. P. Ramachandran - Chairman and Managing Director, Mr. Ullas Kamath - Joint Managing Director, Mr. Rajnikant Sabnavis - Chief Operating Officer and Mr. Sanjay Agarwal - Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode. I now hand the conference over to Mr. M. P. Ramachandran for opening remarks. Thank you and over to you, sir!

M. P. Ramachandran: Good evening, friends, I am Ramachandran. Our Q2 as well as H1 results are already there with you. I invite you all for the discussion on the matter. Mr. Rajnikant Sabnavis will take you through the figures and facts, thereafter your questions will be answered, thank you.

Rajnikant Sabnavis: Thank you, sir. Good afternoon, it gives me great pleasure to take you through quarter 2 FY20 results. It also has the section on half month because we finish the first half of the year. The presentation would have been seen by all of you but I will take you through it quickly emphasizing the key portions. I will give you a sense of the market scenario, result highlights then we will get into brand performance and initiatives and finally a way forward.

About us, you know our company well, we were founded in 1983 by Mr. M. P. Ramachandran. Our company Jyothy Labs is present in homecare which is fabric wash and household cleaners and personal care. Key product categories about, which we will talk at length fabric care, dish wash, household insecticides and personal care. We have six power brands, Ujala, Henko, Maxo, Margo, Exo and Pril.

I will start with the market scenario. As far as the market scenario is concerned the demand environment is indeed impacted by the overall slowdown in the economy. However, for us in our key categories, so detergents and dish wash we continue to grow lead largely by innovations. In terms of competitive pressure, it is an increased scenario of competitive pressure as visible in the promotional intensity more so in modern trade. We are lucky that benign input cost environment is helping us retain our margins in spite of the increased competitive pressures.

Coming straight to the results highlights, if I look at Q2 FY20, Our revenue growth is 8.7% with an underlying volume growth of 8.3%. The non-HI part of our business is actually grown double digit at 10% and a volume growth in the non-HI portion is 9.1%. Our gross margins have come very close to where we were last year same quarter at 46.4% versus 46.7%. In terms of A&P expense, we had spoken about it earlier and flanked it off we have seen a 21.6% increase at Rs 28.2 crore and that ratio has moved up to 5.9% versus 5.3% same quarter last year. Our operating EBITDA margins at 16.6%, which is Rs 78.7 crore, looks comparable to 16.3% in the previous year which is an increase of 10.7%. PAT at Rs 53.6 crore against Rs 46.2 crore is up by 16.1%. As a consequence our EPS for the quarter is Rs 1.52 versus Rs 1.32 which is up by 16.1%.

I will give you the H1 FY20 snapshot:

Our revenue growth is 5.5%, our volume growth is 7%. Our non-HI revenue growth is 7.1% against the volume growth of 8.3%. Our gross margin is up 20 bps of our last year first half at 47.4%. A&P is up by 11.3% at Rs 61.9 crore versus Rs 55.6 crore and A&P to sales ratio is at 6.9% versus 6.5%. Our operating EBITDA margins at 16.1% is Rs 144.2 crore versus 15% which is a growth of 13% over last year. PAT is up by 14.2% at Rs 91 crore against Rs 79.6 crore. Our EPS for the first half is Rs 2.58 versus Rs 2.30 which is up 14.2%. So, that is in summary our results highlights.

We will give you a sense of how we faired by category, request you to first focus on the quarter ended. In fabric care we have grown by 13.1%, dish wash has grown by 8.6%, household insecticides, down 1.3%. Personal care which is basically Margo and Neem is up 6.9%. Overall if you see we are up 8.6%, other products being flat. Our laundry services business grew 11.1% which brings our overall growth to 8.7%.

If you look at it at the half year ended exactly with the same categories you will see fabric care is just under 10% at 9.2%, dish wash is at 5%, household insecticides is down at 9.2%, personal care is in double digit at 10.1%. I will leave other products which is small on the base and overall, we are up 5.5%, while the laundry services business was up by 7.6%. So, overall growth half year ended is 5.5%.

I will give you a snapshot, these are the same figures but expressed at one place. Your revenue from operations is up 8.7%, in Q2 while for the first half it is up 5.5%, operating EBITDA is up 10.7%, first half it is 12.9%, PBT is up 4% and 6.6% in the first half. PAT is up 16.1% this quarter and 14.2% for the first half. Our EPS is 16.1% up versus 14.2% in the first half.

In terms of our financial parameters, gross margins for the quarter came in at 46.4% and first half at 47.4%

Operating EBITDA margin was at 16.6% versus 16.1% for half year, PBT margins 13.2% for the quarter and 12.6% for the half year. You will see our PAT margin is at 11.3% growth in the quarter and 10.1% in the first half. So, you are seeing a steady improvement across. Our A&P is 5.9% as a percentage of sales and for the half year it is at 6.9%. So, you will see the ratio is improving for us.

I now, briefly take you through the EBITDA movement. The 16.3% that you will see in the previous period to 16.6% which is a 30 bps improvement how that pans out is there is a slight drop of 20 bps in the gross margin. Employee costs dropped by 40 bps, advertising and sales promotion is down by 60 bps these are the things that pull it down. In terms of other expenditure it pulls it up by 1.5% or 150 bps, a major portion of which is the movement of rent and lease in the non-expense part of P&L. So, that is how you get 16.6% versus 16.3% of last year.

I will come straight to now brand performance and initiatives:

Our corporate strategy, you know all about it in terms of post wash, main wash, dish wash, household insecticides and personal care. So, I will cut straight into the presentation:

Our Brand Category shares, no major changes, household insecticides at 10% smaller than in this quarter, it will go over 14% in the fourth quarter. So, that is the broad structure of our business. I will start with fabric care. Fabric care we have done well, we have grown overall at 13.1% and first half growth is at 9.2%.

I will share piece-by-piece highlights of the Fabric care business. Our post wash part of it, you will see Ujala Supreme actually has gained share, we moved from 81.9% in the June quarter to 82.1% in the Sept. quarter which is very creditable, given the high market share and the dominance we enjoy. As far as what we are doing over there we are continuing our investments behind the brand both on air as well as on ground. So we have strong activations in the trade and consumer level. We also have a company-wide initiative to motivate our employees to sell more of Ujala. So, our star flagship brand continues to receive our fullest attention.

I move to Ujala Crisp and Shine. Ujala Crisp and Shine has presence in 2 states, Kerala and TN. We have seen some very good sales in the quarter and excellent growth if you look at our first half we are up nearly 25% in value terms and for the second half our plan is to extend this to Karnataka. I move forward, Ujala IDD detergent which is only in the state of Kerala. It is the largest mid-priced detergent brand in Kerala. The market share has shown a slight drop but it is still at the level at which it was in March quarter 2019. Having said that the actual value growth is significantly higher than that but we are showing market share numbers as they are. Little bit about Henko, we performed extremely well. We are not breaking up the numbers for this brand but both in Matic and Henko Stain Care. The new mix is continuing to perform extremely well. We are continuing with our strategy of focussing in key markets where we are seeing growth and in deed we are doing a lot of new things in e-commerce which is an emerging channel especially for premium products.

I will come to dish wash, which is a third of our total business. The dish wash business grew 8.6% in the quarter and 5% in the first half. As far as market share is concerned we are seeing flattish share both in Exo Bar and Pril Liquid. Continuing on our journey on dish wash, what we have seen is that our low unit packs are growing at double digits. We believe it is converting people from proxies to bars and that part of our business is doing very well. Pril Tamarind variant we had spoken about earlier is now 10% of the brand on relevant SKUs. Dish wash, in quarter 2 we launched the Pril Tamarind Rs 20 Pouch is an extremely disruptive product. We know that liquids are the future, as we see consumers increasingly allocating a greater part of their repertoire to liquids. So, liquids actually are growing at 1.5x bars. Within liquids, there is a higher propensity to use pouches, so it is very important growing segment. It is close to a third of the market and this Pouch we believe will help us grab a major part of market share there.

I move to household insecticides, which in the quarter is 10% of the total business. Growth has been timid here, we have actually declined 1.3%. A major part of the reason is the delayed season because of the delayed monsoons and that has been a dampener for us. Continuing further if you look at our market shares we have holding shares in Coils. In LV you will see a drop visible in front of you 9.8% to 8.3% but that is still 70 bps over last year, calendar year 2018. Within that, the Maxo Genius Combi where all our advertising budgets are allocated has done exceedingly well and we have grown 55%. This has been a very important initiative for us and on the back of that we have also seen some terrific sales in the Liquid Vaporizer segment.

I will come to Spurious Agarbathi in India. We talk about it because that is one of the big dampeners especially in the coils part of our business. As the chart we have shared earlier we are continuing with our initiatives to restrain the growth of those illegal incense sticks which are extremely harmful for the user. We are continuing to do raids at the factory and the distribution points to drive consumer awareness in fact there is a new ad endorsed by HICA where we talk about the harmful effects.

The next big news is a very positive step by the government of India where Agarbathis or incense sticks have moved from the free list to the restricted list. For those who are probably not as aware, these incense sticks are brought into the country and getting dipped into various pesticides and sold at cheap rates. They would be packed here and sold. Now, with move on part of the government, it is come as a big Jolt because while imported incense sticks are no longer freely importable, in fact imports have all stopped, containers have been ceased. You will also see these manufacturers struggle to bring in the pre-Diwali Agarbattis and pesticides. So, that should come as a big shot in the arm for legitimate manufacturers like us and it will also benefit the consumer greatly. The notification to stop this already been issued. So big move, a positive move by the government to help us, help the industry and indeed help the consumer.

Now, I come to personal care, which is 12% of our total business. The major portion of this is Margo soap, we have grown 6.9%. We will also see that the first half growth continues at 10.1%. This growth has been balanced across the states. We are continuing on air-support on the brand. It is also important to note here that we have stayed away from any price cuts that competition has taken. We believe that we have a very differentiated product with a very loyal consumer base. So, we are continuing on that path and what you are going to see in this quarter is a geographical extension of Margo Glycerine, we launched it in Kerala. Now we come to the other part of our business which is T-Shine which was a liquid toilet cleaner based on the organic proposition non-HCL proposition. Hugely improved, this is witnessing a huge re-launch as we speak in the month of October . We are ambitious about this product in the market and we believe that with this re-launch it will propel our growth faster to our actual standard.

So, just a closure on the innovations and the progress of innovations we continue our journey with innovations there is no change at all in that momentum.

So, that brings to my last chart which is the way forwards. In terms of the way forward we are seeing consumer sentiment improving ahead of the festive season. We had a decent monsoon and we do believe that rural upticks will pick up. We will continue to drive our innovations, we will put investment behind our brands and that will bring us growth. And finally we have taken a lot of initiatives on improving our sales productivity through technology and all of this will pay hugely going forward.

The shareholding pattern is in front of you there is no major change. So, that brings to me our final charts which is into Jyothy Labs logo, "Seek the light, Spread the light". Thank you very much and I now invite questions from your side. Thank you.

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

Abneesh Roy: My first question is on the HI business, so in first half there is a 9% dip in sales and in Q2 also there is a dip. The market leader in their commentary has said they have seen gradual recovery in Q2. So, wanted to understand why we are not seeing recovery? Is it because of the geographical mix, you have concentration in a few states, while market leader isPan India? And we have also seen much more news flow on Dengue cases and diagnostic chains also doing really well. So, are you losing market share? Is that the reason why the growth is lower than our market leader?

Rajnikant Sabnavis: So, there 3 questions in there, Abneesh. So, in terms of the recovery, yes, I mean you could call it a recovery. We had a huge decline in the first quarter versus what we have seen in the second quarter, so to that extent, yes. We have also seen pockets of success within our portfolio by especially geographically and within the 2 product forms. Now, we come to the big one which you answered yourself. A major part of our portfolio is towards UP and further east and that part had delayed monsoons as you were aware. And having said that the way we track the sale is, you watch what happens once the monsoon comes and in deed we are seeing that recovery. So, yes the simple answer to your question is coils has been big dampener largely because where our portfolio is focused.

Abneesh Roy: Sir, 2 follow ups here. Does it mean in Q3 you will see even more recovery and second on the illegal incense sticks have has that segment started losing share to the legal now? Because you and other legal players also launched incense stick and there has been educational campaigns. So, has that illegal started plateauing in terms of market share?

Rajnikant Sabnavis: So, I will start with the first one which is Q3 we will see a recovery the answer is yes. But this seasonality should hold out. But if I would take once swallow does not make a summer but if you were to look at the first 22 days the answer is yes. And we expect that to continue but it will continue I am sure also on the back of the innovation which is firing very well for us which is the Genius plus LV. The second question was around whether we are seeing a move from illegal battis to our business, it is early days yet Abneesh. All 3 of us are big players in a vast ocean of sin which is got all these various players which we talked about which is Rs 550 odd crore. So, it will take a bit for that to shift having said that apart from all the efforts we are putting in even this restriction on imports of these bathis will help us. So, going forward it is a very clear intent for us to gain share over there. And we are doing everything it takes to make it happen including certain other initiatives which are too early to talk about.

Abneesh Roy: My second and last question is on personal care business. So one is, you said you have not taken price cut while market leader and other players have. So, is not that your bold stand in the current slowdowns? So, if you could elaborate whether you planned to take a cut if at all in the second half? Second is, in terms of Margo are you seeing now more competition because the market leader called out Hamam, Neem, Focus, etc. And third is Margo Glycerin what is the potential here you have done only in Kerala. So, do you see a big potential here and more markets once this see success?

Rajnikant Sabnavis: So, I will take each bucket, 3 buckets of questions you had. Your first one was brave initiative to hold our price line in the phase of the market leader taking price cuts. The simple answer is, yes. We have seen this quarter through quite nicely. We intend to stay there. The reason for our confidence is because we are a highly differentiated product and we have a very different appeal to the consumer whether it is a current consumer or potential consumers and we believe that we should stay the course rather than get lost in that battle. There are different reasons why others do it and that is fine with us. So, we will stay the course over there. Your next question was around Glycerin soap. On Glycerin is an extension of Margo soap, I will address that first. It is an extension of our existing Neem equity into the segment, the Glycerin segment. I think, once again the name Margo and the authenticity of our soap will hold us in good stand and there is enormous potential over here. It is only one of the extensions that are planned on brand Margo which we always maintained has a very strong franchise in the Neem segment. It is virtually the only Neem soap in the country. So, that will auger well for us. Now your second question is around intensified competition on the Margo proposition especially with Hamam. That is been there, it is always been there. In fact, Hamam and various other players apart from that have indeed rebranded or launched variants with Neem in them. It is not the only player. It is like any other competitor who has come in to the market trying to appropriate the Neem proposition. Once again our simple answer is our 98 year old heritage plus the authenticity of our brand will hold us in good state. And we will not unnecessarily respond or react to individual players.

Abneesh Roy: One small follow up. We have seen liquidity pressure earlier in the wholesale channels, so in Q2 have the retailers also asked for liquidity support. So, if you could discuss how serious is that problem and what have you done in terms of liquidity support to the retailers?

Rajnikant Sabnavis: So, we have not done anything special. We have read everything that other players have spoken about to help out but at the retail level we have not really done anything different to ease out the liquidity pressure. It is not reached a point where we as manufacturers have tried to go and do something about to up stock or restock. So, it is not reach those levels frankly, Abneesh.

Moderator: Our next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is on the dish washing segment for the first half we have done about 5% and I am taking first half because you are destocking, up stocking, etc. will be taken care of and if I look at the entire first half number. So, this 5% is the sharp deceleration earlier in this category we were doing mid-teens kind of growth. So, apart from the general FMCG slowdown what other reason is it for such a sharper sort of slowdown in this category?

Rajnikant Sabnavis: So, when you take the first half you were also obviously including the first quarter. We have also spoke about some curtailment in our scrubbers business at the time which is slower. Having said that if you were to take the second quarter as a fair kind of estimate of where this is going. The answer is yes, we have grown both on Pril and Exo Bar in that 8% to 10% kind of region where at around 9% to be precise. So, we are just at double digit growth. It is not the mid-teen growth that you saw earlier but it is still at double digit. There is no further explanation to this apart from what you just mentioned the overall slowdown. So, what was at mid-teens is now at 10% but we expect that double digit growth to continue well into the second half. There are also lots of more innovations coming out in the second half. So, 15% to 10% or 10% to 15% depending on how you will see it is pretty much the rate at which the dish was business for us will be growing which will be well ahead of the market.

Percy Panthaki: And can you just jog my memory what was this scrubber issue?

Rajnikant Sabnavis: The scrubber issue was we had taken huge cuts in the promos and spends, and we had seen this scrubber business declined massively in the earlier quarter which is now coming back on rails.

Percy Panthaki: And the fabric care business, you are not sharing brand wise performance but if you could just help me understand because in the fabric care the Ujala Fabric Whitener is the pretty high weightage within that category. So, for that entire category to grow 13% the fabric whitener should have grown in high single digit kind of number this particular quarter. Is that understanding correct?

Rajnikant Sabnavis: Ujala fabric whitener has grown but it has been aided by some terrific growth on Crisp & Shine which we have shared and certain other parts of our business overall. So, you have seen that 13% growth, is the answer I can give you at this stage.

Percy Panthaki: But there is no one off or no pipeline issue in this 13% number, right?

Rajnikant Sabnavis: No, nothing one off here. We have done with that.

Moderator: Thank you. Our next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Just had 2 questions. First question was on the HI segment. So on HI, just wanted to get a sense of as we go forward the second half growth that you said will it also be led by some new things that you are planning in the pipeline or is it overall recovery that you are seeing in category growth itself?

Rajnikant Sabnavis: So, HI there are 2 parts. One is easier to answer which is, yes. We spoke about the innovations that we have got. In our non-traditionally strong markets liquid vaporizers are showing good results stand on the back of some good work that has been done. So, that is one part of it but then the reality is LV business is 30% of our business. We have a 70% which is on coils as the monsoon have come along a bit late we are seeing a recovery. But as I said, one month is not enough to judge that one. But at this stage it tells you that it is not like the category is collapsed and vanished, it is very much there and seasonality has played a big part and therefore that recovery statement comes from there. It's some caution thing needs to continue the weather we need to hold out as we go through Q3 and Q4.

Harit Kapoor: The second thing was on the modern trade side. So, you say that the competitive intensity fairly high there but has this, I mean this has been a case over the last few quarters. So, have you seen an intensifying of this environment over Q2 or it is, is this a general statement that you are making for the first half?

Rajnikant Sabnavis: It is a general statement for the first half. It is not like panic has set-in in the second quarter and it is intensified. It is overall we are seeing lot of companies focusing much more on modern trade and modern trade also growing quite well. So, it is a combination of everything. So, it is not like suddenly all hell is broken lose if that is your question.

Harit Kapoor: And last one if I may was if you look at the last comment was also on the PAT that you see sometimes of an improvement in growth. Now, in terms of overall market, so ex HI do you see signs of that say in October or have you seen signs of that towards the end of September that can give you some confidence that things should pick up a little bit?

Rajnikant Sabnavis: So, you are saying outside of HI, right?

Harit Kapoor: Yes, I am saying, I mean HI is understandable but outside of HI also you are seeing that the overall market demand could pick up as the quarters go by, are you seeing first signs of that in terms of either bottoming out in improvement?

Rajnikant Sabnavis: So yes, see, we are all now living in a lot of surrogates and we are also hoping they are real surrogates. But yes, I would say quite honestly if you were to look at the fact that the festive season has come in and there has been some degree of up stocking in the trade level. It looks like early signs but I do not think we should, so it is just very early signs and if you take it as that, yes.

Moderator: Thank you. Our next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, with respect to your guidance of 10% to 12% growth for the year, so do we still maintain that guidance or in the light of the recent slowdown in the economic activity, are we correcting it or we changing it?

Ullas Kamath: The 2 quarters which you have done now, second quarter has been better than the first quarter and definitely, yes we are still in the slowdown period. We are watching the market play in and a momentum has set and the fact that we have done better than the first quarter. Hopefully we should be able to go in the same direction in the coming quarters also. For us the last quarter of the year will be the big like household insecticide constitutes to 30% of our last quarter. Now that government is also coming very heavily on this spurious incense stick imports, complete restriction there. And once that businessis back I think we should be able to achieve whatever we have stated in our guidance. But having said that we already, 6 months is already done remaining one will watch quarter-by-quarter, December quarter if you are in the same line and then March probably we will be able to achieve our numbers. At this point in time we are just watching the macro environment and also see the competition and this good news is that this Agarbathi ban is a good news for the industry. And we have 20% market share in coils and if that shifts towards the coil little bit also then we should be able get our numbers in place.

Gaurav Jogani: And sir my next question is with regards to your ad spend guidance also, so like you have guided for 1.5 billion ad spend in FY20 and if you see for the first half we had done approximately around say 0.62 billion. So, do we see an accelerated A&P spend in the second half of the year? Or we might alter the ad spend also in the light of the slowdown because again since the sales is not coming up proportionate ad spend might not be required?

Ullas Kamath: Yes and no. Yes, definitely we have moderated our investment in the first quarter and also in the second quarter wherever is required only we have spent. Wherever is required to begiven to the consumer straight offer we had given that. While we made that statement in the analyst meet in the beginning of the year. Our intent was to spend Rs 150 crore and get 12% to 14% of topline growth. But I am seeing the situation and seeing the market and also the slowdown coming in very sharply then we felt that we need to defer it that investment which we have deferred now. And the second part of your question is that whether we are going to spend the entire budget in the next 6 months, no. But we will spend wherever is required as much is required because the brand has to have to spend. Some of our new initiatives which is getting into the market place needs to be supported by advertisement. But we will spend it wherever is required but we are still will be able to maintain the EBITDA whatever the guidance we are given around 16% will be able to maintain.

Gaurav Jogani: EBITDA that is 16%, sir?

Ullas Kamath: Yes.

Gaurav Jogani: And sir, just last one bit on the tax rate. If you can help me out with the tax rate because considering the tax rate in the first half that we have slogged in. What should be budget in as tax rate for the full year?

Sanjay Agarwal: So, for a full year tax rate for FY19 was 19% and we will be following in the same line. For this financial year you may take 17% and going forward for FY21 onwards it will be again back to 19%. And this year is because of deferred tax adjustment on account of the tax rate change which has happened. We will not be going for the concessional tax rate and we will be continuing with the same tax rate what we have today.

Gaurav Jogani: Sir, just the clarification on this because if you see these standalone numbers and the tax rate for the first half the average comes to about 13 odd percent. So, I mean should be it more than in the second half, is that right understanding?

Sanjay Agarwal: No, I think better you look at the consolidated results. Consolidated results for the half year is around 17% and for the full year last year was 19%. So, for this financial year we will be at 17% and going forward as I said will be on 19%.

Moderator: Thank you. Our next question is from the line of Sajan Dokania from Frontline Capital. Please go ahead.

Sajan Dokania: I have 2 questions. One is sir, on the gross profit margin. As I understand the crude mix into the raw material cost and crude has fallen in September quarter, this year around 60 which was around above $70 last year. So, we were expecting some gross profit margin benefit which has not come. What is your take on that?

Rajnikant Sabnavis: So, what is important to understand is that one is the crude benefit if you take overall, you are right. It is anywhere between 100 bps to 200 bps in terms of gross margin which we have got. But the eventual gross margin when the company gets is the combination out of the mix that you have because different products have different levels of impact of the crude that is number one. Second thing is that, a fair bit of promotional intensity goes up during this period and as a consequence that is why right at the beginning when we spoke about the market scenario, we mention in the third point saying that benign environment is helping us retain gross margins. So, that is really how it has played out eventually.

Sajan Dokania: Sir, basically I am talking about the gross margin which is 46.4% this year and last year it was 46.7%.

Rajnikant Sabnavis: So, no, so there has been slight improvement in the gross margin. You are asking why the entire benefit not visible. So, you must remember that you are seeing a 20 bps improvement in the first half. I think your question is why it is not higher than that, right? So, it is a combination it is basically the mix effect.

Sajan Dokania: So, we may not expect this margin to improve further in the second half?

Rajnikant Sabnavis: Please do not factor in a huge gross margin improvement.

Sajan Dokania: Sir, my another question is what we are seeing sir, last two year we are stagnant at the bottomline point of view to around Rs 240 crore, 2018-2019. And if I remember we have read some news 6 months ago that company is getting debt free by September 2019 and probably they will be going for a good acquisition. Is there is any such type of plans?

Ullas Kamath: Ullas Kamath here. Definitely yes, not in the radar at this point in time as far as acquisition is concerned. But as far as intent is concerned like any other progressive company we keep looking for good acquisition if it is fitting in our budget and if it makes a business sense for us, definitely we will go for that but timing is very important. At this point in time till March we do not have any visibility on that. Probably in next year if you get a good candidate we will look at it. As far as your debt free status is concerned there was a dividend payout in the current year of Rs 133 crore including dividend distribution tax. Because of that we still have some debt but we are under right direction as far as becoming debt free status.

Sajan Dokania: And also could you talk about any commentary on the sort of rural side of things how much does it contribute to our sales and how has it been in the quarter?

Rajnikant Sabnavis: So, we have a contribution of 60-40 urban rural. That ratio is pretty much remained us.

Moderator: Ladies and gentlemen, thank you for your patience. We have the line for management connected. Mr. Dokania your line is also unmuted.

Sajan Dokania: No sir, I think you have tried answering. We heard the part where you said 60-40.

Rajnikant Sabnavis: Yes, so one is the ratio 60-40, no major change over there. In terms of our rural which we know have our greater rural presence. We have not seen any disturbance or slowdown over there. We have to take coils out of this because then it is driven by several factors. So, at this stage frankly for us, as a company with the kind of portfolio we have the footprint, we are not seeing that kind of massive drop or any sales in rural per say.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference to Mr. Ullas Kamath for closing comments. Over to you, sir!

Ullas Kamath: Thank you, friends. If you have any other follow-up question, you can always get in touch with me or with Sanjay, our CFO and thanks again for attending our investor conference. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, with that we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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