Y 2011 Earnings Call - Jyothy Laboratories Dt-6 May’11

Operator

Ladies and gentlemen, good afternoon and welcome to the Jyothy Laboratories Conference Call to discuss the acquisition of Henkel India and the way forward. We have with us Mr. M. P. Ramachandran, Chairman and MD, Jyothy Laboratories Limited, and Mr. Ullas Kamath, Deputy MD Jyothy Laboratories Limited. As a reminder for the duration of this conference call, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. At this time, I would like to hand the conference over to Mr. M. P. Ramachandran. Thank you and over to you, sir.

M. P. Ramachandran, Chairman and Managing Director

Yes. Good afternoon and welcome to this conference call to all our analysts. And, the recent of the acquisition of equity shares from the Henkel, Germany in HIL. And also we'll discuss about the future about all these things, whatever the queries you are having. And so that comes to give you a presentation about all these things and I look forward to Mr. Ullas Kamath.

Ullas Kamath, Deputy Managing Director

Thank you sir. Good afternoon everybody. I am Ullas Kamath here. And this conference call is primarily to understand and make all of you understand what is this Henkel acquisition is about and what is there in it for us at Jyothy and a bit of a way forward. And we have signed definitive agreements yesterday in Germany to acquire 50.97% of their equity in Henkel India Limited. And with that earlier 14.9% we had taken from Tamilnadu Petroproducts. And we are triggering public open now for maybe on Monday or Tuesday as per the statutory requirement. And thereafter we'll run the public offer. And then we reconstitute the Board. And we guide the business someway from early June onwards. Now, this

definitive agreements of what you have signed is a complete acquisition of their shares at a price of Rs. 20 per share.

And along with that, we are taking over the debt rather we are paying debt, we have taken the new debt on Jyothy's balance sheet and we'll be paying off the debt in Henkel India Limited that is 453 crore of debt we'll be paying off. And we are also subject to the regulatory approvals. We are buying their preference shares, what they have in Henkel India of 68 crore, which we are buying at 43 crores, subject to Government of India and other statutory regulatory approvals. And then we'll be in the business together may from June onwards. Going forward our intent is very clear, we want to merge both the companies because Henkel India has fantastic brands, which I'll explain to you one by one, but the merger is very, very interesting for us because they have a carry forward loss of about 400 crore and when we merge it, probably we'll be able to make this of in entirety the carry forward loss.

So our tax breaks in Jyothy will get over by March 31, 2013 and we'll be coming out of the 100% tax exemption from March 31, 2013 balance sheet, which this 400 crores of their carry forward loss will help us to get at least the tax breaks. So that's of 110 crores in the years to comes. And once if we do the merger there will be lot of synergies which you can see as one entity, for example in manufacturing. We operate as you know that, 28 factories in 16 locations and that is one of the reason why we are able to keep our production cost low, our inventory cost low and also supply chain management, we are able to manage it more efficiently being closer to the market place. Whereas in Henkel India Limited they have one finest state-of-the-art plant in Karaikal and all of the places they have 12 manufacturing. So going forward we need to see how we can synergize their products through our production centers so that without investing any more money in our facilities with the existing capacity we will be able to produce all their products at a more efficient and at the least cost.

Distribution, they have 750 distributors and their distributors are working between 5 to 6%, there were 5 to 6% of margin. And we have 3,500 distributors and our distributors are paid 8%. So if we take their distributors also along with our distributors, so we will have together 4,250 distributors which is a sizable number in the country. And we'll be able to use that 4,250 distributors for all the products together. And going forward if their distributors are working at 5%, we also get an opportunity to see that whether with the combined bigger turnover whether we can bring down our distribution margin to a extent possible but we are not very sure that whether we can bring down 8 to 6 but at least, we can make an effort on that. Jyothy Laboratories Limited works on super stockist model. We give 5% margin to our super stockist on a state wise basis. And we give to the super stockist, and super stockist will give to the distributor. Whereas in HIL India. HIL they have depos and C&F.

Going forward Jyothy also believes that in a scale in which we are working now with a combined turnover of 1,250 crores this super stockist support we have may not hold good in the years to come. So they have depos all over and some of the depos are all old rented properties across the country. And, if you are able to see some synergy there we would like to operate through C&F with a combined depo concept ours also their also together wherein if we can supply directly to the distributors from the company directly then there will be a huge saving on the super stockist margin presently what we are paying. Other than that in distribution Henkel is predominately one third of the turnover comes from canteen that is CSD and modern trade, which is unusually high percentage in the business for any company for that matter. One third of the company that is 22% is coming from CSD sales and other 12% is coming from modern trade.

It only gives us the confidence that there is a huge of tick on the consumers from the stores whether there is a canteen stores of defense or it is a modern trade and 12%, is a very huge number. And which Jyothy presently is not all that active, because we have only two branch and one brand in South India. We have Ujala, Maxo all India and Exo predominantly South India. Whereas they have 10 brands and with that they are able to place in all the modern trade. So, to that we, Jyothy will be able to get into modern trade on a long-term contract basis whether it's defense or else also with modern trade. And Henkel is 75% of the turnover come from urban India and only 35 comes from rural India. Whereas in Jyothy 70 comes from rural India and 30 comes from urban India. So, we can make use of our rural India network to take their products across the country.

That is the one which I see the synergy immediately. Following that just to give an idea of the brands what they have. It is three types of brands is what they have. The first one is the Indian brands that's Margo, Chek and Neem which is

inherited from Calcutta Chemicals, when they acquired Calcutta Chemicals of that's what they got. And Margo is the 90 year old brand. It's about 100 crore in size. And not growing, but it has a great potential in today's term. Like for companies if a brand can sustain 90 years, 1920 launched brand, if it can sustain and it can still have 100 crore revenue coming in from that, we see lot of potential in that going forward. And lot of repositioning we may have to do, re-branding we may have to do. And also we may have to price that based on this niche segment in which it is. And that something which we are very, very positive about.

And the Chek and Neem are the two small brands which are coming from Calcutta Chemicals that are Indian brands. Now other set of brands are Henko and Mr. White, both of them we are getting it on complete assign basis to India, Bangladesh, Sri Lanka and we'll be the of those brands in India, and there is no royalty payments and the trademark will be assigned to us in these three territories. The third set of brand is Pril and Fa which is Henkel's in casual brands presently available over 80 countries, and which they want to continue as on a license basis for perpetuity. In such a way that their technology, their R&D and their up-gradation of the products from time to time is available to us and will be following the international standards of Pril and Fa in the country. So but all these, both the brands Pril and Fa will come perpetuity basis to Jyothy Laboratories Limited and that perpetuity brand means that as good as owning by us and it is assignable.

The only condition will be that we'll be following their interaction guidelines in brand building, in marketing, in designs and also the quality and production will be supervised jointly. To acquire this we have taken debt of right now we have taken a debt of 600 crore. And objective of getting into the debt is to close the transaction very quickly, because there is lots and lots of bidders who are there in this particular transaction as we understand. And we didn't want to lose out the time and waiting for the money to be arranged. So, quickly we raised some money and which we have used that to acquire this business. But going forward as you know that Jyothy is always for that and Jyothy is always worked as a debt free company. But as we grow in size we'll not mind keeping may be 200-300 crore as our debt to service in the years to come. And we are also drawn up a plan that how to bring down the debt.

There are some unutilized real estate in Jyothy Laboratories Limited, some unutilized un-productive real estates in Henkel India Limited. So once they get into that company, probably we'll list out the items which we don't need it, which we are not using for the next two to three years time. And Board will take a decision the un-utilized assets both in JLL as well as in HIL which is not required definitely approved for the and the realization will be paid off to reduce the debt burden as much as possible. And 200 to 300 crore is the one which we feel that we'll be able to comfortably service the debt out of the Henkel business. Objective is that the debt what we raised should be serviced by Henkel business what we have acquired. And as of now Henkel's present or now is about 410-425 crore turnover in the net basis. And in our hands it should be with our distribution strength and also with the rural reach what we have it should be at least about 500 crore in the year one and then after we see a growth of at least 25-30% once we had repositioned the brand.

As far as EBITDA margins are concerned we expect at least 10% EBITDA margin in the year one in Henkel and growing 2% every year thereafter. That means 10%, 12, 14, 16, 18% is the EBITDA margins what we see in the next four years from Henkel India. And right now the gross margins are 30% which is very, very healthy and in our hands it should be at least 38-40% it should be because of the synergies what I've explained to you already. So a gross margin business of 30-40% is a very healthy in today's context in India. And advertisement budget as of now they spend a lot of sales promotion not on the advertisement but to build a brand, probably we have to spend initially a higher amount. So we have here marked 16% of the turnover in the year one and following years it will be 16 and goes on to 14, then to 12, then to 10 and in the year four we'll be spending 10% of the turnover of Henkel on building the brands or revitalizing the brand.

So this is a initial the transaction what we have signed and are thinking a way forward. And I'll be able to explain to you one by one based on your questions so that everybody can get the same perspective what we have in our mind. Now I'm ready to take that questions on this concall.

Questions And Answers

Operator

Thank you very much sir. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions]. Our first question is from the line of Dhawal Vora from Edelweiss. Please go ahead.

Analyst

Yeah. Thank you, sir congratulations on the acquisition.

Ullas Kamath, Deputy Managing Director

Thank you sir, thank you sir.

Analyst

Yeah. Sir, could you just elaborate a little bit about synergies that we have. I'm sure you highlighted it but in terms of a little bit a numbers and how we see this company maybe two to three years down the line. And some color on the product growth if you can explain it will be very helpful?

Ullas Kamath, Deputy Managing Director

Okay. As far as synergies are concerned Dhawal we are very, very clear because we have been following Henkel for a very long time. It is not that just we gone into the bid three months back. They have been following it for the last four, five years and we did have some kind of like talking in the past with them. So we know their business model much better than what others know about it. The manufacturing synergy whatever we see is that, they are operating mainly from one plant and supplying this to the country. And they do have small, small toll manufacturers, which is not very, very efficient and effective. So, one is that our scattered manufacturing plant now South-East is the center with 28 factories 16 locations we'll be able to bring down the manufacturing cost at least by 2 to 4 percentage point to start with.

So, the gross margins what they have presently 30%, our intent is to take it like upward of 36-37% in the year one. And the lot of materials of what they buy is from Tamilnadu Petroproducts the LAB and which we feel that it is good as long as they are producing it and because they were buying for particularly from the TPL production site, which is close by. But when you are producing from four, five places we will go for the best LAB at the least cost. So, there will be a lot of synergies in buying because we are buying for surface trading, buying for detergent power and also for we are buying importing noodles directly. So, there will be at least couple of percentage point we'll be able to save in purchase cost. Then the synergies comes in the distribution. In a distribution synergy, what I expect is that, because they are operating from a depo route, which is like once they analyze if you find it, that's more lucrative, then probably at Jyothy the CAS model what we have, the super stockist model what we have.

Now some of the states were very, very strong probably we will go through that the end of routes, where in I can say when existing Jyothy's model, I can save at least 2 to 3% like cost there. And of course rural, they never venturing to rural, because they always felt that there is a premium position. But in rural India every premium product is available today, even on a product it is available. So, we use and we do not have a network in rural India. So, we would be using that network of ours to take the product to rural India. And the defense all their products are listed and as I told at almost 100 crore come, their sales come from defense. And we'll be using the same channel and get our products, which is already listed. And together our turnover at the defense could be much better. And modern trade they have a tie-up and that tie-up mainly has come because of Henkel worldwide. They're extremely good in modern trend. And they are the biggest suppliers to discos of the world and Wal-Marts of the world. So, going forward it will be a great opportunity for us in retail open shop and I think it comes in a big way through modern trade, they will be going via us into modern trade. So, that is a synergy what I see.

Analyst

Right sir.

Ullas Kamath, Deputy Managing Director

Are you okay with that Dhawal?

Analyst

Yeah.

Ullas Kamath, Deputy Managing Director

And number wise Henko is about 140 crore brand as of now. And about 60 crore is Mr. White, Pril is about 75 crore and Margo is about 100 and Fa is about 25 crore.

Analyst

Okay. And sir what is the growth rate in each of them if you could just give us...

Ullas Kamath, Deputy Managing Director

As of now they are not growing, I mean that's why the entire business is come on to the blog.

Analyst

Right.

Ullas Kamath, Deputy Managing Director

And I do not want to talk about why they have not grown and what made them not to grow, because I see lot of potential in everybody for that matter to see the potential. Just to give an understanding to all the with Ujala, Maxo two full scale brands in the national level and Exo is the regional level. With this two plus one three brands, which are able to sale 150 crore was last year in the graphs term. You can imagine with the brands like Henko and Mr. White, Margo, Fa, Pril all are full scale brands. If they're selling only 400 crore it is unthinkable. And this is where we feel that this 400 crore business can reach 1,000 crore as quickly as possible. I'm not saying that we'll reach it in next two years or three years. But the kind of brand what they have 1,000 crore achievable in the nearest possible time is a global one, it is what we are saying. And the reason, the way how I see is that they are not in rural India, which we'll take it through rural India. And they are very strong in the East in the South and we are strong in entire country. So, when that is the case, we will see a lot of synergy in taking this combined turnover at least 20-25% growth rate.

Analyst

Sir, yeah I got it. Sir, second question was on the entry, now full fledged entry into the detergent business, initially with one when we were standalone, we had limited market share in the detergent business. Now with the combined entity we will have much more share in the detergent business. So, how do you see competition because it's one of the most competitive segments in FMC so how do you see that coming in?

Ullas Kamath, Deputy Managing Director

Yeah. See, business and competition always goes hand in hand. There is no business in this world which has there is no competition. And definitely the person who can give better product at a cheaper price in a faster space he will be the winner. And in this context Jyothy as we all know that we have started this company with our MD's money of 5,000 rupees 27 years back. This entire company has grown because of the competition. It is not that we are not seeing competition in the past, we have seen in Ujala, we have seen in Maxo, we have seen in Exo and everywhere we are seeing it. So, competition is a part of any business. And 12,000 crore detergent market business it's not a small business for anybody to ignore also and it is not something one can hold one for oneself. So, the size of the business of 12,000 crore is not such that one consider it only belongs to me and nobody else should enter.

At the same time, it is not somebody cay say that is a market which I don't want to enter. Jyothy's philosophy has been very clear, value for money for the entire household and we believe that 1.2 billion population with the 25 crore household one company, two company cannot own the households for themselves, we are very very clear from Jyothy's perspective. And we are not looking from quarter-to-quarter basis, we are seeing from generation-to-generation basis. In the other words that the company has survived for the last 27 years and definitely we know how to take it forward. And coming to your point that what competition does? I'm not worried, what I need to do is what I am very clear about. We are saying is that as of now Ujala detergent powder it's a 100 crore plus brand and we are making 10% profit before tax, they are happy about it. Going forward and the Ujala, as you know that we are at Rs. 60 and we are at Rs. 90. Whereas in the case of Henko it's at Rs. 120 and Rs. 160 and they also have a Rs. 200 like Techno Bright version also .

So every product of Henkel is still in place. So, together when we have 7 to 8% of the detergent market in the mid segment and the top segment, I think that we are also one of the players. We have seen that in the past in household insecticides when we just launched everybody said that, due to where you can make a dent, you can make a dent. But today when we have 33% market share in the rural India, when we have 25% market in urban India, we are coexisting without a competition. So, competition is something which is definitely we are not saying that we are not worried about it, but all we are saying is that as long as we know in our mind how to take it forward we are certain than today we have checked that 40 in our custody we have Ujala at 59, Rs. 60 and we have Mr. White at 55, then we have Ujala Techno Bright at 90 to 115. Then we have Henko Champion at 120 to 160 then we mark a question. So, we have a full scale and full service provider in detergent powder. And India is very, very large and we are not looking at gaining 50% market share, we are only saying that okay, if we are growing at 1% market share every year, could have been for us.

Analyst

Thanks sir. Sir, Just last question on financing, you mentioned that we would be comfortable with 200 to 300 crores of debt. By when are we looking at this number? And sir...

Ullas Kamath, Deputy Managing Director

Should happen in another six months time because like we the Board spent lot of time on this acquisition because this is one of the biggest acquisition like in the recent past in FMCG and nobody has acquired foreign company's assets in India. And it is always to happen. And for us like it's a big acquisition. So we have spent lot of time within the Board and Board took a decision that better to take the loan quickly, loans of transaction get it into the business and starts

steering the business and then you see is there any possibility of reducing the debt. And we do have eyeglasses in Jyothy Laboratories Limited because in last 27 years so far our business lot of assets we have created and some of the assets which we feel that it is not required at this point in time we don't mind disposing it off at a good price. That can bring down our liability to certain extent. And then also we understand in the Henkel there are assets which is unproductive. If we feel that it is not required whether it's in Chennai or it's in Calcutta which we feel that is not required for business purpose we'll dispose it off and bring down the debt. And then we see other possibilities in our account to reduce the debt.

Analyst

Sir, so any equity dilution because we have been hearing a lot of ?

Ullas Kamath, Deputy Managing Director

No, that is one of the thing like what like a market is talking more than what we have spoken. We have not spoken to anybody but there are lot of private equity players in the past with whom we have dealt with like everybody see a lot of synergy in this business and a lot of private players have approached whether we can finance the entire 600 crores for your acquisition and we'll get into the equity stake in the combined entity. And both took decisions saying that at this point in time we are not filling at any dilution, any private equity but at appropriate time if it is required if it makes business sales to all the stakeholders of the company then we take a decision that definitely nothing in the next three to six months time. Because we want to set up the business first and then look at the .

Analyst

Right. Sir, just last question...

Operator

Excuse me sir this is operator Mr. Dhawal can we ask you to return to the question queue?

Analyst

Yeah, Sure. Thanks

Operator

Thank you. [Operator Instructions]. The next question is from the line of Animesh Agarwal from Motilal Oswal Securities. Please go ahead.

Animesh Agarwal

Yeah. Congrats sir on the acquisition. I have a couple of questions.

Ullas Kamath, Deputy Managing Director

Thank you Animesh, thank you.

Animesh Agarwal

Sir my first question is on the brands which are over-lapping for example you have got that now your hedge, you were already had Exo also.

Ullas Kamath, Deputy Managing Director

Yeah.

Animesh Agarwal

Similarly you have Ujala Techno Bright around 90 to Rs. 100 range and you have got now Henko Stain Champion around 110, Rs. 120 range.

Ullas Kamath, Deputy Managing Director

Yeah.

Animesh Agarwal

So how will you plan to tackle this and will there be some overlap and how do you see that synergy coming in brands of this stake?

Ullas Kamath, Deputy Managing Director

Okay, okay. As far as the first quarter is concerned Pril is in liquid, predominantly in liquid and Exo is in bar. 90% of our turnover comes from bar whereas still 90% turnover comes from liquid. And they are market leaders in the liquid with 65% market share. So positioning of the Pril will be led by liquid but you also see bar and other items with dish washing in Pril format. In the case of Exo it will be bar driven but also we'll have the liquid. But when you saw you and me, we now it is a Henkal brand, it's a Jyothy brand. There is a understanding of lapping and over-lapping. But as far as the consumer is concerned who is happy with Exo he'll continue to use Exo, because we will spending the money on Exo as well. A person who has been using Pril will continue to use brand Pril. So together of that 65 crore and Exo is also 200 crores then you have 260-270 crores coming in from the segment. We are owning like a sizable market share and leaving only one other big competitor with us. So with these three brands its almost 90% of turnover will be with three brands out of that two brands are with us.

Some more for us. So there is no over-lapping as far as the consumer is concerned. The other question in the detergent powder is that Ujala we have a very strong in South and Henko is very, very strong in South and the East and to certain extent in North. But, they are modern trade driver and we are retail trade driven. So, we will have to align a little bit in the price factor. But Ujala user, I don't think that I'll push him to buy Henko or Henko user I don't think that we'll be trying to push them to Ujala. In the marketplace, it will be Ujala will be seen as a Ujala and Henko will be seen as a Henko but a price point wise we'll have a 40, 60, 90, 120, 150 upto Rs. 200, this is what we are trying to see and there's only a large thinking but experts will, now getting to their job once the acquisition is done and then we go by the expert solution how to position ourselves. But I take your point, there will be kind of over-lapping little bit in some of the states. But we'll realign in the pricing.

Animesh Agarwal

But sir, if we look at the over-lapping and then if you look at from the marketing view point, we will be using the same marketing teams for the products or will the Henkel brands we tackle by different marketing team?

Ullas Kamath, Deputy Managing Director

No. It will be a single channel only because to save the cost. It is always as the one company, one line of direction, one line of channel, it's much, much easier. But we need to align the distribution in such a way that everybody sells all, or few will sell like all, or some will sell in some areas all. So there is a permutation combination which we have to workout between the distributors but as far as the sales force is concerned, it is always better to have one line through and through which is what we are going to when we merge the company there will be a one direction. That means, their marketing staff will not be different, our marketing staff will not be different. There will be one marketing staff will be on the roles of Jyothy Laboratories Limited which already we have 1,800. They must have about 400 probably in that performance because we got 100, 150. So we'll keep only their performance and work as one team so that the focus will be there distributor-wise.

Animesh Agarwal

Okay. Sir my second question is regarding the brands Fa and Pril, where you have got the actual essential of these brands. So, if your royalty element involved with...

Ullas Kamath, Deputy Managing Director

Yeah, 2% royalty is essential.

Animesh Agarwal

2% royalty. And so...

Ullas Kamath, Deputy Managing Director

That is on technology, R&D and for our quality control backups?

Animesh Agarwal

Okay.

Ullas Kamath, Deputy Managing Director

And continuous improvement, whatever up is globally, we get like from time-to-time.

Animesh Agarwal

Okay. So, it means whatever there new, is it sort of brand or for specific products, for example, Fa is a very large brand, it's like an umbrella then for them?

Ullas Kamath, Deputy Managing Director

Yeah, yeah. And all the brands, whatever you want on Fa range, whatever the launch we get it, but whatever there not launched we can bring it, and every time we need to I mean, everywhere we need to pay them 2% royalty.

Animesh Agarwal

Okay. And...

Ullas Kamath, Deputy Managing Director

On the net royalty.

Animesh Agarwal

Okay. And is there some condition that on the X number of products under the 5 billion manufacture there?

Ullas Kamath, Deputy Managing Director

Yeah. You get whatever you want, but only thing, the condition is that in any international licensing, the guidelines will be prescribed by them, their labeling, the bottle shape or color or the range, everything will be guided by them, because currently what is available in India should be the same thing what is available in Singapore or Australia and the U.S. So, they will be following that guidelines, which we need to follow the guidelines. But they are willing to change for the country specific based on the requirement, like if people here like lime instead of orange, if they want to bring it lime, they don't mind bring it lime if it is required for India.

So, there will be lot of like suggestions that you get from us and accommodation they take from us, but Pril and Fa both will be perpetual license to the Henkel India Limited, and on 2% royalty and international guidelines and the license rights what we have perpetually can be sold, can be assigned, and we can do whatever we want in the territory of India, Bangladesh and Sri Lanka at this point in time.

Animesh Agarwal

Okay, sir. Thanks a lot.

Ullas Kamath, Deputy Managing Director

Thank you.

Operator

Thank you. Our next question is from the line of Ritesh Poladia from RBS. Please go ahead.

Ritesh Poladia

Thank you, sir, for allowing me a question. Sir, if then Henkel AG come into India independently?

Ullas Kamath, Deputy Managing Director

No. They can come independently other than the segment in which we are already there.

Ritesh Poladia

Okay. So...

Ullas Kamath, Deputy Managing Director

They have a complete range of products, but tomorrow in other sense, they want to come on their own or Hair Care, if they want to come on their own, we cannot stop them. But, they cannot come in not a Pril kind of item or Fa kind of an item. The categories in which we have signed up, there is a non-complex from their side, and the other categories, they are free to come.

Ritesh Poladia

Like in laundry and homecare, do you not think they cannot come in?

Ullas Kamath, Deputy Managing Director

No, they cannot come as long as like we have signed out of them.

Ritesh Poladia

Okay.

Ullas Kamath, Deputy Managing Director

And as far as they are aggressive, not. And that is one of the reasons, if you see in our definitive agreements, we also mentioned that they have the option to come into India after five years in a strategic mode with Jyothy Laboratories Limited. This is exactly where when this non-complex started working out, like in our arguments, when we are saying that if you cannot come, like then they should have see, if he can't come then we'll get into Jyothy. And why don't you to give a strategic fleet. So, at one point in time and everybody are asking that how could you get this transaction so cheap, like a 40% discount to the market price. One of the reason is that like when we are talking initially, there were lot of assistance and earlier took that 14.9% stake, then we started talking to them closely and watch them, met them at least seven, eight times, and Germany and in India, four, five times they have come.

It would have bit of time to develop their affinity to Jyothy's culture, Jyothy's paintings. And they, at one point in time, they said that you don't give us any money, why not you value Jyothy Labs, until we value Henkel India and we started, and whatever the facilities we get, we get it. So, that is how when we said that no, today we don't want to dilute in Jyothy, but after five years, when the size becomes bigger, when it become profitable, at that point in time, you had given them an option to come in that our market price driven mechanism as per SEBI guidelines, only to stop competition internally. So, when they have a strategic investment in Jyothy, by default every product should come through me, we said okay with that.

Ritesh Poladia

So, just to clarify like then other brands, like purse, socks, scrubs if in future, it would be routed through Jyothy only?

Ullas Kamath, Deputy Managing Director

As long as I perform like fine, I don't see why they should find somebody else, and once bitten, twice shy. They have stayed here for 25 years, they have not made an money, they have not declared any dividend, they lost huge money. And finally, they are giving their business undergoing. So, I don't see any reason why they should come back again to start fund. At the same time, if you are doing extremely well and they'll be more unhappy to give their brands in our hands, but they should perform first.

Ritesh Poladia

Sir, you really didn't explained under revenue concentration and definitely revenue growth can happen of about 25%. But sir, with 30% gross margin and you are expecting 200 EBITDA margin expansion, considering the extensive competition, do you think it's doable?

Ullas Kamath, Deputy Managing Director

Nothing is easy, but in Jyothy, in spite of all this like raw material price going up and we are not able to increase the retail price, all the things that we are still working around 47... Neetu, is it 47, 48% gross margin we are working for the detailed results for December quarter?

Neetu Kashiramka, GM, Finance

Yes.

Ullas Kamath, Deputy Managing Director

We are working at 47, 48% gross margin. And that is the same detergent powder, there is the same mosquito coil, there is a still competition there with the same Exo. So, what makes us to not to think that I'll be able to achieve 40% gross margin from the existing 30%. And we have done extensive due diligence for all the numbers, and it looks very comfortable. And Henkel India is a type of running the business was different as an MNC. They have royalty payment of 3.8% on the entire business, which doesn't exist any longer. And they have that software maintenance feel for about 6 crore every year, wherein our entire Jyothy's software cost is less than 50 lacs in a year, and they have about 6 crore, and say, management somebody else sitting in the Hong Kong.

So, there is huge expenditure for an MNC. And anybody which is from Germany, debit not will come to this company, which is huge for their inputs. End of the day, there are so many expenditures, which are of not recurring nature in our hands, and we can take up the gross margin, definitely at least six to eight basis points, this is what we are thinking. And also the tie up what they have in a joint venture to buying of the LAB from Tamil Nadu factory products, which we are not bound. We already got that joint ventures agreement canceled, before we bought in there. So, that's what the saving going forward for us.

Ritesh Poladia

Okay. Sir, the last question, if you merge the company, you have about goodwill of 180 crore. So, what would be the nature of that goodwill, means would you write it off or you would ?

Ullas Kamath, Deputy Managing Director

I don't know the exercised guidance, but at this point in time, the intention of the company is to merge the company. The intention of our Board is to merge the company to take the tax break and also to have a unified code through and through, otherwise it will be Henkel employees, it will be Jyothy employees and it will be Henkel distributors and our distributors, and we don't want to have that confusion. Our understanding is to merge that kind of expert. We take the expert opinion how to go about as patience on like taking care of the goodwill.

Ritesh Poladia

So, this merger can happen in a year's time or it would...

Ullas Kamath, Deputy Managing Director

Yeah, less than that.

Ritesh Poladia

Okay.

Ullas Kamath, Deputy Managing Director

Six to nine months is what I think is like two high courts are involved, Chennai and Bombay. So, we try to get in as quickly as possible.

Ritesh Poladia

Okay. Thank you very much, sir.

Ullas Kamath, Deputy Managing Director

Thanks, Ritesh.

Operator

Thank you. Our next question is from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal

Sir, as you mentioned about the certain real set, which are there in Henkel as well as in Jyothy. So, how much you would be able to raise through those real estate?

Ullas Kamath, Deputy Managing Director

We are not finally driven any cap on that number, but objective is very clear. What is not required, both the places to liquidate it. And I would say then, maybe 100 crore should be possible that kind of got it valued properly, because

whatever the due diligence we have done, based on that feeling. And also in Jyothy what is not required exactly we'll put on the block. But it takes time, three to six months time it will take, but I would expect maybe around 150 to 200 crore to bring down the debt down by going through this route.

Sanjay Manyal

Okay. And just few more things, as you mentioned that you would be spending almost 16% of the turnovers and initially, what I understand it doesn't cost us almost around 10% or maybe a bit less. So, which means that there will be a extra expenditure on advertising front. Simultaneously, there will be, as there is a debt on the books now, so interest cost will also go up. Simultaneously, I would see gross margins are lower of Henkel's gross margins are lower than any other products of Jyothy. So, would you be able to increase the margins, which you have mentioned that you would be able to do in the first year itself?

Ullas Kamath, Deputy Managing Director

I would see that three to six months time is what like minimum we require to understand the business and try to turn around, because this is our 28 old company, and we really don't know what is the insight, whatever the diligence we have done is only from a outsider perspective. And once you get into that shoes, we know what exactly is there or not there.

But I think all your questions, all your concerns are perfectly fine, but we are prepared for that. And next one year, it will be very tough year for us to integrate Henkel business with that of Jyothy business, our employees and their performing employees, who is performing, who is not performing, digital manufacturing I need, which I have told my friends, I don't need from their style, we should plan it to keep it, we defer that don't need, I need to give it all. All the things I need to do it over next three to six months times. So, we have created a small special task force to tackle the entire turnaround program, and it is not just insiders from Jyothy, but we are hiring some personalities from the industry. We have kept our team ready, that team will get into the action and maybe another 60 days time, because they need to put in the papers and had expect to come in that and they are working now. So, we have done whatever is required by a prudent businessmen to put the team in place and people take the charge. And I would see that next six months time, you will see the real turnaround happening in the quarterly numbers from Henkel point of view.

As far as Jyothy is concern, yes, there is a date, we need to service the date, and our gross margin is under pressure, but still we are maintaining at 47, 48% as Neetu told. And hopefully, now we'll able to increase the retail price that of Henkel brands, that of Jyothy brands, and together, we decide whatever is required, to see that we don't lose much. But when I bring down our debt level and a increment in gross margin, when the synergies will set in, maybe after six months time, next three to six months time, it will be a tough period for us. And when the real business comes in of 1,300 and 1,400 crore, even one percentage point if we increase, we already got in 14, 15 crore as we are back. And as tax outflow, which is coming down from March 2014 onwards, that will be a great savor for us from 14 May after 2015, '16, we don't have to pay it, we will be still under mat.

So, we see better synergies, we see that it's a tough time and we also see that in this exercise for maybe three to six months time, on the point of view, but what to do in that, when you see it going from existing 750 crore to 1,500 crore and from there to 3,000 crore, the reason that's not achieved here. And Henkel being a partner with us, makes our life cycle that much easier to bringing the new products into the company.

Sanjay Manyal

Okay. Thank you.

Ullas Kamath, Deputy Managing Director

Yeah.

Operator

Thank you. Our next question is from the line of Aniruddha Joshi from Anand Rathi. Please go ahead.

Aniruddha Joshi

Hello, sir.

Ullas Kamath, Deputy Managing Director

Hi, sir.

Aniruddha Joshi

Sir, just wanted to know what is the possible real estate value we can get by selling those excess of real estate land which Henkel is having?

Ullas Kamath, Deputy Managing Director

According to our gut feeling, both Henkel and JYL put together maybe about 150 to 200 crore is what we feel, gut feeling, but only when you get in there, we'll know exactly.

Aniruddha Joshi

150 crore?

Ullas Kamath, Deputy Managing Director

Yeah.

Aniruddha Joshi

But those includes actual kind of JLL as well?

Ullas Kamath, Deputy Managing Director

Yeah, yeah.

Aniruddha Joshi

Okay. And pure Henkel would be a large part or JLL would be large?

Ullas Kamath, Deputy Managing Director

That is the large part, but this is all broad numbers, which we have taken up at the Board level, just to see how to bring down the debt level is what I can tell you, but probably came down the line and we really start disposing it all, then we'll probably in the

Aniruddha Joshi

Okay. Second was, can you just indicate the as of now primacy, what will be our market share by putting in JLL as well as Henkel both suitable in detergent, dish wash and deodorants?

Ullas Kamath, Deputy Managing Director

In detergent powder in the segment in which Jyothy and Henko present, together we should be about 6 to 7%, Neetu am I right?

Neetu Kashiramka, GM, Finance

Yes, six.

Ullas Kamath, Deputy Managing Director

Yeah, 6% in the segment in which we are present. And the next segment is driven segment put together, we should be about 6 to 7%. And then Exo, we are at the 25% market share, already in South India and national level, we are about 12% and Pril is about 65% at the national level on liquid. So, together in the segment, Neetu, what is the percentage about stock, together if you take?

Neetu Kashiramka, GM, Finance

Together, actually in bar, because we are not present.

Ullas Kamath, Deputy Managing Director

Bar, national level, what is the percentage the Pril is having?

Neetu Kashiramka, GM, Finance

Pril has 3%.

Ullas Kamath, Deputy Managing Director

50% in the bar segment, national level.

Aniruddha Joshi

Okay.

Ullas Kamath, Deputy Managing Director

And liquid, I would say 65%.

Neetu Kashiramka, GM, Finance

65%, right.

Aniruddha Joshi

Liquid 65%.

Ullas Kamath, Deputy Managing Director

65% on liquid.

Aniruddha Joshi

Okay. And before the same acquisition, when we have menu or bad acquisition haven't done out, so we had...

Ullas Kamath, Deputy Managing Director

No, in fact that acquisition, we have kept it on that level for sometime, because this was coming up, and we have to use the same money. So, that's just kept it back, because that we are buying regional brand at excellent like is in the country. So, we do our negotiating with us, asking for more price, so we just kept in the back. And as of now, the transaction is still on, but we don't know when we saw this, at this point in time, we have enough of that to digest.

Aniruddha Joshi

Okay. And on a console balance sheet changes indicate what would be the debt on a console balance or the ?

Ullas Kamath, Deputy Managing Director

Whatever the debts we have taken that's the only debt, where the debt in Henkel will be cleaned up, based on the debt what we have taken now. So, the debt we have taken now will be the only debt.

Aniruddha Joshi

Okay. And the final cash position in which you would having?

Ullas Kamath, Deputy Managing Director

No, if we take the debt, where is the cash, all the cash is now gone. So, the debts what we'll have now will be for the acquisition. And by end of the year, when you are having debt, we'll have a minimum balances of cash, because

whatever the cash is generate, we'll pay off the debt.

Aniruddha Joshi

Okay.

Ullas Kamath, Deputy Managing Director

And of course after paying the dividend. After paying the dividend, whatever the money is still available in the cash, which will paid off towards debt paying.

Aniruddha Joshi

Or is that this on it's basis, GLL sorry, a Henkel model is more on modern trade and more on discounting of each brands staying more on consumer offers as well as very high trade margins as well. So, just recently, we have changed strategy in Jyothy's business and we have moved on from giving more a distribution margins to a lesser distribution margins in home care business. So, benefit, it's kind of, we have rolled out, we have gone back in our approach and early Henkel is having similar approach. So, will we go in similar way?

Ullas Kamath, Deputy Managing Director

No, Henkel is one-off case, like Jyothy the way we function, the other competitor function, what are the similar way, either you sign on advertisement or did you on sales portion of your balance between the two or it gives more trade margin to that distributor and something to stock and take away from the consumer offer. It is always a formulation combination of promotions. It is everybody follows. Only in the case of Henkel so far, what is not understood, like the market is that, how can you have a 450 crore 400 crore carry forward loss, 450 crore debt. In FMCG business, it is unthinkable, it is unthinkable for anybody. And that too have international brands, with having international brands of premium position and good price realization, the great modern trade like output and they are in defense selling a 100 crore worth in defense. With all things, how could you achieve 450 crore capital 450 crore debt and 400 crore loss, it's a big concern.

So, I don't want to talk about what went wrong, why went wrong. But it's for sure everybody knows that, something must have drastically gone wrong to achieve this 450 crore loss and 450 crore debt. So, that is shut, but in your takeaway that and keep only as a brand aside and you see the gross margin, there are all very healthy gross margin. And that's concentrating in modern trade as dressing these guys for us, because we are not there, they are there and there is continuously. Modern trade and defense is more like a contract and replenishment a year-on-year and month-on-month. So, you don't have to really worry about it.

So, our worry would be now how to put it in our 1 million retail outlet, where we have a direct coverage and how we are take it to rural India, and how do I reposition the brands to reflect that's the brand, like they have Fa, but you cannot be given one buy one free offer on Fa, and that's what I meant repositioning of the brand. If the Fa is a premium, we should be charge premium and you send the money on the brand, which is what we intend doing it.

Aniruddha Joshi

Okay. Sir, the branding, I guess getting retained by Henkel in India?

Ullas Kamath, Deputy Managing Director

Yeah.

Aniruddha Joshi

So, what is the probably turnover, as there is the profitability that brand has, I guess turnover is around 50 crore?

Ullas Kamath, Deputy Managing Director

No, it's about 25 crore and it is a loss making.

Aniruddha Joshi

25 crore?

Ullas Kamath, Deputy Managing Director

We don't want to get into that business at this point in time.

Aniruddha Joshi

It is a loss making?

Ullas Kamath, Deputy Managing Director

Yeah.

Aniruddha Joshi

Okay. And can you just indicate, who would be the keep person or who will be looking after the entire turnaround, because it's going to be very big task?

Ullas Kamath, Deputy Managing Director

Yeah, we are creating a special task force. And this is a special task force will be headed by one person. And at this point in time, like we do not want to get into that, but Jyothy has a preferred and good plan of action, how to take it forward. And our Chairman Ramachandran will be there. And he will be the fantastic person or to turnaround, because he is a person, who deals with the manufacturing, distribution and brand building on that. So, there until we have big assignment for him. But we have kept fantastic special task force to turnaround at the next six months.

Aniruddha Joshi

But then where that the people will be from Jyothy or?

Ullas Kamath, Deputy Managing Director

No, outside, outside.

Aniruddha Joshi

Or there will be from Henkel?

Ullas Kamath, Deputy Managing Director

Yeah. Best-in-class definitely best-in-class in sales from Jyothy will be a part of it, because everybody wants to put that best effort in turning around. And we do have fantastic task within the company. And when I say, a special task force is the combination of internal talent and also some outsource talent, because we need now everything to work very quickly, and fixed balance have to be handled simultaneously. So, we are recruiting the people. And together, we have formed a task force with a single objective of turning around with some milestones and with the percentages in the six months time.

Aniruddha Joshi

Okay. But sir, you'll be still the key responsible person looking at the entire turnaround?

Ullas Kamath, Deputy Managing Director

Absolutely, absolutely. Because it is a Jyothy's company, it's our responsibility to turnaround as quickly as possible, after having invested huge money in our in turns, we should ensure that it will happen very, very quickly, which we are looking already.

Aniruddha Joshi

Okay, sir. Thank you. Thanks a lot.

Ullas Kamath, Deputy Managing Director

Thank you very much.

Operator

Thank you. [Operator Instructions]. Our next question is from the line of Gautam Duggal from Prabhudas Liladher. Please go ahead.

Gautam Duggal

Hello. Good afternoon, sir. Thanks for taking my question.

Ullas Kamath, Deputy Managing Director

Hi, Gautam. Good afternoon.

Gautam Duggal

My question pertains to the tax benefit that you will be deriving out of this merger and acquisition. Can you give a little more details on it, and exactly how much savings you would be able to generate, what kind of tax benefit that you currently have and when they'll going to get exhausted?

Ullas Kamath, Deputy Managing Director

Yeah. Our current tax benefits of 100% tax free, whatever we have in Uttaranchal, we get over by March, 2013. Correct Neetu?

Neetu Kashiramka, GM, Finance

Yes.

Ullas Kamath, Deputy Managing Director

Yeah, 31st March, 2013 it will get over. So, from 31st March, 2014 onwards, we will be paying a lesser tax, but definitely we'll be going out of 100% tax breaks will be going in. So, that is our present status.

Now, after acquiring this Henkel, once when the merger takes place, the loss what they are carry forwarding there, will get into Jyothy in the technical terms. That's about 400 crore of carry forward loss as of 31st December, 2010, that is the details what that given to us. And that 400 crores in tax terms today, if you take about 30%, it is about 120 crore worth. So, to that extent our outflow for tax will come down by 120 crore. Correct Neetu?

Neetu Kashiramka, GM, Finance

Yes.

Ullas Kamath, Deputy Managing Director

Yeah. That is the calculation.

Gautam Duggal

Okay. Sir, you mentioned you've done lot of due diligence, just wanted to understand what kind of payback or a return on those acquisition you are looking at on the course of acquisition?

Ullas Kamath, Deputy Managing Director

Too difficult to get into like that question, because the due diligence what we have done, the presentation, which I've made to the Board or other stakeholders, as something to see that like going from level one to level four very quickly. We know how difficult is to get first 100 crore turnover in Jyothy, we know how difficult it was to get next 500 crore turnover. And we know how much it will take to get into 1,000. Now, with this we are going to 1,200 to 1,300 the next one year. So, for us, it a complete like upgradation from level one to level two, and that is some cost we need to pay for that.

And the other one is that like we have developed on our own Ujala brand, we have developed on our own Maxo and Exo. We know how long it takes and how much does it take to invest in the brand to make it successful. And here we have got successful brands, at least on the perception point of view from the consumer point of view, that successful brand six times we have. And we know that we get that upstart at the beginning, and there is some cost to it. Asking a question whether it's the payback as three years or four years or five years, I think here we are not going by that logic. All we are saying is that whatever the debt part you have raised now with the Henkel business can service that debt that means that business is worth buying at that cost. I'm going with the simple logic of it, that's business can service that debt and pay off the debt instead of time, then I know that the business I have got more or less free of call, because that business is only paying the debt and also paying the installments and also paying interest. That is the logic we should have gone. But you will appreciate, now Jyothy will be in the top five FMCG company, and whether we can become the top four in the next two years, whether we can aim for top three in the next ten years, is what we need to look at it. To that extent you will help us to have this range of products from end-to-end.

Gautam Duggal

Okay, sir, thanks. And all the best.

Ullas Kamath, Deputy Managing Director

Thank you very much.

Operator

Thank you. Our next question is from the line of Naveen Trivedi from PINC Research. Please go ahead.

Naveen Trivedi

Yeah. Good evening, sir and congratulations...

Ullas Kamath, Deputy Managing Director

Good evening, Naveen.

Naveen Trivedi

Yeah, hi. I just wanted to know what's the funding of this acquisition, there are about six to the debt, and you had around 229 crore from creative money and around 122 crore cash from the last year.

Ullas Kamath, Deputy Managing Director

Yeah.

Naveen Trivedi

So, we had around more than 900 crore cash. And I don't understand the outflow of this cash?

Ullas Kamath, Deputy Managing Director

Yeah. That will see the outflow, when we declare our results on 31st March, results will declare in this month. You'll exactly see the cash flow, how it comes. And money what you have raised now is including some working capital what it is required to turnaround the company, so all put together. And we have taken little more than what is really required. And your question your arithmetic is perfectly fine. There is little more than what is really required for that commission.

Naveen Trivedi

Okay. Now, we are focusing on the rural market, you are saying that this Henkel product you are focusing over the rural market. Do you think that there will be new price cut on this and new price point will be there on this product?

Ullas Kamath, Deputy Managing Director

No. Actually, the price of the Henkel now is like we need to re-look at it, once we get you to the business. The pricing and the positioning is not matching at this point in time, what the called premium is not price premium, which we need to re-look at the pricing. It will be upward, not downward.

Naveen Trivedi

Okay. And that's helpful for me. Thank you, sir.

Ullas Kamath, Deputy Managing Director

Yeah. Thank you very much.

Operator

Thank you. Our next question is from the line of Ashish Aggarwal from Spark Capital. Please go ahead.

Analyst

Sir, the 600 crore of debt depth we have what is the cost of it's funds?

Neetu Kashiramka, GM, Finance

10%.

Ullas Kamath, Deputy Managing Director

Neetu?

Neetu Kashiramka, GM, Finance

Ullas Kamath, Deputy Managing Director

10% or 9.5.

Analyst

Okay. And how is the repayable final?

Ullas Kamath, Deputy Managing Director

It is a beautiful question, which you have worked out. It is redemption, it's a premium on redemption, it is in the form of non-convertable debentures, and we'll be paying repaying this premium on redemption. So, that means that the premium amount will go out of the results, and it is zero coupon. And we have the option to pay it on the 98th day, 188th day, 278th day or 360th day. So, it is one year instrument with option for us to redeem every 90 days.

Analyst

Okay. So, the life of the debt is one-year to the max?

Ullas Kamath, Deputy Managing Director

Yeah. Life of the debt is one-year. The term what is agreed for one-year with the rate of interest of 10% our zero coupon and payment on redemption. So, the payment of premium will hit by results, it does not reflect

Analyst

And the Henkel that was at was cost, the 450 crore...

Ullas Kamath, Deputy Managing Director

Henkel debt was that cost was guaranteed from Germany, I think it was mostly around 80%.

Analyst

Okay. And sir, on the advertising spend that Henkel has, again be seems to be about 130 crore what I could make from their last year numbers. So, you are saying that form their you are going to bring it down, it amounts about 25% of the top-line, you are saying, it will be brought down to 16% of top line. So, do you see, I mean, if they couldn't do it with 130 crore, so listening that it would make the brand sell more?

Ullas Kamath, Deputy Managing Director

In fact, I do not wanted to go through their balance sheet, because they accounted a little different than the way how we accounted. Whatever the three piece which we are giving, we met it out of cost in net sales. So, that is something, which it does not come in the sales proportion. And the money what we spend on advertisement only will get into advertisement. And the three piece what we give, that discounts what we give, I think should be netted out.

So, when I say 16% that is the real advertisement cost. In another words, Jyothy will spend less than 8% on the real advertisement cost, but in that I'm doubling it in the case of Henkel. And sales promotion, what they currently have of giving 25% extra weight of giving some discounts, we'll be netting our product more tough over there.

Analyst

Okay. So, out of that 130 odd crore, I mean, what will be the increase that Henkel would be having and what is the promotional...

Ullas Kamath, Deputy Managing Director

I would see that about 20% is advertisement and 80% for promotion. Correct Neetu?

Neetu Kashiramka, GM, Finance

Yeah.

Analyst

Okay. And when you are taking over this company, it will be a line-by-line takeover that will happen and the debt will nothing is left, I mean, out of the balance sheet that we have for last year of Henkel?

Ullas Kamath, Deputy Managing Director

No, we really getting into that business as it get it. We'll release them of the date, nothing else, that certainly belongs to us.

Analyst

Okay. And just...

Ullas Kamath, Deputy Managing Director

So, we have taken the debt in Jyothy now. We'll be advancing that money to Henkel. With that money we'll pay off the debt, so that Henkel AG Germany will be out with their shares being transferred to us, with that being transferred to us and the debt guaranteed along the debt will have relive them.

Analyst

Okay. And finally on the working capital, you said you need to put some finds into the working capital. How does it exactly compare with GLL's working capital...

Ullas Kamath, Deputy Managing Director

GLL we have always have about 150 crore in raw material working progress it's about 45 days of requirement, and Henkel is less than that. So, I am assuming that we need about 45 days of turnover there also as a working capital. So, in other words it's about 50, 60 crore minimum.

Analyst

Okay. Finally, that's all from my side.

Ullas Kamath, Deputy Managing Director

Yeah. Thank you.

Operator

Okay, thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Kamath for closing comments.

Ullas Kamath, Deputy Managing Director

Thank you very much, everybody. And I hope we have clarified everybody's queries and as far anything else, if you are not satisfied or if anything else, it's there, you can always contact me or Neetu for further clarification. Thank you very much for your patient hearing. And we need all your wishes in turning around Henkel. And thank you very much once again for attending this con-call. Neetu?

Neetu Kashiramka, GM, Finance

Yeah.

Ullas Kamath, Deputy Managing Director

You can call back again on this number, so that I'll only you, me and we can talk for a while.

Neetu Kashiramka, GM, Finance

Yeah. Okay.

Ullas Kamath, Deputy Managing Director

Thanks. Bye.

Operator

Thank you very much, sir. On behalf of Jyothy Laboratories that concludes this conference call. Thank you all for joining us. And you may now disconnect your lines. Thank you.