"Jyothy Laboratories Limited Results Conference Call"

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MODERATORS: **MR. M P RAMACHANDRAN**
MR. ULLAS KAMATH

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY12 Earnings Call of Jyothy Laboratories Limited. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touch-tone telephone. Please note that this conference is being recorded. At this time, we have with us Mr. M P Ramachandran, Chairman and Managing Director of Jyothy Laboratories Limited and Mr. Ullas Kamath, Deputy Managing Director of Jyothy Laboratories Limited. I would now like to hand the conference over to Mr. M P Ramachandran. Thank you, and over to you sir.

M P Ramachandran: Hi friends, good evening to all of you. I invite you to the conference call and I request Mr. Ullas Kamath to brief you as well as to take your questions. Thank you.

Ullas Kamath: Good evening, this is Ullas Kamath. I would like to take you through what has happened in the last three months so that you will have most of your questions answered upfront and thereafter we will take whatever the questions you have.

We have three parts; the one is Jyothy Laboratories Limited; the second one is Henkel India and the third one is Jyothy Fabricare Services Limited. In the last three months, Jyothy Laboratories Limited had gone through the second continuous tough period. And when I say tough period it is part of the business, it is a multi-fold challenges like what we had, which all of you are aware, the restructuring of our distribution to align ourselves with the Henkel distribution model going forward. And we shifted our policy on credit policy to the cash-and-carry policy. And also manoeuvring with the increase in the input cost and the other costs, as you know very much in FMCG business, and added to that high inflation, we had rural-centric and there was little pressure on selling more at the rural level, and also the turning around of the Henkel was the biggest of the challenge what we faced in the last three months.

While it is very apparent on the financial numbers that we were able to get back to our normal sales. In Jyothy, the normal sales began sometime in mid-August and August and September has been very good to us. So, in the quarter, as committed in the last quarter, we were able to get back to our normal sales. When I say normal sales, it is completely cash-and-carry. And if you see the receivables, it is completely under control. So, the first good thing which has happened is restructuring of the distribution model has worked in our favour and we have not lost any sales.

The second important thing which we did during the period is maintaining the market share. Last time there were concerns that when were modifying our distribution will there be any impact on the market share. If you see the presentation, Ujala has gained the market share. Now we are at 73.5%, we have gained about half a percentage point there. Maxo is still Number Two at all-India level with 24% market share in volume and, rural India we are still Number One with 30.5% market share. This is just to say that in spite of the fact that last quarter we lost out on the sales, that has not affected our market share. That means that one tier which we have removed**,** it has only happened as a de-stocking at the pipeline but it has not affected our secondary sales and it has not affected our market share. Exo, which is only in South India, we have got now 27.2% market share, and holding on to Number Two position there. And the best thing in Exo what has happened for us in the current quarter is that now in Kerala market, we have got 53.6% market share and we have become Number One, dislodging the competitor who has been ruling that for the last so many years.

So, this is just to reassure all our investors and analysts that in spite of all the changes which we have done in the distribution in last six months in order to align ourselves with the low cost and efficient distribution of Henkel to start from 1st of April 2012, it has not affected our secondary sales by any means. Rather it has increased our market share in all the segments.

There has been reduction in EBIDTA margins in the current year. The reduction is mainly because of increase in the raw material prices. Material costs have gone up 2.93%, Maxo has been impacted by 1.54%, employee cost has gone up by 1.09% and change in the product mix has affected us by 0.34%. In all, about 6% amounting to about Rs9 crores of our EBITDA in absolute sum has come down when compared to the same period last year. Historically if you see, about 60%-65% of our business comes in the second half. The employee cost is more or less on an annualized basis, so it will set off over a period of the entire year. We were not able to take any price hike during the beginning of the quarter because most of our competitors increased the price by August. So immediately we also changed over to the new retail price. Effective from mid-September we are able to take the price hike on all the scales of the company. It is the first time Jyothy Laboratories Limited has increased the retail price for all the products more or less during the same time. The net effect of that is going to be in the range of about 7% in the coming quarter. Also distribution set up which we have changed in the Eastern region and a part of Central region should get us 2%-3% in the savings because the super stockists margin what we are giving 5% now, which we do not have to give going forward. But the transporting costs us about 1%-1.5%. So, overall saving of maybe 3%-4%, which we will be able to see in the coming quarters. These are the steps taken by Jyothy in improving the EBITDA margin to get back to our original EBITDA margin. So, both by increase on the retail price and also by saving in the distribution cost we will be able to get back to our normal EBITDA margin in the coming quarters.

Some of the tough decisions taken by Jyothy have resulted into the real numbers. The pipeline inventory has come down from Rs70 crores to Rs20 crores. Investment in the working capital has come down from Rs150 crore as of 31st March to Rs89 crores as of 30th September. Debtors have come down from Rs103 crores to Rs42 crores from March to 30th September. 120 days of turnaround plan which we explained to you in the last analyst call is complete. Also, Brand Equity of Economic Times has rated Ujala as the Third Best in Fabric Care Category, Surf being number One and Rin being number Two, Tide is at number Four & Ariel at number Five.

We have shown the turnaround plans what we have executed as of now for the first 120 days in our presentation. We have shifted our offices from Chennai and Bengaluru to Mumbai effective from 1st of October 2011. Now, our Mumbai office will take care of production, distribution, sales and marketing along with the functions. We just need to have synergy and also will have speedy decision making ability. This would also reduce our cost. And, as of 31st March, 2011, there were 421 people on the rolls of Henkel. Now it is less than 275. Some more people have put in their papers and I feel about 225 people will finally remain. Even after this events, our sales has grown by about 20% when compared to the same period last year. When we got the business in our hand, the annualised sales were Rs395 crores, all brands put together. Right now we are getting about Rs40-41 crore month-on-month sales, which is annualised sale of about Rs500 crores. So, we are happy the way the sales are happening but, we are able to cut down most of the expenditure as we explained earlier on this call. On production front, we have taken complete control and we have kept only the Karaikal factory now. Most of the production has been shifted to Jyothy's units wherein our production cost has come down. Purchasing supply chain is being managed from Mumbai office now.

And, new marketing campaign which we are planning for Henkel by repositioning the brand and revisiting the pricing will be effective from January 2012. As of now we are just working with various marketing agencies about repositioning and revisiting the pricing of the products. This is the first 120 days program what we have from June to September. The result of that in the number wise--when we got the business in our hands as of May 31st, for the month of May, they had a negative EBITDA of -4.4%. For April to June we were able to take it to 8.8% on the turnover what is reported and for July to September, the EBITDA margin has gone up to 10.6%. In that, July to September, September month itself has crossed 12%, So we are very confident now that going forward we will be able to meet the EBITDA margin, what we had committed viz. 12% before 31st March.

Now, going forward from October to March 2012 we have 180 days program which we have put now. In that the new management team is being played and we will be taking over the weaker zone of Henkel, that is North and the West, Jyothy will be taking over. Just to put the things in perspective, as of now every sale of Henkel is being done by Henkel field staff only. So Jyothy staff will be taking on additional sales for Henkel products in the weaker markets of North and West. And, we want to synergise the distribution network of JLL & Henkel, which in the first phase we have already done by dispensing CSAs, and Henkel has 29 depots across the country. So, we want to see where all we can operate out of their depots to reduce the cost and at the same time we have 3500 distributors and they have about 750 distributors. So we will be merging both together in such a way that we can use their distributors to sell our products and our distributors will be selling their products both in urban and rural. And, we will be revisiting the pricing as I told. And we expect that business should be in place effective from 1st April 2012 as a single entity.

In the last analyst meeting, where we had given a plan of turning around Henkel business we had expected that there would be 15%-20% revenue de-growth because of change over. But now we can say that there is no dip in the sales as far as for the business which we have acquired from them. But, if you compare their balance sheet of earlier year to this year, there will be a difference because they had the Hair Care business which they have hived off and they had certain B2B business which they have hived off. So, the business which we have acquired from them is doing well and we expect to achieve 12% EBITDA margins in first year. To that extent, Jyothy's management is satisfied with the turnaround.

Now, going to Jyothy Fabricare Services Limited, we have become the country's largest laundry chain operators now. Bengaluru, Delhi, Mumbai, Pune, Chennai is already on and Hyderabad will be on by March 31st. And as you know that IL&FS have invested Rs50 crores with an enterprise valuation of Rs400 crores. They will be investing another Rs50 crores in couple of months, once we have finished our Chennai and Hyderabad plant.

With this RS100 crore of their investment we do not foresee any more investment required for JFSL. Also, we just got a BOOT contract, which we have been following up for a very long time from Western Railways. We have got the orders worth Rs65 crores; it is a 10-year contract under BOOT and we will be executing that in another three or four months time. Then we will be the first mechanised laundry for Indian Railways. And, with that we will be able to get more business in the process to come. Last year we had done annualised sales of about Rs9.41 crores. Whereas for the first six months we've already done Rs17.8 crores and target to do another Rs40 crores in the next six months. Bengaluru has already achieved breakeven and there is no money required for Bengaluru. We are not making money in Mumbai and Pune. We are losing money on a month-on-month in Delhi for our new acquisition, which we have done there. We are putting in money there, by 31st March that will start giving us some money, the breakeven should happen by 31st March, 2012. And thereafter, as a company, JFSL will still report loss of Rs2-3 crore of loss. By 31st March, 2013, it will be cash profit, and we are in line with the business projection what we have given to IL&FS.

With this now, I will open the floor for questions and answers.

Moderator Thank you so much. We will now begin with the question-and-answer session. We have the first question from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: Good evening sir. If you could explain us the balance sheet for Jyothy Laboratories. The question pertains to the increase in the loans and advances for Jyothy during the quarter.

Ullas Kamath: The loan is given to Henkel India because we had to retire the debts of Deutsche Bank. So, the advances are towards Henkel India, and we put the money there, and from there they have retired the debt of Deutsche Bank of Rs439 crores.

Grishma Shah: Of the Rs536 crores, Rs439 crores is for Henkel?

Ullas Kamath: Yes, that's right. And the remaining are investments in JFSL and other small subsidiaries.

Grishma Shah: Okay. And sir, if you could update us about what is happening in the core business for Jyothy as in Ujala, Maxo, Exo? We have seen the Dish Washing segment growing very marginally during the quarter. So could you tell us your outlook going forward for the core business for Jyothy?

Ullas Kamath: The standalone Ujala Fabric Whitener in the quarter volume terms has grown about 3%, without increase in the retail price. We have taken the price hike from Rs14 to Rs15 for Ujala from mid-September. So you will see that increase getting into account in Q3FY12. Now we will be seeing value growth of another 7%. So, we are happy about it.

The second one is on our Stiff & Shine which is present only in Kerala. For the first time the sale of Stiff & Shine in Kerala has overtaken the sale of Ujala. Now, the annualised sale of Ujala is about Rs24-25 crore in Kerala whereas the annualised sale of Stiff & Shine is about Rs37 crores now. This gives us a confidence. Earlier there were concerns within us and also with the outside world whether Stiff & Shine will cannibalise the Ujala sale. However, it is established as both are being used by the same household; they use Ujala for whiteness and Ujala Stiff & Shine for stiffening and shining of their clothes. So, if one particular state can give us Rs27 crore we feel that it can be taken in a big way nationally and because there is not much competition that it was there in the past but now we feel after getting this turnover of 27 crores we feel that we can take it to other states as well. So, that is a good thing which has happened in Stiff & Shine. Detergent Powder, we had Ujala Washing Powder in Kerala, which is doing extremely well, even now we are doing well. In between, we launched Ujala Techno Bright with Sachin as an ambassador, which we took it to Kerala, Karnataka, Tamil Nadu and also to the other states. Now, Henko has come into us, and with Henko, Henkel acquisition we have got Henko, we have got Mr. White and we have got Chek. So, we are realigning our entire Detergent portfolio across the country, so we have to ensure on Techno Bright at a national level. So, that is why you see the dip in our Detergent Powder, all India basis sales the dip you will see, but in Kerala we are growing. Net-net as far as fabric care is concerned, there is a growth but, de-growth is coming from the Detergent Powder, that too in the Techno Bright variety but, otherwise in Kerala we are growing in Detergent Powder as well. And, the second one is the Maxo. Maxo, we were having a number one position in rural India, which we are still holding on. And we did the correction of the distribution set up what we had in Eastern India, which is a major source of ours revenue come for Maxo, 65% of our business come from Eastern India for Maxo so, that got affected in the last two quarters for us and we did this during off season. So, Maxo sale would have come down as I mentioned in the earlier analyst call also, it is just technical, it is a de-stocking which is happening and nothing to do with the market share, but now the latest report establishes whatever we said, that we are still holding on to the Number One position in rural India, Number Two position in urban India across the country and we are not lost out.

As far as Exo is concerned it is a south-centric product, has grown about 46% in the current quarter, that is predominantly because we changed Exo bar, new Exo Round we launched in South India, it was taken very very positive. Kerala, now we have become Number One with 53.6% market share and across the country we are Number Two. So, the core segment whatever we are, in Ujala, Maxo, Exo, all of them are growing at a market share level and whichever category is growing along with the category and because of this restructuring you will see some anomalies, like in comparing the same period-to-period, it is only a one-time correction. I want to reiterate that at the market level things are perfectly fine, in the coming quarters you will see a normal sales and normal profitability.

Grishma Shah: So, there won't be any other region where there would be some distribution set up change like the ware store, any other region because East was big for us and we did it during quarter 1. Now, in quarter 3 and quarter 4 are there any more distribution changes expected to happen in the company?

Ullas Kamath: Yes. We have done with South, we are done with West, we are done with East now, but North we have not touched so far, but North gives us about 25 crores turnover only. So, it is not very, very high turnover because we are still thinking whether we should do North right now or we should wait for some more time because there is no outstanding there, and North is something which we have not done, probably we will do it in January or maybe we will do it next year. But, the turnover what we get from North is just 25 crore, so impact of even if I take for one month it will be about 4-5 crore, not more than that.

Grishma Shah: Okay, that is the annual turnover?

Ullas Kamath: Yes. It is the annual turnover so if I have to sacrifice a month's turnover there, to destock one or two months case also, it will not be more than 5-6 crores effect. But on an annualised sale of our 800 crores it will not impact much.

Grishma Shah: Okay, so for FY12 the entire year now, what kind of sales growth do we work with, given that we have done 277 crore roughly for the H1 and how do we look at H2 for ourselves?

Ullas Kamath: Our internal thinking is to maintain the sales that of last year and also the profitability in spite of the fact that we are lagging behind both in the top-line and the bottom-line, but we intend making it up in the coming six months, we are working very hard on that. So, we will be extremely happy if we are able to maintain the same top-line and the bottom-line for 31st March, we will be working very hard on that. But, end of the day price hike what we have taken now, if it has received a very nicely in the marketplace, I think we will be able to achieve that with extra difficulty, with extra working hard.

Grishma Shah: And last one from my side, what is our take on the raw material prices as we enter into quarter 3 and post 7% price hike, how much are we covering in terms of our raw material cost average?

Ullas Kamath: As of now the 7% hike what we have taken, we should be able to get back to our normal EBITDA of about 16% is what we are trying to do. But, again the interest cost going up it is expected to hit the raw material once again because, wherever the increase, our input cost is going up. So, very difficult to predict, but crude price was stabilised for some time but again is going up now, so it is difficult to predict but we will be in line with the industry, if they were to increase the retail price, we will also be able to increase the retail price, but as of now the 7% should be able to offset most of our hike which has taken place so far.

Moderator: Thank you so much. Our next question is from the line of Parineeta Poddar from ICICI Direct. Please go ahead.

Parineeta Poddar: Sir, I just have two questions. Firstly, there is another income of 14.82 crores in the results you can see during this quarter. Can you please tell us why is this so and what is the nature of this like, is it recurring or due to what reason is it there?

Ullas Kamath: Yes, this is the interest what we have charged to Henkel because we have borrowed the funds from Jyothy's balance sheet and we have lent that money to Henkel and we have charged the same interest what we are paying, we are charging to Henkel and Henkel is giving that. It is an interest income which was charged to Henkel.

Parineeta Poddar: So, this is going to be recurring in nature until the loan is paid off and whatever interest you pay will be the same amount that will be ...

Ullas Kamath: Absolutely, that's right.

Parineeta Poddar: Yes, now the second question is sir, if you see the segment results though your sales in both Soaps and Detergents have shown a growth, your Home Care shows a loss of 6.6 crores. What is it on account of, is it still Maxo, or is it Exo or like what is the reason for the same? And even in your Detergents there is a dip in your profits.

Ullas Kamath: You are right. It is in entirety because of Maxo, Exo and Detergent Powder because the raw material price, it affects the loss in these three segments, because they are all very, very raw material sensitive items. Plaster price goes up, immediately it hit your P&L. So, we have lost out on profit that is affected in Maxo, Exo and also in Detergent Powder to a certain extent, but largely it is in Maxo, because the Maxo one of the decision what we have taken which we are still continuing to work is that to start building the brand, and you will see in the last quarter we have spent 6 crore on advertisements alone to build the brand, and reducing on sales promotion scheme, so overall the price hike what we have taken in all this time should be able to get us at 7%, but you are right in the last quarter we have been affected largely because of Maxo, Exo and the input costs.

Parineeta Poddar: Okay, that's about it sir. Thank you so much.

Moderator: Thank you. Our next question is from the line of Jeevan Patwa from Axis Holdings. Please go ahead.

Jeevan Patwa: Good evening sir. Only one question I have is you said you have given loans to Henkel India and you are charging interest on that. But on the same side you have seen the debt of 539 crores in your balance sheet. But I could not see the interest portion; the interest portion is just 1.99 crores, so.........

Ullas Kamath: Yes, the interest what you see on 1.99 crore is on the working capital what we have raised and we have given in the notes the numbers the loan what you have taken is zero coupon non-convertible debentures, redemption at a premium. So, that is a structured instrument what you have taken from Kotak Bank so, what it means is that we will be taking the loan and every 90 days it will be renewed, at the time of renewal we will be paying the premium and as per the law and as per the accounting standard, the premium has to be adjusted to the results and it cannot be taken off from your P&L, whereas the money what we have given to Henkel we are not able to give at the same instrument because they are all loss making. We are not able to do the same structured instrument with them, so what we have given is a regular loan, what we have given, so, we are charging that. It is being highlighted in our notes to accounts very clearly.

Jeevan Patwa: Sure. Can you just tell me how much is the premium you have adjusted in the balance sheet for this quarter?

Ullas Kamath: It is more or less the same amount of what interest what we have collected from Henkel, we are charging 0.25% more than what we are paying and more or less it is the same.

Jeevan Patwa: So, is it like I can safely assume 14 crores?

Ullas Kamath: Yes.

Jeevan Patwa: Okay. That's it from my side, thank you.

Moderator: Thank you. Our next question is from the line of Navin Tivedi from Pinc Research. Please go ahead.

Navin Trivedi: A couple of things I want to understand, that in the current quarter the advertisement spending has been reached to around 16 crore compared to 9 crores in the first quarter, so what are the reasons for this thing?

Ullas Kamath: The increase in the advertisement cost is a decision taken by the management that we should start spending the money on brand building, and if you see in the last quarter, one of the major spend what we have done is in Maxo, the entire Bodyguard of Salman Khan, it was co-branded as a Maxo Bodyguard. So, that we spent about 4 crores, which has given us a lot of mileage, because Maxo brand with the Bodyguard and Salman Khan, our market department price has a great effect and we are able to get a good price and the entire campaign of Bodyguard was done jointly between Maxo and Bodyguard including on the TV, that's one, the expenditure which was done on Maxo which has paid off. The second major expenditure we did is on Exo because now that Exo is growing very nicely in South India, we thought we should pump in a little more money to garner the market share, and the result of that is that, in Kerala we have already become Number One. So, we did spend the money both on Ujala and also on Maxo and Exo, and also to a certain extent Sachin Tendulkar's contract ends in March 2012. So, any money which we have to spend on the brand Sachin is involved it has to be done before that so, on selective places we have spent the money on Ujala mother brand also on Sachin's commercial. But, if you see the overall money what we have spent in the same period last time, it is still within the limits, but 31st March 2012, probably it will be still within 8% of our annualized turnover sir.

Navin Trivedi: Sir, how much money is spent on the Exo and Ujala, if we can have this break up?

Ullas Kamath: Exo is 3.6 crores and mosquito coil Maxo is 5.29 crore and Ujala is 3.81 crores. And that's the major, rest all small products.

Navin Trivedi: Sure. Sir, one thing I don't understand, Maxo is already have low margin business for us, and in the last couple of quarters also we are seeing after the change in the distribution thing, the whole system has already shifted and now we are spending more on the business which is a single-digit or even the loss making business, so, what is the kind of strategy that we are just making for the

Maxo, and one thing also that in the quarter 3 one-and-a-half month is left, so, are we changing again the distribution thing?

Ullas Kamath: No, we are not. See, I just want to take like, a couple of minutes for you to get the holistic view of Maxo business. In the past, Jyothy was depending on Maxo very heavily because we had only three brands, Ujala, Maxo, Exo. And complete dependence on that ballpark top line growth and get the market share. But, now that after acquiring Henkel we have now seven more brands to build and right now we have about ten brands. Out of ten brands, nine brands each one of them earn more than 100 crores. So, the management after acquiring Henkel, we took a decision that we have 38.31% market share in rural India, we are Number One in rural India. We are Number Two in urban India, but still we are not making money. So, the decision what we have taken is that, one, we need to spend the money on the brand and we have to go beyond coil, because, our total business of 230-240 crores comes 85% of that comes from the coil business so, we should go beyond coil. That is the only thing what is left is the liquid and aerosol. So, we launched our liquid and advertising support we started getting for the liquid not on the coil, but on the liquid. So coming to the strategy per se, definitely yes, after achieving 30% market share in rural India or 35% market share in urban India you need to start making money. But, when do we start making money is what we are trying to work very hard. And now that we have changed the distribution metrics that changing about 3%-4% we will get it. The second one, increase the retail price that's by around 7% so at least some more monies will come there. And, we have made certain changes in our manufacturing process also going for tunnel drying rather than standalone drying in the past, so with that other 3-4% if I get, by 31st March, 2012, definitely, we will be a positive as far as

Maxo is concerned, the steps what we have taken. And, any change which we have done in Maxo is in the off-season. Now it is actually the off season for Maxo, the season starts from now post winter, so we are geared up for that. So, our thinking which is in line with whatever we thought in the past is that by 31st March, 2012, whatever the turnover of Maxo, we should be profitable and we should not lose out on a market share. And with that, we are confident we will be able to do that.

Navin Trivedi: So, this thing again will be repetitive in the coming quarters, this A&P spending?

Ullas Kamath: Next quarter we will not see, because it is winter but probably we will see one more A&P spend happening, expect might happen in February-March because of season once again. So, it is all a seasonal spend but definitely in December quarter you don't see anything because mosquitoes are not there in December quarter. So, the season will start from February 15, so you will see some advertisement happening in March but not to the extent of what we have done so far.

Navin Trivedi: But sir, what was the reason that in off-season that we did such kind of spending?

Ullas Kamath: Off-season, in the sense we change the structure in off-season and, Bodyguard was coming at that point in time and this is a long-term contract what we have with them. And, Bodyguard now, most of the big campaigns that you see you will get a lot of mileage when you are going with celebrities like Salman Khan and like marketing of the movies are becoming craze now. So, when we got the property of Maxo in association with Bodyguard in a national level we thought it is worth spending through that and it has paid off.

Navin Trivedi: Sir, what is the nature of this contract?

Ullas Kamath: This contract is over now. That is, Bodyguard when they launched about three months before the movie was launched there was a campaign on this Bodyguard and in that Bodyguard whereas posters or TV or campaign of launching the Bodyguard movie it was saying that Maxo Bodyguard in association with, that was the campaign.

Navin Trivedi: No, I'm saying in quarter 4 also you expect the same thing, the campaigning will happen?

Ullas Kamath: The movie has released, it has got over now. Now, we do not have any contract.

Navin Trivedi: Okay, a couple of questions on Henkel business. Our performance has been robust especially on the margin front. The other expense were substantially reduced from 35% to 20%, so what were the key expenditure that we could conclude and what is the level of spending is sustainable going forward?

Ullas Kamath: As of now, we are still more; we need to reduce it. Whatever we have reduced is now the payment that needs to happen for Germany now that is not happening, amendment is not happening, and the royalties have only on Pril and Fa we used to give, all other royalties we don't have to give. And, we have shifted most of their guest houses; we have shifted most of their other offices. So, a lot of cutting we have done. So, the present you see the other expenditure which will be the sustainable and this might go down a little bit further because we have shifted our corporate office house to Mumbai now so that the major rental expenditure is also not there from next month onwards. So, that is something which you can take it as like doable in the coming quarters because that expenditure is not required at all for us. And the staff expenditure which has come down now drastically employee cost there, again that is sustainable, we don't have any intention of recruiting any more people there. The existing people, with that of Jyothy's best-in-class people together we will be able to achieve the 20% growth numbers in FY13.

Navin Trivedi: Sir, is it possible that as we are reducing the spending in Henkel India, is it possible that the cost structure of Jyothy can be changed after that, because so many spending have been shifted to the corporate office?

Ullas Kamath: No, there might be a marginal increase in the expenditure but what we are trying to say that when we shift the corporate office, we don't need two CFOs, we don't need two company secretaries, we do not need many secretaries, we do not need like now operations department, supply chain department, everything is now centralised. So, there will be a lot of one-time cuts, but we do not really need to add on more in Bombay but yes, your question is very, very valid. There will be a marginal increase in the cost, but not to an extent what the cut will be by shifting the office.

Navin Trivedi: And has the new management team joined us?

Ullas Kamath New management team is joining this particular quarter, and as soon as they join, we will give the press release.

Navin Trivedi: Okay. Last one question on the debt refinancing that we were expecting, seeing some even debt implementing can be possible with couple of sources. So if you can just highlight on that front?

Ullas Kamath We had identified the three avenues to reduce our debt. Number one is selling out the assets which is not required for both at Jyothy and Henkel. And that is there on the block and people are seeing the properties, who are giving their quotations and we are evaluating that. That is still there both for Henkel properties and for Jyothy properties. That is the first avenue. The second avenue is that, reducing the working capital what we have blocked which is 160 crores as of 31st of March. We have already brought down that to about 79 crores now. Further, probably another 10-20 crores might go down by December, but next definitely we want to be a negative working capital-driven company. So that is the second source of money which we are already pumping into the working capital. We had taken 150 crores of working capital limits, as of now we have paid back almost 80 crores in the working capital limits. The third one is that the raising of the capital otherwise which we feel that the market condition is not conducive to us now. So we have deferred the entire raising of the capital till such time we feel that we have approved our mettle by showing the numbers to the market, it might take one quarter or two quarter or one year or two year. But we have decided not to dilute anything now and that we have completed. And in place of that is nonconvertible debenture, we will be increasing that probably with a long-term debt in such a way that we will be able to service the interest factor. And in the same time I want to bring it to your knowledge that Henkel's whatever the debt what we have raised now, in entirety Henkel is only paying the interest if you see our interest and sum, is paid by them and we are paying back to NCD or holders, we are giving it to them. That means the business what we have acquired, that business is able to service the interest month-on-month. So to that extent we are happy. So the dilution, raising of the capital at this point in time they are completely called off.

Navin Trivedi: Okay. So in near future I think there is no source of money to just repay, because we were saying around 100 crores idle assets in Henkel's books and some couple of assets in the Jyothy's book. So do you think, in the near term there will be any source of deployment or any kind of generation of cash flow from that front?

Ullas Kamath Yes, at least one of the assets as I said before March you will definitely see the loan coming on to that extent, but real estate selling, we have pulled on the block, people are seeing it. And if I get the value which I want, I will give it off. So there is no second thought for now on the priority.

Navin Trivedi: Yes, thank you so much sir.

Moderator Thank you. The next question is from the line of Hemant Patel from Enam Securities. Please go ahead.

Hemant Patel Hello sir. Just had a couple of questions on Henkel. Notice that the gross margin, the cost raw materials have actually declined for Henkel in the month of September, but we have a contrary trend happening on Jyothy Laboratories. I did hear the explanation over there. Just wanted to understand is there some manufacturing that we are doing at our plants for Henkel, which is reflecting in Jyothy Laboratories books?

Ullas Kamath No sir, your point is very-very valid. In fact, the procurement at which they were doing, it was in exorbitant that has been reduced to our level now. Because the realization is very high, Henkel's realization when compared to Jyothy realization because their trade margins are very-very thin. Because they give only 10% of the retail and they give 5% to the distribution. In our case we have 10%+8%+ another 5% we used to have. So, the difference is there. But your finding is very-very valid. But at the prices which we are procuring their raw material is the same at which we are procuring. The other thing is that which I forgot to mention in my opening remarks is that, during the quarter we took goods returns in settling some of our super stockists account, because the stock which they were not able to sell in the market, we have to take it back. So to settle their accounts I took almost 8 crores worth of stock, I took it back. That has affected my EBITDA, by about 5 crores in absolute terms, because when you take the goods return, that will affect your margins. So that's a one-time hit that we have taken that has affected in our raw material evaluation. But otherwise we are par with that of Henkel.

Hemant Patel This 8 crores forms the part of our raw material cost, is it?

Ullas Kamath Yes, when you take the stock back, I have shown that as a net of sales return, but the valuation of that particular stock, I have taken at cost or realizable value, whichever is lower by the auditors. So that section has affected me about 5 crores in absolute sum. It has affected my EBITDA in absolute sum sir. It is a one-off thing, to close our account, we have to take the goods back and we took that.

Hemant Patel Okay. The other thing is on Henkel, we have had this de-growth and you have said that there are some Schwarzkopf which have been sold earlier on. But if you were to actually knock off that in last year’s revenue, how was the brands been doing and has there been an impact on the brands because you have been investing less in to ads because, admin expenses as we notice has come down. Can you give us an idea as what the ad level spend has been as well for the first nine months of this year?

Ullas Kamath Sir, in reality, we have gone in to business only from 1st of June. Earlier to that, it’s only a due diligence report what I have and they have too many companies like they have Henkel India, they have Henkel Marketing Limited and they have a couple of small subsidiaries and all the expenses were spread across with the various companies So really it's a difficult to compare apple-to-apple in that context. But when we got the business and the due diligence when we did, we got a business of 395 crores annualized sale of all the brands put together, which had given to my analysts in one of the presentation. That is brand wide business what we have got. It is 395 crore. That means annualized is about 35-36. Now monthly business of I'm doing of 40, 41, 42 crores is what I'm doing monthly business. So annualized business I'm getting about 500 crore. Now this is what we have taken from them and this is what we are executing. But if you see the earlier business, they have certain B2B businesses which they used to export their business to certain raw material so that it's a concern in our neighboring countries. And they also had this Hair Care business and they had the business which is not there now. Some of the raw material they used to procure from here, and they used to export it. So such things if you take it out, month-on-month we are growing and I would say the business which we acquired from them at 395 crore, now it is a run rate of about 500 crore is what we are doing.

Hemant Patel Okay. And in terms of the ad spent, how were they been? Can you give an idea of what the total amount of ad spent has been in the admin expenses?

Ullas Kamath In the current period, our advertisement expenditure of Henkel should be about 4% or 5%, not more that that sir. Because now we are looking at to spending the money only from January, because we are supporting below the line initiatives, whatever they have started, we are continuing that and some of the things which is consumer offer, we have closed it already, but sale has not affected.

We have taken out the bucket offer, we have taken out some of the freebies what they used to give, that we have taken out. And now we are about to increase the retail price because when everybody increase retail price we have not increased for Henkel so far, because we have removed the consumer offer and we removed some of the trade offer, so we didn't want to increase the retail price. Now we will take the retail price hike now in Henkel so that my margin should expand further because of that sir. But advertisement spent is about 4% sir.

Hemant Patel But I think in one of your presentation, you mentioned that the ad spent to sales is around 16%. So I'm not able to reconcile that.

Ullas Kamath That is going forward sir, we have not target that much sir. In my advertisement I definitely mentioned that in this presentation also intend is to spend about 16% because we need to rejuvenate in entirety all the brands which we have not targeted probably we will start from January. As of now we have just changed the advertisement agencies. We have called for a new pitch which we already brought in. The new agencies are on board, but effectively you will see the new campaign happening from January 2012 for all Henkel brands.

Hemant Patel Thanks a lot. I will get back with few more questions.

Moderator Thank you so much. Our next question is from the line of Harish Jhaveri from DSP Blackrock. Please go ahead.

Harish Jhaveri Hi Ullas, just a question on what will be the final equity look like? Now that you have completed the Henkel, this you have mentioned in your notes to the account about the SEBI thing in the public announcement. Could you just give me a broad ballpark figure of what the consolidated companies' equity would look like?

Ullas Kamath For Henkel sir?

Harish Jhaveri Henkel plus Jyothy put together what will the consolidated equity will look like, share capital?

Ullas Kamath Sir, Jyothy share capital is 8 crores and reserves are 648. So if you take that, it will be 656 crore is the Jyothy's capital plus reserves. And Henkel is negative, their equity is 110 and their carry forward loss is about 400, so (-ve) of 300.

Harish Jhaveri Okay. You have mentioned that you have acquired from the public at the offer price of 41.2 and there is another 5.9 crores shares which has been transferred by Henkel AG and held in the escrow, so overall you today own 84%, overall when you combine the two companies, what sort of an equity will you end with in terms of share capital only? Reserves I can understand that...

Ullas Kamath Yes, the share capital their one is 110 crores and ours is 8 crores. And as of now we are keeping both the company separate, but if you want to take both the companies together then their share capital is 110 and ours is 8 crores, so 119 crores.

Harish Jhaveri Okay. So it's like, If I were to look at the combined company and look at roughly 1100 crores or revenues, that is what you will do in both put together in a sense that I'm just looking at your...

Ullas Kamath Yes, you are right sir, about 1200 you can take.

Harish Jhaveri Yes 1200 crores is that you will, with the 19 crores equity, is that understanding broadly correct and the debt will be primarily for Henkel which you mentioned just...

Ullas Kamath Yes, only for Henkel and you are right sir 11 plus 19.

Harish Jhaveri Okay. And before March, the assets that you have put on block, I understand it's difficult to say how much the assets will fetch. But can we assume like a 100-odd crore is what will happen?

Ullas Kamath 100 is what we are targeting, because this is just what I have put in, even if there is two grows, I should get 100, but the biggest is what we have in our Karaikal manufacturing plant. But presently it's a running unit and we would be interested in giving it as a running unit only because there is a more value rather than real estate as a running unit. So we are working hard. But if I get even 50 also I will be satisfied, but 100 is my target sir.

Harish Jhaveri Okay, perfectly fine. Thanks a lot yaar and always the best to you.

Ullas Kamath Thank sir.

Moderator Thank you. Our next question is from the line of Amneesh Aggarwal from Motilal Oswal. Please go ahead.

Amneesh Aggarwal Hi, sir just a couple of questions.

Ullas Kamath Yes sir.

Amneesh Aggarwal Sir, the first question is regarding, can you give some idea what's the consolidated debt for Jyothy Laboratories and what is the average cost of debt?

Ullas Kamath As of now the overall debt is 539 crores. And in the last quarter it was 10.75%, but right now we have renewed it for 11.25%; we have renewed just now, in the last month October 28th we renewed it for three more months, now it is costing at 11.25%.

Amneesh Aggarwal Okay. So my second question is regarding your some of the businesses which say particularly the Henkel part of your company is now having, say in the first half if you look Detergents is nearly a 100 crore top-line, Personal Care around 84. Now looking at the way Detergent market in India is today is with P&G on one hand and Lever on the other hand being aggressive, in that context where do you see your brands like, in particular, Henko Stain Champion and I think you also have mass market brand. So what would be your strategy and where do you see these brands competing against the big brands of these MNCs?

Ullas Kamath One is that sir, probably I will not be able to give a complete strategy out in my con call because competitors also will be listening to me. So, I'm sorry to that extent. But broadly, Jyothy is not taking any big people head on. And Detergent market even though its very clutter market it is 12,000 crore market. So, there is a room for everybody to take 5000 crores here and there. And Jyothy is the predominantly, in Detergent Powder we are, in Kerala and we are doing extremely well there, and we have been there for last seven-eight years, and year-on--year we are growing there and we are making profit also in our Detergent Powder as far as Kerala, Ujala is concerned. And we sell about 120 crores worth of Ujala on an annualized basis in Kerala and in neighboring states. That is as per Ujala is concerned. We have fought with multinationals in the past and we will continue to fight in Kerala and we are holding on to our Number One position in the mid segment there. Henkel has come to us to with Henkel, Henko Stain Champion. Mr. White and Chek. Chek is the mass market only in East India. We continue to work wherever they continue to sell, we continue to sell. We don't have any intention of taking the Chek beyond East India. And Chek is a 7-8 year old brand. So it has its own brand equity in Eastern India and we continue to sell there. And we have increased the retail price now. So our realization is little better than what it was in the Henkel than in the past. The second one is Henko Stain Champion which is more like a modern trade-driven. And 40% of the Henko Stain Champion business comes from the modern trade and which are all the long-term contracts with most of the institutional and as you are aware that Henkel's institutional business portfolio is about 25% of turnover, but 100 crores come from the institutional sale. And predominantly it comes from that and we sell there. The second one is that they also have a huge market coming from canteen stores. So that also they are selling there. We continue to sell there. And going forward with Mr. White and Henko Champion, Chek and Ujala, our objective is to protect the sale wherever they are selling it and continue to grow 10%, 15%, 20% and definitely not taking any big players in a head on. All our detergents put together now the annualized turnover must be about 450 crores of all the brands put together. So it is a sizable business to work on and because we have produced in entirety from in our production, our cost of production is much cheaper when compared to the competition who are outsourcing it. So we are competitive and as we have 28 factories in 16 locations, our operating cost is also to that extent and transportation cost to go to the consumer to that case is cheaper and we are spending reasonable money on advertisement. So we are not competing with anybody. We are finding it our own place and as long as we get 10% margin, we are extremely happy which we are doing it presently and gross margin Detergent Powder last quarter we have got 30%. And that's good enough to spend money on advertisement and sales promotions.

Amneesh Aggarwal But sir it means that you want to keep your Detergent portfolio particularly the Washing Power brands more as a niche play and because you also indicated that you are trying to look at North and

Western markets, where they are weak, so will you continue to play them, you position them as a niche play even in these markets or when we are trying to capture them, capture the market there, work on distribution, so will there be more your some aggressive approach in promoting the brands and expanding distribution in these areas?

Ullas Kamath We will be definitely aggressive in placing the product, we will be aggressive in horning the distributors, and everything will be aggressive. But definitively we will not be aggressive on spending the money on the brands. And also there is a mind share and a market share. Henko Stain Champion everybody in the country knows about the product because they have done national campaign for very-very long time especially in the metros, Henko is very well known. So when the when the mind share is there, our objective is to see whether we can place the product then get the market share. And the second one is that we will be regional players. Mr. White will be only South based and Henko Chek will be east based and other places Henko Stain Champion, because the realization of Henko Stain Champion is on upper end 130, 140 now we had increased the price. So with that, we feel that it can go for cities and urban metro and also semi-urban. But we will be going very cautiously sir.

Amneesh Aggarwal Okay sir, thanks a lot.

Moderator Thank you. Our next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda Hello sir, just one question I had. If you could tell us only scope of improvement in margins in Henko and the targeted goals for improvement in Henko's margins?

Ullas Kamath Henko Detergent Powder?

Pritesh Chheda Sorry, Henkel.

Ullas Kamath Sir Henkel, as of now, whatever we have done that lower hanging fruits we already plugged and we have got already to 10.56% of EBITDA margins from (–ve) 4% when we took over the business. So that means a swing of about 15%. The next level will be to increase the retail price and to reduce some of their unwanted expenditure in the consumer offer is what we are seeing. Probably by increase of the retail price and also taking away some of the sales promotions at a consumer level, at the trade level, probably I may get other 7-8% and with that if I'm able to achieve about 16% EBITDA margin, and that is the industry norm, which we will be able to achieve in the next couple of quarters, sir.

Pritesh Chheda Okay. So these two areas should release another 7-8% and your target is 16% over the next two quarters?

Ullas Kamath That is what our very aggressive working, but the commitment what we have given to all our analysts if you see my presentation, we had committed 8.8% which is already achieved and next time my target was 12%. But the moment I start spending the money advertisement which we have not done so far aggressively which we want to start from January probably we will see some contraction there, but objective is to achieve that sir, you are right.

Pritesh Chheda And just one clarification, you said the consolidated debt on the book is 1139 crores?

Ullas Kamath No, sir 539 crores.

Pritesh Chheda 539, okay, thank you sir.

Moderator Thank you so much. And I see that was the last question for us. I would now like to hand the call to Mr. Kamath for closing comments. Thank you and go ahead sir.

Ullas Kamath Thank you very much too all my analysts' friends and any more questions if you have, you can always contact Neetu, she is available in the office on the mail or you can contact me. Thank you very much.

Moderator Thank you so much. On behalf of Jyothy Laboratories Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.