"Jyothy Laboratories Q2 FY15 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY15 earnings conference call of Jyothi Laboratories Limited. Today, we have with us from the management Mr. M. P. Ramachandran – Chairman & Managing Director, Mr. Ullas Kamath – Joint Managing Director and Mr. S. Raghunandan – Chief Executive Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ramachandran. Thank you and over to you Sir.

M. P. Ramachandran: Good Evening friends. Welcome to our earnings call to discuss our performance during the second quarter of FY15. Mr. Ullas Kamath - Joint MD and Mr. Raghunandan - CEO will answer all your queries. Now I handover to Mr.Ullas Kamath. Thank you.

Ullas Kamath: Good Evening friends. You must have gone through the detailed presentation shared by us. Just to summarize the highlights, Net Sales has gone up by 16.2% YoY, Net Profit has gone up by 89.9% YoY and operating margin is at 10.76% as against 12.1% during the same period last year. EPS is at Rs.1.39 for the quarter as against Rs.0.8 same period last year. Overall, for the first half of the year, Net Sales is at Rs.752.81 crores, up 16% YoY.

Now, I will request Raghu to take you through the presentation. Post that we will take your questions. Thank you.

S Raghunandan: Good Evening ladies and gentlemen. I will be taking you through the results for this quarter and for the first half of FY15. Like always, I request everyone to focus on the consolidated P&L statement instead of standalone. Our revenue growth for the quarter was 16.2% and for H1FY15 was also 16%. What is enlightening in this quarter and also H1 is that there is an amazing consistency in terms of growth rates between the first quarter and the second quarter. And I must say that our second quarter performance was better than the first quarter because this revenue growth of 16.2% has happened in spite of a very weak mosquito repellent quarter for us. As you must be aware, the category has not grown in Q2. Our growth rate in Maxo has also been lower in Q2FY15 as compared to what we delivered in Q1FY15. So if you look at other lines in the P&L, our gross margins have actually dropped marginally by about 1%, mainly because of a small mix effect in the business.

Inflation has cooled down but it is yet to translate into results for us because of our forward contracts. We can see further improvement in gross margins, partly in December quarter and probably fully in March quarter. The management is making full efforts to make sure that our margins improve and it will definitely start reflecting from the coming quarter onwards. So except for a 1% drop in gross margin, you can see that our overheads have been very tightly held and there are scale advantages which have accrued for us for the overall business in this year as well as in this quarter. And these scale advantages are being ploughed back into advertisement and sales promotion. Our A&P spends during the quarter has gone up by more than 45%. You would be aware that we had re-launched Henko during the quarter and therefore the advertising spends on Henko was at an all-time high during the quarter. In this quarter, you can see that A&P spends to sales was slightly higher at 12.6%. But overall when you look at first half spends on A&P, we are still broadly in the range which we had guided. Moving forward, you have to look at A&P spends as guidance for the full year rather than quarter-on-quarter. You can see that even other expenditure as well as employee cost have been tightened and not moved in line with sales. So all these benefits were utilized to grow in the tough economic environment. Our margins have dropped in the quarter from 12.1% to 10.7%. But overall if you look at H1FY15, EBITDA margins is at 12.1% which is exactly in line with the guidance that we had given. This marginal drop in EBITDA during the quarter is to be seen more as an aberration because of the launch expenditure that we had incurred in this quarter.

The other point just below EBITDA is on employee stock options. We have stabilized and worked on new management team for Jyothy Labs and all the employees have contributed significantly to improve the efficiency and growth of this company. Hence to reward the senior management team, there is an employee stock option which has been given to 11 other members of the senior management team and performance metrics have been set for all of them. They have an option which will vest over the next three years.

Depreciation and impairment has gone up in line with the new Companies Act. You can see that impact on the P&L.

We have grown significantly at a PBT and PAT level. During Q2FY15, our PAT was at Rs.25 crores and for H1FY15 it is at Rs.68 crores. The growth in this quarter is far higher than what we had in Q1.

Business is delivering and if you look at the highlights which are there in the next chart, in the sales growth of 16.2%, 9% has come through volume and 7% by value. The advertising and sales promotion is at Rs.46 crores, an increase of 49%. The A&P to sales ratio is high at 12.6%. Gross margin stands at 48%, which is a 1% drop over the same quarter last year. Operating EBITDA is at Rs.39.5 crores which is a nominal growth over last year. So broadly these are the highlights for the business in this quarter.

If you come to the next slide which is more on operating EBITDA analysis, you can see that the drop in EBITDA is mainly because of some reduction in gross margin and higher expenditure on A&P. But overall the last line reflects the scale advantages that the business has got. We have been able to manage savings in other expenses to the tune of 2.1%.

Coming to the next slide which shows the breakup of consolidated EBITDA, you can see that the losses on the subsidiaries are nominal. JFSL losses have been capped and maintained at the same level as the last quarter and overall you can see the breakup of EBITDA from 41 crores to 39 crores. So there is not much impact of subsidiaries on EBITDA during the quarter and we expect that this will be the trend going forward in the future as well.

The next slide is broadly talking about the consolidated EBITDA movement which I have already discussed. EBITDA drops have happened because of higher A&P spends and also a slightly lower gross margin and the gross margin hit has been offset by savings in other expenses and the overheads being capped well. So broadly if you consider these issues, then the EBITDA drop is largely because of investment into brand building and nothing else.

The next slide gives the details of our segmental performance. We have grown our soaps and detergent business by 20%, very similar to the way in which we grew in the first quarter. The only drop in this quarter was in our Home Care segment which includes Maxo, incense sticks and scrubber. Majority of the Home Care business comes from Maxo and you can see that the growth in this quarter on Home Care is just about 3%. Our laundry services business has also grown faster in this quarter at 17% as compared to a low single digit the growth in Q1FY15.

The next slide which we have started giving from the last quarter is the category wise consolidated sales picture. You can see that in Q2FY15, most of the categories have grown in double digits. Fabric Care by 15%, Dish Wash by 17%, Personal Care by 40% and other products by 17%. The only segment that reported single digit growth was Mosquito Repellent, which grew only by 5%. Hence if you see, the significant difference between Q1 & Q2 of this year was in our Mosquito Repellent and Personal Care businesses. The only significant difference between Q1 and Q2 is that we had higher Personal Care business in this quarter as compared to the last quarter and in Q2 our repellent business was much lower compared to Q1. During Q1FY15, we had mentioned that we avoided consumer promotions in Margo because of higher inflation and higher prices. You can see that the growths bounced back in Personal Care in Margo in this quarter and we have delivered very strong growth in Personal Care in this quarter. So to summarize the chart, basically all brands are doing well. The only setback for us in this quarter was our Mosquito Repellent business which is temporary. We hope that the season will set in very strongly going forward and we will register growth in it.

The next slide is on our picture on South vis-a-vis non-South. You can see that our business has continued to improve in the non-South regions. And in the first half, we have improved the non-South business by 2% points moving from 57% during last year to 59% in the first half of this year. So we are well and truly investing behind the business to make sure that the non-South portion of the business continues to grow faster than the South. So again that is good news for us.

The next section highlights some of the business initiatives and brand updates for the quarter. For Ujala, with our new strategy of anti-yellowing we had invested around Rs.8 crores on media in H1FY15 versus Rs. 13 crores during H1FY14. We have realized that in order to grow the category, Ujala needs more investments and hence we have to invest more in Ujala. Therefore there is a comprehensive double digit growth plan being prepared which we will implement starting from the next quarter on Ujala. And also in Kerala, we have a very successful product Stiff & Shine which we expect to generate revenue close to Rs.50 crores in FY15. We are also looking at extending the product into at least one more market in the next one or two quarters and based on our test results. We will probably roll it out nationally going forward.

Coming to Exo, we have been doing well on Dish Wash as a category and we had restaged the brand with a strong celebrity campaign. We are continuing with our strategy of positioning the brand on an antibacterial platform and we continue to grow Exo business. Exo has grown 17% in this quarter. Exo's June quarter growth was much higher and we have a lot of plans in the second half to improve our bar contributions because even today 70% of our revenues come from Exo Round and only 30% of revenues come from the bar. The market however is otherwise; 85% of the Dish Wash market is bars and we are hugely underweighted when compared to industry. Therefore in the next six months we are have a strategy of significantly investing behind improving our bar contributions. So therefore going ahead, we expect strong growth on Exo Dish Wash Bar. We have also launched new Exo Liquid, again on the antibacterial platform. We have shared the images in the presentation. We did launch it only in Southern part of India in the month of September. We believe that with strong brand equity of Exo in South, we would be able to grow Exo Liquid as well in the Southern parts of India.

Continuing with Dish Wash, we had another excellent quarter in Pril Dish Wash Liquid. We re-launched Pril with much better formulation than before and we also launched Pril Kraft-Gel, another variant. We got an excellent response to Pril Kraft-Gel in the market place and we have rolled out the new campaign for Pril for the first time. Overall Pril Liquid grew by more than 20% in this quarter. And as a brand, we grew by 17% in this quarter. That is the good news on Pril.

The next brand which we are talking about is Margo. We witnessed an excellent growth in Margo. In this quarter, we grew the brand by 48% and volume growth was 37%. We hope to sustain Margo's growth rates going forward. Margo is a very important and differentiated brand in our portfolio. We will put more media investments behind Margo going forward. We will also look at significant contemporization and upgradation Margo's image in the next summer season and are getting prepared for a massive re-launch of Margo soap brand. In addition to that, we are also leveraging on Margo's as brand equity. Very recently, we launched Margo face wash in two variants; one is the original Neem and the other is Neem& Saffron variant. So we believe that Margo with its strong anti-bacterial positioning and the Neem platform, the product will help us carve out a reasonable market share in the competitive face wash segment. So we have got an excellent product in the market and our differentiation is that it acts on acme bacteria in 30 seconds.

The next brand that we will discuss about is Henko. All of you would have seen our new Henko ads on Henko LINTelligent, which is washing machine ad with Madhuri Dixit and subsequently we also had another ad highlighting our bucket wash variant of Henko. It has been about three months since the launch of product in the market place. We have done a lot of activities on Henko. We have spent money on television, print and even on social media platforms. We have also invested significantly behind getting our visibility rights in A-class outlets and also in modern trade outlets. So we have put in significant efforts on the re-launch of Henko and we are very happy that we have got the product right. We have got the packaging and messaging right. The consumers who have tried our product are extremely happy with the product. Going forward, we need to continue investing behind Henko both from a marketing as well as distribution standpoints. We see a lot of potential behind Henko. We truly believe that we have got a great product in the market place, a highly differentiated one from main stream competition and also got excellent consumer endorsements from consumers who have actually tried and used the product and have remained with Henko. We have found that the level of consumer satisfaction is considerably high. We have interviewed many of them and we have found almost all of them saying that they will continue with Henko brand. We have grown this business by about 39% during the quarter. Yet we have a long way to go and we will have to sustain growth rates going forward. We also had an old Henko Stain Champion range that was the flagship range of Henko before we launched the Henko LINTelligent range in the market place. We have now changed the packaging and the same is also hitting the market. So we will continue to focus on Henko Stain Champion which is the older franchise of Henko in addition to putting a lot of efforts behind our new LINTelligent range. The next slide gives an idea about some of the brand visibility that we had done on the shelf. We had done a key outlet display across the country and managed to attract consumers to our Matic range. Our realization was that we need to invest more behind our bucket wash range, in terms of making consumers more aware and we are confident that Henko will make difference eventually in this category. So that is Henko for you.

The other brand is Maxo which didn't do well in this quarter. Our coils growth remained flat in this quarter after many quarters of growth. Our liquid vaporizers grew 24% in this quarter. Overall growth was very modest for the brand. We did mention about a new innovation on liquid vaporizer which will be launched in the market by the end of next quarter. If the season turns good for us, we will have strong growth in Maxo during the coming year. So that is basically our brand snapshot and the summary.

To summarize, it has been an excellent quarter as far as brand growth is concerned, one more quarter of sustained and predictable growth. We have managed to grow almost all our brands healthily and are confident that we will be able to grow them much better in the coming quarters. Only the seasonal impact in this quarter set us back a little bit, but otherwise are very confident that business will improve not only in terms of revenues but also in terms of margin growth. The worst is behind us as far as inflation is concerned. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is on gross margins. Firstly, on what you have reported this quarter, you attributed it to product mix. However, Personal Care growth is very strong and quite weak growth in Household Insecticides, which is low margin business. So I would have thought that these two would have offset probably slightly lower growth in Ujala. So that is one part of the question. The second part is, with input prices of most commodities coming down how do you see that impacting your gross margins going ahead? Also which are the main inputs? What extent of sort of benefit do you expect to come through?

S Raghunandan: Actually, you asked a very good question. Yes, we had a lower Maxo growth. We also had high Margo growth and in spite of that there has been a gross margin hit of 1% on the P&L. This has happened because our margins on Margo were not very strong in this quarter. The PFAD prices, which is palm oil linked, were at an all-time high when we bought. The prices were almost 30%-35% more than the current price. Hence even though we had a very good growth on Margo, our margins got hit because of our forward contracts. The situation looks very promising for the quarter ahead. Number two, we have started manufacturing Margo in our factory in Pondicherry and lot of business comes from the Eastern part of the country. So there were higher freight costs which also offset whatever advantages we could get. So, most of the issues behind the margin drop in Margo is temporary. It happened only for us in the first half of this financial year. Going forward, we have sorted out most of these issues. So you will see a positive impact on gross margins as we move ahead. And you are right, that the slower growth of Ujala should have got offset and it will get offset going forward in the future.

Your second question was on raw materials. Apart from palm oil linked raw material, we have also seen some softening of rates on other key raw materials of detergents. There were some drops which we had in the last one or two months and therefore packaging prices also are expected to come down which has not happened so far. It takes two to three months for the suppliers to re-adjust prices and one or two months for us to start reflecting it in our P&Ls because of forward bookings. But we hope that packaging material reduction as well as LAB prices will help us improve our margins, on all products of our portfolio. So overall we do expect 1-2% improvement in gross margins, which may not happen immediately in the next quarter but it should start reflecting in the quarter after that.

Percy Panthaki: Noted Sir. What was growth rate for Ujala during the quarter?

S Raghunandan: As a brand, we grew by 6%.

Percy Panthaki: And Sir one question on ESOP grant. What is the price at which the ESOPs have been granted?

Ullas Kamath At Rs. 1 exercise price.

Percy Panthaki: Therefore the additional charge of around Rs. 60 million, will this continue for next 10-12 quarters?

Neetu Kashiramka: In year one, the charge will be higher because we have to account for year 2 and year 3 vest also. So for year 2 vest, you have to account 50% now and for year 3 vest you have to account one-third. So overall, first year charge is close to 70%, it will come down going forward.

Percy Panthaki: SO how much will be the charge for FY15?

Neetu Kashiramka: For the whole year, the charge will be 30 crores.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on Margo. Excellent quarter but obviously these are early days. But if you could tell us about the long-term growth plans? Also, how bullish are you on Margo facewash given that it has an excellent positioning wherein it can get that herbal platform.

S Raghunandan: Margo is one of the strongest brands in our portfolio and after Ujala, it is clearly the strongest brand that we have in the portfolio. We believe that we can grow this brand; soaps business by at least 20% going forward. One of the issues with Margo is basically we need to sink in with today's youth. We have tried doing it bit in our last communication and it has given us good results over the last two years. But we believe that we need to do more work around Margo in terms of making the brand resonate with today's youth and therefore you will see a new strategy and communication on the brand coming forward in March quarter. So we are getting ready for this season and I am personally very confident that with this new strategy in place, we should be able to rub up growths on Margo significantly going forward. We need to get growth rates on this brand. It is very possible and we are very much hopeful. So that is the confidence that we have on this brand.

As far as face wash is concerned, we launched it after the summer season and we have done one round of advertising now. We need to invest behind the face wash as a category. It is a growing category in Personal Care growing at 15%-20%, but it has also attracted a lot of players in this market. So we need to invest heavily behind Margo face wash and we are confident that this product will do well because again it is a great product that we have on the table for consumers. The Neem based face wash is around Rs.600 crores and we believe that by investing heavily behind face wash, we should get at least 3%-4% share in year one.

Abneesh Roy: Sir one follow-up on that. You mentioned that lots of players are entering the face wash segment. So will it go the deo way? Wherein almost every conceivable MNC and domestic player is there and there is very little differentiation and very high advertising costs. Hence the margins are going for a toss. Is there not very high risk in this category?

S Raghunandan: You are right, there are too many players. But as a category, Personal Care is a very high involvement business and getting into consumer mindsets is not so easy. Deodorant as a category on the contrary, is little more flirtatious and people want to try different fragrances. In case of face wash, consumer tends to be very loyal. The problem is opposite. The loyalty levels in face wash is much higher and particularly high in the Neem face wash segment. The issue for us is getting into the consumer minds and if they try the product, we are very confident that they will stick to it. Hence if we invest behind, and with Margo's equity on Neem if we can get consumers to try our brand, then we have a much better chance of success in this category is what I believe. But it is not something which will happen immediately. It is a very profitable category. So if we can get our act right on face wash, it is like building any other brand in Personal Care.

Abneesh Roy: My next question is on Dish Wash business. You said in Exo, the key driver will be bar. So how does that help the company, especially in terms of margins? Second is in South India, now you have liquid both in Pril and Exo. So how you are creating differentiation?

S Raghunandan: The margin on the bar is higher than that on the round. So bar is not only a larger market for Dish Wash but also more profitable part of the segment. So for us, both from a margin point of view and from a business point of view, it makes a lot of sense for us to improve our presence in bar market.

Abneesh Roy: Sir, why is that so? Why margins are so different?

S Raghunandan: Because the way we sell round is completely different. We have a scrubber in it, which is free. In addition to that, there is a container cost. And when you look at the bars, it is only a wrapper cost. Also weight wise, they are not very different. Hence if you do the calculation you will understand that the bar market is much more profitable and therefore it makes a lot of sense for us to improve our presence in the bar segment. I hope I answered you.

As far as Exo Liquid is concerned, we have not launched it pan India. We have launched it only in Exo strong market which is South. Both bar and liquid are positioned on antibacterial platform. Basically we are talking about killing pests in the kitchen and both have similar properties. So from a positioning point of view, both the bar and liquid stand on the same antibacterial platform and therefore quite differentiated from Pril. If you see there is a Pril consumer, there is a Dettol consumer as well.

Abneesh Roy: Sir one follow up on Exo. The round one was supposed to be our USP. So would you say that now it has served its purpose? As we have a respectable share, does it make sense to attack the main one, the bars?

S Raghunandan: You are right. There is no doubt in that, but I am saying we do not want the shape of the container and the shape of the product to be a differentiator. Yes, it has given us a very good entry point in terms of differentiation, but the differentiation should be that we are an antibacterial brand. If we are able to successfully differentiate our product based on an antibacterial brand, then the consumer should be indifferent to buying a round or bar and the whole effort is around strengthening the position of the brand. So if we invest more, then we will gradually strengthen the position. Yes, our entry point differentiation was the round, but we do not want it to remain like that in going forward in the future. We want consumers to recognize us saying that we provide better pest control in the kitchen. And then if it is a bar consumer, we want to take a greater share of that market. We will continue to build the round because it is a differentiation which works well in larger urban metropolitan markets, but the bar market is more in middle town, smaller towns kind of a market. And therefore entering there with a unique proposition on bar will help us strengthen our position there as well.

Moderator: Thank you. The next question is from the line of Rahul S from Geojit BNP Paribas. Please go ahead.

Rahul S: Thanks for taking my question. My question is on Margo. What is the EBITDA margin profile of this product and Personal Care?

S Raghunandan: As I told you, our current year results of the Personal Care business is slightly above our weighted average gross margins. Our weighted average gross margin is 47-48 and this is marginally above that in this year. But going forward, the situation could be completely different. I had tried to explain that we have had an unusual year in terms of Personal Care profitability.

Rahul S: At a margin EBITDA level, could you give an idea?

S Raghunandan: For brands, we normally discuss gross contributions and net contributions.

Rahul S: Sure.

S Raghunandan: The net contribution of Margo is much higher than our weighted average margin because we have not invested so much money behind Margo in terms of A&P in the past. So at a net contribution level, it is way above our weighted average in net contribution.

Rahul S: And your FY15 target on advertisement spends. I think you had mentioned that it will be around 12% last time. Does it still remain the same for the year and for 16?

S Raghunandan: Yes, we will continue to invest in A&P. If we maintain our A&P spends, we will see growth in EBITDA as well going forward because gross margin situation is going to improve in the coming quarters.

Rahul S: With regards to tax rate, will there be an effective rate for FY15? Or are we still under MAT?

Neetu Kashiramka: For the current year 2015, we will be in MAT.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Just two questions, on the brand first. You reported in the presentation that Henko Stain Champion has also grown at 39%. This is before the restage. I just wanted to understand what has happened on that brand.

S Raghunandan: Nothing much. It is all overall brand recall, I guess.

Harit Kapoor: Anything which you have done specifically on Stain Champion along with Henko Matic in the quarter?

S Raghunandan: No, as of now it is only new packaging which has hit the market recently. We have not done anything else apart from a new packaging in the market place on Henko Stain Champion.

Harit Kapoor: On Margo, last quarter you said that there was an impact because of lower promotion. So I just wanted to understand that 48% growth has been more because of increased primary sales or there have been higher promotions? Any geography which was done far better than the other? If you could just break up, where this 48% kind of a number is coming from?

S Raghunandan: The best way to understand it is look at half year growth because we had withdrawn consumer promotion because of higher raw material prices and that is why our first quarter business was a little muted. We used to sell in bundle pack which is a non-source business. So we avoided the bundle pack from Q1 and because of this the pipeline in the trade would have come down. This is what we had mentioned last quarter and that has paid off exactly the way we predicted. We got good growth in Margo in this quarter. There is no increase in pipeline, if you are asking me. But having said that, you look at the first half growths on Margo and we are confident that this year we will deliver at least 20% growth on Margo.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Mr.Raghunandan's term is extended till May 2017. Is the board satisfied with the extension or more time would have been encouraging?

Ullas Kamath: The board is extremely happy the way he has performed and that is why it has been extended till 2017. Also ESOP grants which has been given to all the senior management team including Raghunandan is our way of recognizing their work.

Girish Raj: So in the meanwhile, is there a succession plan in place?

Ullas Kamath: I think this cannot be a part of this call. You can discuss on the quarterly numbers.

Girish Raj: But is there a strategy?

Ullas Kamath: Absolutely. A company which is running for last 30 years, it will definitely have a succession plan. In the last 2 years, if you see, a lot of things have been done. I do not think that we can discuss it on analysts call because lot of people listening to the call today. So we will not be able to discuss on that on analysts call.

Girish Raj: Thank you very much. So the question on Henko. We did the re-launch Q1FY15. How many incremental cities did we re-launch in Q2?

S Raghunandan: When we launched it in June'14, it was launched in (+10) lakh towns. In Q2, we launched it in all the towns between 1 lakh to 10 lakh. In August and September, we launched it nationally

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Sir my question again pertains to Exo Round. As you explained that you are focusing on bars. Does it mean that round will be sold only in Tier-I cities or urban markets and bars in mid town and other cities and going ahead?

S Raghunandan: Not at all. Exo round is our differentiation. We continue to grow round. We do not think that we have saturated our round business. Please understand that round is a monthly pack. So when consumer has to pay Rs. 42 at one go and buy a monthly pack. Therefore the round business has a higher limit outlay and therefore the round sells much more in 5 lakh population plus towns. As the population goes up, the prosperity level increases and you will find that our round business also increases. But you must understand that the bar sells across the market. Even in Bombay city, you will see that 70% of all sales happen in bars. So round is not something that we have saturated in terms of opportunity. Round will continue to grow for us because that is unique and differentiated as far as the brand is concerned.

Kaustubh Pawaskar: Sir, thanks for the explanation. My second question is on the Exo Liquid which has been launched. What is the strategy behind it? Because you already have Pril in the market and it is doing good business for you.

S Raghunandan: There are different consumer positions in the market place. So Pril stands for the best ever grease in all. Exo stands for antibacterial clean. These are two different propositions in the market place and we believe that cannibalization between these segments will not be too high.

Kaustubh Pawaskar: Beyond the antibacterial thing, is there any price differentiation?

S Raghunandan: No, not much.

Kaustubh Pawaskar: Sir my last question is on the operating margins. You mentioned that the gross margins are likely to improve going ahead, partially because of you getting the benefits of the decline in the raw material prices. In quarter 3 and quarter 4, you will be getting full benefits. So this increase in the gross margins would directly flow into the operating margins or you would further try to enhance your advertisement spends?

S Raghunandan: As of now, it should flow into operating margins.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from Trust Capital. Please go ahead.

Naveen Trivedi: My question is regarding our laundry business. This quarter we reported 17% growth. Which all initiatives basically attributed to this strong growth and what is your guidance, in terms of the growth and the profits going ahead?

Ullas Kamath: The growth has come from all the sectors, both institutional and retail. We are doing extremely well in Ahmedabad, with railways order, because we have the biggest boot provider, which is built, own, operate and transfer the project. We are washing 16 tonnes every day. That is one of the growth drivers for us. And going forward, our entire objective is to make it EBITDA positive by March quarter and bring in lot of efficiencies. We do not foresee any major expansion plans in the near future, at least for a quarter or two. But once we are EBITDA positive, we will go slowly expand because we get huge scale advantage. We have four retail outlets across the country and we are the biggest laundry provider in the country today. This scale advantage which we have should add sufficient profits to the company.

Naveen Trivedi: Could you please give us the breakup between the retail and the institutional mix?

Ullas Kamath: Volume wise, 70% will be the institutional and revenue wise, retail will be 70%.

Naveen Trivedi: So you are saying operating leverage benefit will be there from next year onwards?

Ullas Kamath: Yes.

Naveen Trivedi: Within the same platform, how will you get the operating leverage?

Ullas Kamath: For example, in Bangalore I can wash 30,000 retail pieces. As of now, our sale is about 10,000 pieces a day. So it is the same factory, same people, same retail outlet, and same household as long as I can wash more it will translate into my EBITDA margins. It is the same case with Delhi or Bombay or Ahmedabad.

Naveen Trivedi: So anything to push more for the retail thing, where margins are also higher?

Ullas Kamath: We are working on a campaign which will start from the March quarter. We need to have some marketing push for that. But at this point in time, our whole focus is to make it EBITDA positive for us and then build the brand and go to other cities if required.

Naveen Trivedi: Sir one last question on the laundry business. In next two to three years, what is the possible or scalable margin that you expect from this business?

Ullas Kamath: It is a business of 20%-25% EBITDA margin. Within the cities where we are available now, we can build the topline of about 200 crores in next three to four years.

Moderator: Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Securities. Please go ahead.

Manish Poddar: Sir, could you give us the break of A&P spend? How much would be advertisement and promotion and how much would be behind Henko in this quarter?

S Raghunandan: The spend that we did in Henko is almost 45% of all spends that we did in the quarter.

Manish Poddar: And what will be the breakup in A&P in advertisement and promotion?

S Raghunandan: 70-30.

Manish Poddar: In the categories where you operate, where does the above the line marketing works and where does the below the line marketing works?

S Raghunandan: In all categories, both of them should work. But in some categories like Dish Wash and Personal Care, we spend most of the money above the line. In Detergents, it is more 50-50.

Manish Poddar: And what about Exo?

S Raghunandan: It will be 75-25 or 80-20 in favor of advertisement.

Manish Poddar: Do we plan to launch Maxo machine in the third quarter?

S Raghunandan: Yes.

Moderator: Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: If we don't have any plans for expansion, why are we kind of investing these 150 crores in Jyothy Fabricare?

Ullas Kamath: That is the loan which we had given in the past and that money has come back to Jyothy Laboratories Limited. This business does not require any capital unless we go for other cities or go for further expansion in railways.

Avinash Agarwal: Sir is there any external debt in Jyothy Fabricare?

Neetu Kashiramka: 10-15 crores for BOOT project in Ahmedabad.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last questions. I would now like to hand the floor over to Mr. Ullas Kamath for closing comments.

Ullas Kamath: Thank you friends. You all can get in touch with me or Neetu for any further queries. We stand by our guidance of 30% topline growth and continue to work hard to achieve that by March 2015. Thank you.

Moderator Thank you. Ladies and gentlemen, on behalf of Jyothy Laboratories Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.