

**Jyothy Laboratories Limited**  
**Q2 H1 FY 19 Earnings Conference Call**  
**October 24, 2018**

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- Moderator:** Ladies and gentlemen, Good Day and Welcome to the Jyothy Laboratories Limited Q2 H1 FY19 Earnings Conference Call. Today we have with us from the management M. P. Ramachandran Chairman and Managing Director, Mr. Ullas Kamath – Joint Managing Director, Rajinikanth Sabnavis – Chief Operating Officer and Mr. Sanjay Agarwal – Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference will be recorded. I now hand the conference over to Mr. M. P. Ramachandran for the opening remarks. Thank you and over to you, sir.
- M. P. Ramachandran:** Good afternoon friends. I am M. P. Ramachandran speaking. Our result for the Q2FY19 is already there with you. I invite all of you for a discussion on the matter. Mr. Ullas Kamath will answer for all your questions and also Mr. Rajinikanth Sabnavis will be joining the earnings conference call.
- Ullas Kamat:** Thank you everybody and Rajni will take you through the presentation and then we will take the Q&A. Over to Rajni please.
- Rajinikanth Sabnavis:** Good afternoon everyone. I am assuming the presentation is in front of you. So the way we will do this is I will take you through the market scenario. I will seek help from Sanjay our CFO wherever required, he is with me. First thing I just wish to say is that the rural demand scenario still looks encouraging as it stands. Kerala which is significant portion of our business which is 15% has return to normal. However we all know the devastation that underwent between August 15 to September 15, but it is now back to normal. As far as our input prices is concern, crude and rupee depreciation are continuing to put pressure on that the margins. I will give you the snapshot of the results. Our revenue growth has been 7.1% with the volume growth of 4.4%. We have held our A&P expense more or less same for the quarter. Our gross margin has reported a healthy 150 bps improvement of 45.9% versus 44.4% in the same period last year. Our EBITDA is at Rs. 73.2 crores versus Rs. 64.4 crores in the same quarter it is up by 13.7%. We are happy to say that our EBITDA margin is at 17.1% versus 16.1% same quarter last year. Our PBT stands at Rs. 56.9 crores against Rs. 52.1 crores so it is up by 9.2%. PAT is up by 7.2% at Rs. 45.4 crores the difference we can explain to you later. EPS as a consequence is Rs. 1.25 versus Rs.1.16.

Now let me quickly take you through levers. At the end of H1FY19, our GST comparable revenue growth is 13% against the volume growth of 10.6%. A&P expenses are at Rs. 54 crores versus Rs. 53 crores so we are holding on to that. Our gross margins are 46.5% versus 47.4% pretty close to that number so we are holding. Our operating EBITDA is up by 21.7% on first half to Rs. 131.4 crore versus Rs. 108 crores. Our EBITDA margins are significantly up at 15.8% versus 14.7% in the first half. PBT reported 31.6% growth in the first half Rs. 98.6 crores versus Rs. 74.9. PAT has grown to Rs. 77.7 crore as against Rs. 62.9 crores which is up by 24%. So our H1FY19 performance looks very good. Our EPS is Rs. 2.14 versus Rs. 1.73. So that is how the first half of FY19 stands.

Let me give you a quick breakup by category, so that you get a sense of exactly which parts of the business are performing. During the Q2FY19, Fabric Care is up 11%, Dish Wash is up 14%, household insecticides is down nearly 20%, Personal Care in the quarter is up 6% other product which is smaller part of our business is up 39% which cumulates to a total of 7.1% growth. If you look at the growth reported during the HY1FY19 our Fabric Care has grown 11.8%, dish wash 20%, household insecticides is down 6%, Personal Care is up 15% and other product 25% overall we are up 13%.

At a brand level a quick look at the breakups, during Q2FY19 Ujala is up 6%, Exo is up 14.7%, Maxo is down 20%, Henko is up 20.7%, Margo is up 6.3%, Pril is up 12%. So power brands are up 6%, others are 17%, overall 7.1%. So it is basically a brand wise breakup what we have given you. If you were to take a HY1FY19 picture everything almost is an upside, Ujala is up 9%, Exo is up 21%, Maxo is down 6%, Henko is 15% up, Margo 16%, Pril is 16.8%, power brands are actually up 12.5% and our overall business is up 13%.

Now let me provide you a snapshot of company's financial performance. Our revenue from the operations are up 7.1%, operating EBITDA is up 13.7%. PBT is up by 9.2%, PAT is up by 7.2% and EPS is up by 7.2% in Q2FY19. Ratios in terms of gross margin have already been informed earlier in this call. This has been captured what I have briefed in the highlights earlier.

Numbers which we have been sharing with you for sometimes which is really gives you a sense of if you just focus on quarter two that column it tells you what has been the cascading or the ladder which takes us forward in terms of our EBITDA. So if we had 16.1% EBITDA in the Q2FY18 we have declared 17.1% in Q2FY19. If you look at what has contributed towards EBITDA Margin, our gross margin is 1.6%, employee cost went up some and that left us with 100 bps positive over there and then a little bit of changes in advertising and promotion and other expenditure which net off really so that 16.1% moving to 17.1% is largely is led by gross margins.

So that summarizes our quarterly performance. What I will do is to run you through some detail like we always do in terms of our brand performance and initiatives and I will spend some time where I think it is important to emphasize what we are trying to tell you. The first one is your

wheel, as we call it, if you see it the split of our businesses pretty much has been even because what we are seeing is an even growth more or less across except for household insecticides which has degrown. So that breakup is in front of you. Dish wash is a third of our business. Fabric Care we split into two parts otherwise the total is 40% Fabric Care, Main wash is 25%, Fabric Care post wash is 15% also insecticides as I said is 12% and equivalent is personal care. So that is the breakup of our business.

We just started with Fabric Care which is overall 40% of our business. If you take Fabric Care alone, the growth has been 11%. Ujala franchise has grown a little over 6% and the Henko franchise has shown a very strong growth at 20.7% in the Q2FY19. Let me provide you a quick look at some of the activities that we are doing at the market place and with consumers. You are aware that Ujala IDD is a good strong brand for us in the state of Kerala and then we have Crisp and Shine which is another future star for us. Our association with Big Boss Kerala is overall helping us strengthening the brand and Ujala franchise is actually growing at 6.1% in the state. Our Henko franchise continues to show a strong growth.

In terms of market share, Ujala Supreme the iconic brand in the Fabric Whitener category continuous its march. Market share of Fabric Whitener has moved from 78.3% in FY 2016 to 80.4% FY 2017, we continue to march upwards. We are pleased to announce that Ujala IDD is now in the mid-price segment in Kerala and is the number one brand in the state. We continue to maintain that leadership and are seeing good growth for the brand with respect to market share and internally With reference to Henko Franchise, net sales has growth by 20.7% in the Q2FY19 and growth for the HY1FY19 is 15%. We have spoken about how Rs. 10 has helped in growing the brand and now today it contributes to a little over 10% of the brand itself so it is an important SKU launch.

So now I will come to dish wash segment which is a third of our business. If you take dish wash category we have grown 14% in Q2FY19. The highlights of that 14% growth in Q2FY19 is Exo bar actually grew at 14.1% and Pril liquid grew 15.2%. During the HY1FY19 overall we are up by 13%. What is important and heartening to know is that the category is showing decent growth as per the Nielsen in the mid-teens. If you talk about market shares, Exo bar during the Q2FY19 has gained a good 50 bps on market shares. So this is again a very healthy sign of where the brand is going. As far as Pril liquid is concerned it showed a slight dip in the Q2FY19 itself, but as you can view from our numbers that we are growing pretty much in line with number as far as Nielsen is concern. That's ok, market says what they are, our Brand continues to clock handsomely.

Now coming to a very important part of a brand something which we are really ambitious about is our Scrubber part of business. We continue to grow very nicely in this segment and it will become a very significant part of our portfolio going forward. Our edge happens to be that we have a dish wash product as well as presence in an adjunct like a scrubber which nobody else has so that is our advantage and we will continue to grow that part of our business.

In terms of dish wash I would just like to call out fantastic new innovation that we have landed in the market. It is very unique it is called Pril Tamarind. It actually has micro scrubbers suspended to give you a better grease cutting and power of the tamarind to give you superior shine so this is what we have just landed and we expect this to be significant boost for the brand ahead.

I will come now to household insecticides. So household insecticides sales during Q2FY19 have been down nearly 20% and were down by 6% in HY1FY19. If you look at our market share, I will talk about Maxo LV. We have seen a slight dip in the Q2FY19 per see, but if we compare the market share with Q4FY18, we have reported a growth in market share. So during the September 2018, market share has decreased by 260 bps to 7.7% compare to 8.6% in the June 2018. However market share of September 2018 is much above to market share of 6.2% during March 2018 quarter. Maxo Coil market share on the other hand, has grown at consecutive quarters, from 19.2% in March 2018 quarter followed by 21.9% in June 2018 quarter to reporting 22% in September quarter. Now therefore what we really telling you is that there is something happening in the market itself. To some extent seasonality, but we want to go a little beyond that today in the conversation. What you shall observe when you look at the table on slide no 24 is the evolution of the market itself across different formats. The formats are LV-Refill, COILS, CARDS, INCENSE STICKS which you are aware of, COILS was followed by CARDS an interesting phenomenon which came up and now CARDS have been followed by incense stick. The overall market of LV- REFILL has grown at 10% CAGR from Rs. 1,180 crore in year 15 to Rs. 1420 crore in year 17. During the period Jan-Sep'18 total market is Rs. 1,153 crore.

COILS segment market has enhanced from Rs. 1,592 crore in Year'15 to Rs. 1,666 crore in Year'17. As per Nielsen, the segment has grown by 2% CAGR during the same period. If you take the card phenomenon you can see those of who are familiar somewhere around 2014 it touched Rs. 300 odd crores and today the JanSeptember'18 number is Rs. 257 crore which means which will end up in the next three months about 8% to 10% below last year. So the card phenomenon stagnated and then it looks like it is slowly declining.

Now let us talk about new things that are in the market it is called Incense Sticks. Incense Sticks are like any regular incense sticks and they are positioned as natural exterminators of mosquitoes. I will talk about it on little more details the numbers first. From Rs. 73 crores in year 15 sales of Incense stick went to a Rs. 137 crores in year 16 to Rs. 295 crores in year 17 and it looks like it could go well above Rs. 450 crores this year and that is a very fast growth. More importantly if you look at the bar chat left side of the presentation slide, what you will find is that the incense sticks as a percentage of coil has increased from 5% in Year15 to 31% in Year18 uptill Sept'18. So this phenomenon has been growing like anything of the last few years. Now let me spend a few moments to give you a sense of what these products is really like. The market is literally made up of hundreds of brands many of them are district specific. Bulk of these products are using chemicals which is of pesticidal nature while almost all of them are

positioned on naturals. We have actually got this tested and we found that a lot of them actually use illegal pesticides.

The fenobucarb is an imported product from China and used in the agri sector, but it is used illegally by the agarbatti manufacturer. So far the action taken by us is we have done a lot of concerted action through HICA. HICA is the household insect control association which consists of the players in the household insecticides market. We have got together, we have contributed money and we have actually approached the health ministry who then has gone and put out warnings at primary health center in a lot of markets informing people about the harmful effects.

We have given written complaints at the central insecticides board because fenobucarb is not a cleared molecule for humans for household use They are extremely harmful in the long run. They can cause all kinds of respiratory problem and other kinds of harmful effects as it is just a pesticide. So apart from the considered actions to HICA we in parallel started working in our innovation center. Our landed us towards Incense Stick, a natural product that actually delivers mosquito repellency, which is not chemical in nature and we have finally launched our Maxo agarbatti which is 100% natural in this quarter.

In the next chat I will talk a bit about this innovation. Essentially, it is a kind of test market we are doing in East UP, Bihar and Maharashtra. It is a Maxo agarbatti which is 100% natural and a very effective solution. It is important to know that the illegal agarbatti instantly kill mosquitoes while we have an efficacy which is parity with the other products available in the market so it will not match that agarbatti which is illegal and harmful. So we have got a very strong activation in place informing consumers about the safety of this, largely through on ground activation we are driving it and we believe that we get scale and actually we see this as a big opportunity for us to offer consumers a safe solution in a format which they are obviously enacting.

I now come to the personal care business. In the personal care business as I said Margo has grown by 6.3% during the Q2FY19 and in the HY1FY19 the growth is 16.1%. We have actually been working on a glycerin soap called 'Margo Glycerin' which we introduced in the market during the Q2FY19. The product will be introduced in key markets and then we will expand across the country. Margo Glycerin comes at the right time in terms of growth as it carries forward the promise of the goodness of the thousand neem leaves in a glycerin format. We believe that this is the next big thing for us, for the brand itself.

Coming to the closure of this presentation let me give you a quick sense of the way forward as we see it. We expect the demand scenario continue to be positive driven by rural off take. As a company we are continuing our focus on sharpening our sales coverage dosage. We are doing this by leveraging IT we have spoken about this earlier, about the continued effort that has resulted in growth during the second half. In addition to the few innovations shared with

you, we have a strong set of innovation across our portfolio about which we will come back to you in our next chat.

The final chart is on shareholding pattern. There is no change in shareholding pattern as on September 2019. So with that I will come to close at the presentation. I will now throw it open for questions please.

**Moderator:** We will now begin the question and answer session. We have first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir my questions is on Henko the only brand which I have seen acceleration in Q2 versus the full half first half is Henko, so is it being driven largely by the INR 10 pack. Second P&G has become more aggressive in the Tide through a new launch and so has Lever RIN matched to it , so in that context how is the margins in the mid segment where Henko completes?

**Management:** You are right we have had good results on Henko. It is a competitive market. Competitors have their strategy I won't talk about that. Rs. 10 is an important part as I said it contributes 10%. I think specifically as far as margins go, we are not in the mid-price segment. certainly, there are lots of players they are along with that and the brands you name. We are priced above that. There are two parts to our portfolio and Henko one is Matic which is at the topline which retains around Rs. 220 a kilo and then you have the Henko champion which is at slightly below that at about the mid-price segment. So for us the margins are pretty decent and as we always said in this segment we will grow and we will grow profitably and the simple answer is we continue to maintain that.

**Abneesh Roy:** INR 10 how much was it in base quarter?

**Management:** That is why the growth number is exponential we spoke about last quarter in some triple digit. So this time rather than give the growth number, I am telling you it is sizeable. It is actually about 10% of the brand itself.

**Abneesh Roy:** Actually my question on that mid segment was not on Henko it was on Ujala IDD so that is in mid segment that has been any impact of Rin Tide warfare?

**Management:** Ujala IDD is only in the state of Kerala as I spoke we have a 17% share there. In fact they are very interestingly the brands you named are not big at all. The competitor is somebody else from competition which you can check up when you study Kerala, but we are not competing against the brand you named. One is not even present, the other is very small.

**Abneesh Roy:** And when I compare Q1 and Q2 I see more slow-down in two specific brands Maxo and Margo, so would Kerala have higher indexation for these two brands or is it because of seasonality in Maxo that is the main reason?

**Management:** So there are two questions in one. A straight forward answer is 'No'; neither of these brands are over indexed in Kerala state. Maxo is a long story, but simple answer is yes it is seasonality and you can go into drought conditions what were the temperature and when mosquito breed, but let me put it this way. The season worked against us and that is the simple reason.

**Management:** And for Margo Abneesh because we were planning to launch this glycerin variant we wanted to keep the shelf dry as much as possible then our new product to get entry. So on our own we slowed down on filling the stock in the second half of September. To that extent it is conscious decision what we had taken. So enough is there in the market place but not otherwise you put it like little more but we wanted to get this business very nicely at the market place which we did end of September from first of quarter already there in the market place. So that is one which we are not worried about it otherwise we have got 12%, 13% growth in Margo as well.

**Management:** So Abneesh I will pre-empt your next question which is next quarter you see that correcting itself in Margo. To my answer is "that's correct". It is a pipeline correction which will show up.

**Abneesh Roy:** My next question is on **HI** looks very interesting that incense stick launch, but my questions are in the past bigger players have said coils is a category which is not a focus. Now incense is also a part of the coils if I understand correctly. So what makes it interesting for you (the category might be growing), but we know that all these things which you mentioned in terms of HICA and government actions those may not have a big impact longer term because of various reasons, so what makes you so confident is it because of GST that now compliance has increased so it makes it more possible for bigger players to compete in this?

**Management:** So the comparison with coils is only to give a sense of proportion. In fact Nilsen says coils are pretty safe and they are what they are and while that CAGR is 2% it is not like declining. I think the incense story should be seen in the following light. What was seen as a small phenomenon of illegal players. Some farmers somewhere discovered that when you put that pesticides in a mosquito settlement very innovative than tried putting in agarbatti. I think the way we are seeing, it is a format that is legitimate and which is satisfying a consumer need versus something which is illegally being used here and there in small quantities. So that is a first consumer truth which is at its large. Now comes the question of why do you believe you can compete in that. See the way we see it is if indeed consumer are seeing it as a convenient format whatever set of reasons they are finding uses for it. The question is we can offer them a safe alternative because we have the way to create a natural product that is effective and that works. So that is exactly what we are doing. We are obviously using it initially to inform them that said products are harmful and then we are pushing our product. So in summary it is a genuine legitimate format that exist that consumers are buying at least at this stage and we are offering them perfectly safe product leveraging our skills in R&D and understanding of technology to give a natural product.

**Abneesh Roy:** So wanted some understanding on consumer behavior, so how is coil different from incense stick for the consumer. Second coil incense stick has been growing very strongly because pesticides is being used so it is effective, but in your case because you are not using that thing and it is not as effective and as quick in terms of killing mosquito necessarily the strong incense stick growth may not apply to you. So I wanted to understand these two parts?

**Management:** One is that it has become a sizable business which is completely illegal as far as Rs. 385 crore in 7 month time is huge numbers. So we are talking about Rs. 600 crore of a category being created overnight in this country and they call themselves as mosquito repellent, but actually what it contains pesticides that is completely banned. It is not good, it is poisonous, it is worse than any kind of a cracker and if you see the ingredient what are put in there is no control. The second one in entire to their manufacturing, government do not have any kind of idea about it. So they are not paying comp the GST. They are actually killing the people on a long term basis for which we have done the test and it is there. Now AC Nielsen started capturing this it was not captured in the past. Now they have also started capturing this and if you see the size it is not that the category of coil has come down that is growing at 2% CAGR whereas this has become one-third of the coil as of 30th September. So somewhere as a social responsibility as a good corporate citizen it is my duty to inform and make everybody know that please do not use it forget about our business it is not good. You can see the supreme court order you will know how government is strict about using these chemicals.

So our effort is one category is appreciated by the consumer thereby Rs. 600 crore of sale is happening. Second what they are using we need to tell them that is not good to use and somewhere we should put a stop at manufacturing and trade because government is not getting any revenue and they do not even know about it. This is what we are highlighting and we will put everything together with all the organized players and somewhere we need to stop that in the interest of the health of our kids and our people across the country that is our first effort. Outcome of that would be when that is banned what happens to that business of agarbatti which people are happy to use, that is where we are already ready, we have already launched it and our sample I mean what we have done the pilot study giving us the good result and we are happy about it. So instead of ignoring that be there with the product which is natural and no side effects. Efficacy wise our Maxo agarbati is as good as our Maxo coil that is the best what you can get of that of R&D. But it does not contain other harmful material it is the position what we have taken, let us think couple of years we will know where do we stand.

**Abneesh Roy:** Pricing coil was coil versus incense for you for your own product you did similar?

**Management:** The ingredients what we put is more towards the repellent.

**Moderator:** The next question is from the line of Sameer Gupta from IIFL. Please go ahead.



**Percy:** Hi sir this is Percy here. Sir to start off with very sort of macro kind of question as pertains to your company. So if I look at sales growth that you have clocked in the first half even adjusting for the Kerala floods impact basically your top line growth is somewhere in the region of 15% Y-O-Y. Now this is on a base of minus 10 in first half of FY18. Now if I come to second half in the second half your base is plus 15 so there is a swing of 25% point in your base how will that affect optically the Y-O-Y numbers that you will report in the second half of this year?

**Management:** So we had a discussion around this one and I remember there were lot of questions similar at the end of quarter one and basically we sense is what we said is look there has been all kind of yo-yoing in stock levels etcetera in quarter one. What we are going by as a company is the fact are we growing share and then we will look at our growth quarter by quarter and that is how we will have to take it. What you observe now is in this quarter we top the share numbers and you have seen that our topline if you see while it says 7.9% if you take out the impact of Maxo you can work the numbers it is close to 30% that is exactly how the market works, what gives us the confidence continuing going forward is the fact that you will continue that growth quarter-on-quarter because your brands are gaining franchise, they are gaining shares and therefore that is sustained. So that is the only way that we continue to believe that maintaining this growth figures for the next two quarters of 12% to 13% is basically the rate at which we are running. Now if you are talking specifically about anything else that gives you confidence apart from these we know there are bunch of innovations coming I just spoke about the Pril tamarind but there are a bunch of innovations coming along the second half I mentioned that. I think further will impact to our brands it is across the portfolio that is another thing that we will accelerate our offtake and therefore our internal growth as the other next big points. Apart from that the blip that you see every year as a second half is led by some festive season etcetera and we know traditionally that 55% of our sale is in the second half. So these are some of the parameters that give us the confidence to maintain the growth rate.

**Percy:** So this new products that you spoke about I mean yes they are very important innovations from the medium to long term, but obviously in the first few quarter after the launch I mean it is not going to be a very material contribution to the overall companies sales right. I mean just talking from the next few quarter point of view, I just wanted to sort of understand what kind of contribution it can make to the overall sales.

**Management:** Sir it gives you a lot of confidence in the market place it is not the new Pril Tamarind start from a zero sale. We already have a base of 150 crore and this is top of that. So it is a variant which we are bringing out. So naturally these are all the things that makes lot of difference in the market place when you go out and launch and the new creative will come and the new campaign will happen and without any of these things have grown about 12% and business will grow at 13% to 14% and that is what we are coming from and every quarter we have some development every quarter we need some of the initiatives, some of the innovations has to come out in the market place, which is happening now and that is good for FMCG to be in the market place which is light. This is extra I would say tailwinds for our growth and without this

we have grown 12% to 14%. With this we will be able to reach that each day is where we are coming from. Pril Tamarind should be a game changer in the market place because this will be available with our competitors who do not have tamarind at this point in time.

**Percy:**

My only question was that let say this quarter removing the Kerala impact you have to grow at 13%, 14% that is on a base of minus 1 for this quarter. Now if I go to Q3 or base is plus 13 so on that if you are going to do the same growth of 12%, 13% it means that base effects do not matter at all which is I mean very contrary to what we have seen as an analyst over the last several years that is big swings in base effects do matter and the reason is that if the underlying consumer level growth does not change materially then the primaries will have to shift according to the base unless you are saying that you believe that the underlying consumer demand itself is going to accelerate by 10, 12 percentage points then it is a different story.

**Management:**

Your second part is perfectly fine it is going to be a different story. Never in our experience we have gone through demonetization never in our experience we have gone with a GST never in the life we have gone through giving back to the consumer what the GST reduction has happened and every quarter there used to be a one disruption, but the good thing is what is happening at the consumption is picking up rural is doing well, MSP is in place, farmers are getting money, more or less on India the monsoon will be normal and also it is an election year, a lot of money has been spent on social sector, they are trying to create the job and we are seeing ourselves the off take in our company we are seeing the rural is far better than the urban. With this we are certain if the momentum continues. Like Kerala is also completely back now to normal and Kerala is assured that they will try to give us at least 50% share and sales is what is lost they will bring back before 31st of March. Let us see where we will go but it is better we go by quarter by quarter and we see this quarter and the December quarter if I grow by 12%, 13% then everything will be fine and a March generally we are always we do upward of 15% let us see how it works as long as I do Rs. 500 crores every quarter I am there with my guidance. For the year 2018-2019 12% to 14% topline growth, 16% to 17% EBITDA we are comfortable at this point in time despite a Kerala problem we are comfortable in achieving that. For that we have product launches and we also have market receiving our products and growth we are seeing, momentum we are seeing especially from rural area.

**Percy:**

Second question is on the household insecticide segment and this new incense stick category. Now what it seems is that this illegal incense stick is using a chemical which you yourself said is much more harmful but also much more effective in terms of killing mosquitoes, so do you think that the main reason for this success is the effectiveness that the consumers are seeing and since our product is not going to be as effective as the illegal product there might not be a seamless shift once this product is sort of banned. There might not be a seamless shift because they will see a difference in the effectiveness and secondly comparing the effectiveness of our incense stick to our coils also I do not know if this is the right thing because the coils burn continuously throughout the night. The incense stick will burn in a few minutes and then stop

emitting that molecule so I don't know if it makes sense to compare the effectiveness of the two products with the Maxo brand, so just your thoughts on these two points?

**Management:**

You are very clear I complete agree with you. Number one is that pesticides kill mosquitoes and actually we should not kill mosquito we should repel the mosquitoes. The business says mosquitoes repellent business we do only repel we should not kill it. If we can kill and actually if you really see that agarbatti which is available in Bombay market also does. Mosquito just fall in front of you within seconds that means how efficacious it is and there is not doubt and that is completely like consumers do not know about it. So number one is our effort our effort should be in interest of citizen and good corporate citizen, my job is to ensure that is banned because government do not know about it and it is not a small market it is now become a Rs. 600 crore market that is number two. Number two coil to agarbatti I agree eight hour, ten hour, twelve hour coil has no comparison for 10, 20 minutes of agarbatti. It is just that capital which is created people want temporarily they use it whoever are using that agarbatti they want to shift to another agarbatti we are already there. Like card is also now looking flattish or going negative we are there we should be there in the market place, but answer your question mosquito killing that is something which is very harmful and they are putting some of the test what they have done you would be surprise it is a 20% of pesticides. We are struggling to put 1%, 1.5%, 2% active they are putting 20%, it is poison and we have seen lot of children are going to the hospital. They do not know the reason why children are falling sick, people thinking that is pollution outside, but actually it is pollution inside. So in rural India it has become big problem then we will see how to solve it out, but it is a real major concern that is why we thought we should bring to the knowledge of our investors because that is a 31% of the coil and the way it is going 100% CAGR I am not yet surprised it might take over take coil in three year time. There is we are actually burning we know the pesticides with a poison in my household; let us see how it goes.

**Percy:**

Just one question I am curious why are these people launched this insecticide in the form of incense stick why did they not launch it the same thing in the form of coil?

**Management:**

So I can anecdotally answer you. There is a famous story about a farmer who got this pesticide used it on his field and discovered there are no mosquitoes around there because just before harvest, they sleep on their charpie next to the field to safeguard their crop. Now obviously somebody entrepreneurial amongst them all it require is agarbatti it is a cottage sector industry and which is just dipped in. If you take the way typically traditional agarbatti are you handhold the stuff in a bucket you keep the fragrance dip it and then turn it other way round and dry it. So somebody tried this out as a very simple manufacturing process. If you take coil is very complex. So somebody found it a very simple only needs a bucket and this stuff which you are buying for your field anyway and then it just kind of multiplied. So that is how it became I think what is very interesting if you ask this question was unlike the cards everyone has got one but nobody is using it and that is the real problem. Here it seems to found a very interesting place for itself in the household as the time of dusk or early dawn or in the angan to drive away

mosquitoes that is how it found a role for itself and that is how Nielsen is picking in such large numbers. We as a company believe it is our duty and Mr. Kamath has explained it is a duty to ensure we give safe products to the consumer keep them informed and we have used a lot of our R&D process and we are the first to launch a product which is unique in its kind made from purely natural ingredients which works. Now the question really it will not kill the mosquitoes but will repel them and it will be effective if consumer once realize the benefit of this product and that is the intention with which we launched it.

**Percy:** Is it similar to the card you said it is similar to coil in terms of effectiveness but is it similar to a card as well?

**Management:** No don't compare it. When I say similar to coil ineffectiveness but it goes to pre-empt the question saying if that is fenoxycarb it must be killing everything yes it kills reptiles and lizard or effective is it just to reassure you that it is no less than a coil which is what consumer use. The guide is a very different animal, different story fundamentally if you want to know what happened there it is our belief that look you liked it, it has gone in 30 seconds while we claim the effect is for two hours. The pursued effect of a card if you ask any housewife is only half an hour yeah it may be just perception. Whereas an incense stick itself stays lit for nearly 45 minutes and the effects should stay for at least three, four hours so there is a little bit of difference

**Moderator:** We have the next question from the line of Kausutabh Pawaskar from Share Khan. Please go ahead.

**Kausutabh Pawaskar:** Sir my question is on the gross margin this quarter we have seen 150 bps improvement in the gross margin and the other hand in your initial comments you have mentioned that increasing the crude prices and rupee depreciation it will have a burden on the margins, so this quarter is it mainly because of the mix or have you taken any price increase in your product portfolio, what really help the gross margin to improve because in Q1 we have seen dip in the margin on the comparable basis?

**Management:** For the current quarter there are two things. One is that a product mix is definitely better because mostly repellent business to that extent like I tried one is a product mix. The second one is when the input price is going up first we withdraw the consumer offer and when we withdraw the consumer offer our gross margin improve. So it is a mix of both. The price hike what that impact you will see in October to December quarter.

**Kausutabh Pawaskar:** So going ahead what is the call because we have seen substantial increase in the crude prices in the mid of the quarter two, so I think that impact would come with a land so should we expect margins to be a little bit on the lower side in the second half and whatever price increases you have taken will help to cushion up the margins.

**Management:** Whatever the price hike you have taken is good enough for us to maintain 17% EBITDA and about 45% of gross margin will be able to maintain that and having said that it is still a lot of consumer offtake the market place if you see it is a 20% extra it is 40% extra. So after the price hike what you have taken now the next will be wherever we can withdraw the consumer offers if at all if we are under pressure then we will withdraw the consumer offer but there would not be any more price hike now going forward, but we will be able to maintain with the price hike what you have taken we will be able to maintain 17% EBITDA for our quarter December.

**Kausutabh Pawaskar:** Sir coming back to the incense stick question you have to launch the product and obviously it is doing good the overall category itself is growing because it has a low base, but the margins in this space will be lower and with coils will it have impact on your overall margins of the household insecticide business?

**Management:** Margin in agarbatti is far better than whitener and easy to manufacture, easy to transport and it is very easy. So the margin wise it will be effective for us in household insecticides.

**Kausutabh Pawaskar:** And about liquid vaporizer what exactly is happening because seasonality is the one factor, but we have seen even market share a little bit on lower side, so is competition really hurting you or is there anything else?

**Management:** I will just clarify the market share question. If you see last quarter we have a 250 bps increase in market share. As I said it went from 6.4% to 8.6% you are seeing a slight correction by Nielsen to 7.7% which is fine it happens overall between 8.6% and 7.7% we are way above every in the March 6.4%. So that market share if any and I also spoke whether our market share is driven by innovation which is a genius combi machine which is a premium machine that are premium to the market leader and that is doing very well we are getting good growth. So I would not say any stress on that we are in the right direction and we have a more innovations coming up. I think your other question is what the reason for the decline per se I do not think the incense stick impact has such a price point impact on the LV market in anyways. It is seasonality. So that part of the business we know that if there are no mosquitoes, the mosquitoes season never came and I am not going to detail about the season the temperature etcetera we follow that closely and as a consequence the category per se has seen drop in consumption and that is really what explains your liquid vaporizer overall if you see over two quarters we assume some selling in the earlier quarter is still down, but not as down what we were in the quarter. So overall first half on LV we are down and it is really the season which is not coming.

**Moderator:** The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** So the commentary on rural pick up this time across companies has not been secular so just wanted to know of the recovery that you have witnessing in your number is it sustainable or you just witnessed for this quarter alone.

**Management:** See I can't comment on the other feedback and I am sure they have experienced what they have experienced. We are going there what we are observing. We have a channel which feeds the rural markets that is the rural market strategy and the way we have been seeing significant growth that is one way we track in. The second way we track it we have certain SKU which we do not go into the rural market in some Nielsen consumption numbers and then we look at our own internal number so whether it is a Rs. 5, Rs. 10 packs etcetera and again we are seeing good traction over there. So combined basis these two we believe that the rural pick up should continue positively. We also believe that with a lot of interventions going on in all the right things which Mr. Kamath has mentioned when he spoke. All of this should see enough money in the hands of the rural consumer which will help drive this growth that is where our beliefs come from.

**Tejas Shah:** Sir where do we stand on our guidance for the full year on growth margins now?

**Management:** 12% to 14% for the top line and EBITDA at 17%. We continue to hold that guidance for the current year.

**Tejas Shah:** And what is the mix of volume in this top line guidance?

**Management:** Probably I would say 7% to 8% would be volume and rest will be value.

**Moderator:** The next question is from the line of Amit Purohit from CGS CIMB.

**Amit Purohit:** Sir from the margin side when I look at segmental margins the dish wash and fabric care has witnessed some subdued growth in terms of the EBIT growth. There is the growth largely in the EBIT has come from the household and the personal care segment and there is a gross margin expansion. So I mean I am probably not able to understand how the gross margin expansion happens can you please clarify to get a better understanding of this?

**Management:** Generally gross margin as Mr. Kamath explain it is a function of the product mix what we have. The personal care obviously has a decent share with us and the second is on the consumer offers. If the consumer offer has been reduced on fabric care and those categories, so that indirectly help in your gross margin.

**Amit Purohit:** And the EBIT has declined actually if consumers offers have reduced in fabric care actually decline Y-O-Y by 12%

**Management:** So if you look at personal care specifically where there are products where prices are going up, there are products where the prices are coming down. So in personal care prices have been soft. So there we are getting the advantage of input price also.

**Amit Purohit:** So I am saying from fabric care perspective I want to understand that when the EBIT has declined by 12%, but we have seen a gross margin expansion and we have a flat kind of ad spends.

**Management:** Will you just explain which numbers you are looking at?

**Moderator:** We have the next question is from the line of Mehul Desai from IDFC Securities. Please go ahead.

**Hareet:** Hi this is Hareet from IDFC. Just two, three questions. Firstly what is the weighted average price increase if you would have taken in the portfolio may be you can add even consumer offers or ex consumer offers however you want to give it?

**Management:** So if you look at our detergent portfolio it is in the region of 7% that is the weighted average price increase that we have taken. As Sanjay had mentioned in toilet soap there is no impact, but if anything we are seeing a downward pressure on prices.

**Hareet:** So the key price increase for the portfolio is only detergents for now?

**Management:** So when I say detergent wherever surfactants are used.

**Hareet:** I think I missed the comment about ex Kerala impact what the growth would have been for the quarter we are at about 7% for the overall growth and at about 4.5% volume growth, what would had Kerala been normal for the quarter have we done that?

**Management:** So 15, that is the number that I Percy shared when he was online online he has done the Math. So we talked about 25 crore to 30 crore kind of dip which we lost and that is what adds up to that.

**Hareet:** Rs.25 crores to Rs.30 crores dip is it because of the Kerala piece. Third thing was the incense stick was that did we need a separate approval for this launch since it is a product that the national players have not really kind of dwelled into, so did we need a separate approval from a government body for this same way as you need for any new.....?

**Management:** I can tell you that first we do not use any molecule that has chemical in nature so it does not go to central insecticides board for clearance which is the body that clears any household insecticides so there is no clearance required. Having said that as a company like us the brand is registered and whatever turnover we get we pay GST to the government of India which none of the others pay. Answer is yes you do not need clearance, but we are GST compliant obviously which the others are not. They do not go to the CIB with a molecule which is harmful but they also do not pay GST.

**Moderator:** The next question is from the line of Anubhav from AMC Research. Please go ahead.

**Anubhav:** I have two, three questions one is on the fabric care segment, sir can you give us sense on how is the raw material dwelling down Q-O-Q basis or Y-O-Y basis and when was the last time we took the bright side I mean other than this 6% 7% weighted of the price hike we have taken this quarter before this when was the last time we had taken the price?

**Management:** So the crude prices are going up crude derivatives is surfactant and that is the major input into your detergent and that is only in the same ballpark which I mentioned around 7% so we have done that calculation very carefully and accordingly taken our price increase in detergent. So I think your second question is it would be actually drop prices post GST complying with the governments requirements and what they have directed us. So we have actually dropped prices as you are aware and now with these crude prices increasing we are increasing.

**Anubhav:** Sir on half the insecticides the segmental socket has increased 55:55, is it really because of the product mix what is the commentary on that?

**Management:** You have to repeat your question I think.

**Anubhav:** So the segmental operating profit for household insecticides has improved in a good way. So is it mainly because of product mix or is there anything else do you want to comment?

**Management:** It is a product mix.

**Anubhav:** Sir my last question is on the distribution mix how much it now stands for wholesale and is the offtake from wholesale will be back to normalcy as it was before demon how do you see it?

**Management:** We shared the number with you. We are about 35% to 40% is our wholesale throughput at a national level and we had disruption through demonetization subsequently through GST, more or less they have come back on lines Obviously there will be some pockets where they moved on or the business is down, but also in the meantime you must remember a lot of us have done coverage improvements in a lot of places which automatically brings down your wholesale throughput. So I would say a very simple summary is that the component remains roughly 35%, 40% in some part a little bit of the wholesale market may have come down, but overall the wholesale is operating normally across India.

**Moderator:** The next question is from the Suraj Navandar from Prithvi Finmart. Please go ahead.

**Suraj Navandar:** So what is your capacity utilization for the plants. As you have mentioned that you are targeting 15% growth, so do we need to do any CAPEX for that or we already have the capacity with us?

**Management:** Our existing installed capacity is about 55% and we do not have any major CAPEX as such, but Rs. 20 crores, Rs. 25 crore annual maintenance CAPEX always we will have it.



**Suraj Navandar:** So what is in terms of actual numbers what is your revenue contribution from Ujala detergent and Crisp and Shine?

**Management:** We don't want to give the breakup, earlier we used to give breakup but because of the competitive scenario right now we are not giving the breakup of Ujala and Crisp and Shine and other mix in that, but overall as a category we have grown by 7% despite of the fact that Kerala has not done well for almost one month. So that is the growth what we are seeing.

**Suraj Navandar:** So when are you planning to go nationwide for these two brands?

**Management:** Right now till 31st of March we will stay where we are and probably next year we will try to go beyond Kerala and Tamil Naidu. My plan for Andhra and Karnataka they are first place expansion and then we will see based on the success we will go to other places.

**Suraj Navandar:** About the new product can you please tell in which segment are you planning new products?

**Management:** New products obviously as Mr. Kamath mentioned for corporate reason I cannot tell you what you are going to do two years ahead or eight quarters ahead, but certainly what I spoke about is the new revolutionary innovation, something which dish wash has not seen which is your Pril Tamarind. It has suspended micro scrubbers in it which give you superior de-greasing so that innovation which we think is significant. We have a continuing desire to innovate with the success in genius combi. Our agarbatti is a very major innovation which I spoke about at some length. There are lots of question, but we have every intention to make it a success. Similarly you will see actions in different parts of our business and we have a funnel that extends all the way four to eight quarters out.

**Suraj Navandar:** Sir are you planning to add a new segment to your business I mean in terms of your new product launches are you planning to do in these four segments only or are you looking at any new segment?

**Management:** Like any business we have launched product in adjacent categories you know about the Ujala Crisp and Shine in Kerala which is being tested. We are a strong home care company and we will keep looking at adjacent series over here, but are we going to do something fundamentally different. We will stick to the existing products and innovate around that.

**Suraj Navandar:** And you feel that 70% EBITDA margin is sustainable right for this complete year?

**Management:** Yeah so far we have sustained and hopefully we will sustain and we are doing everything what is required to sustain 16% to 17% EBITDA.

**Suraj Navandar:** Sir the price hike that you have taken so till what price of the crude so you feel that it would not hamper your margins like if crude prices tomorrow moves to \$90 so will that hamper your margins or you are okay with 85 or 88, what is that number till then you are okay?

**Management:** It is about 73 for a rupee the dollar and about \$80 for crude. We are covered.

**Suraj Navandar:** Like in last week the crude prices are falling sharply like \$10, \$11 for barrel so do you reverse your price cuts or you keep it as it is and that will add to your margins or what?

**Management:** Generally, most of the vendors who make arrangement we will have a soft commitment till the quarter end. So up and down overnight it will not impact us both positive also and negative also. I am more interested in the negative impact it will have on us so generally we will have a soft coverage till the quarter end. So any major impact we are trying to revise the vendor contract for the coming quarter not in this quarter. So till December I am wholly covered and for Jan to March we will see how others are increasing or decreasing the price based on that we will also take the decision.

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

**Ullas Kamath:** Thank you friends if you have any follow up question you can always get in touch with Sanjay Agarwal or me we are always available to all of you for any of your follow up questions and we have enjoyed talking to all of you and thank you for your active participation.

**Moderator:** Thank you. On behalf of Jyothy Laboratories Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.