Jyothy Labs Limited
Q3 FY20 Earnings Conference Call
February 05, 2020

Moderator: Ladies and gentlemen, good day and welcome to Jyothy Labs Limited Q3 FY20 Earnings Conference Call. Today we have with us from the management Mr. M.P. Ramachandran - Chairman and Managing Director, Mr. Ullas Kamath - Joint Managing Director, Ms. M.R Jyothy- Chief Marketing Officer and Executive Director and Mr. Sanjay Agarwal – Chief Financial 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. M.P. Ramachandran for opening remarks thank you and over to you sir.

M.P. Ramachandran: Good evening friends I am Ramachandran and our Q3 results are already with you. I invite all of you for a discussion on the matter. As informed to you our people are there to clear all your doubts if at all there is anything thank you.

Sanjay Agarwal: Thank you, sir. Its great talking to all of you and sharing highlights of our Q3 FY20 results. I presume all of you have our investor presentation with you. So before, we discuss the market scenario and the results of Q3 FY20. A brief summary of Jyothy Labs, company was founded in 1983 by Mr. M.P. Ramachandran. We cater to four categories, fabric care, household insecticides; personal care and dish wash having six power brands, Ujala and Henko part of fabric care, Maxo part of household insecticides, Margo personal care and Exo and Pril part of dish wash. Some of the key facts about our business are highlighted below. Our top line was Rs 1750 crore plus revenue in FY19. We are number one in fabric whitener Ujala brand since its launch. Number two in dish wash brands ie in bar Exo and liquid category Pril. Number two in mosquito repellent coil Maxo. We service 2.8 million outlets out of which 0.86 million are with direct reach who are serviced by our 2000+ sales force and 5400+ stockiest. We manufacture across 26 manufacturing locations and we are part of the BSE S&P 500 and NIFTY 500.

Now moving on to the market scenario in specific, we have observed that during this quarter, there's been an overall slowdown in the economy, which has impacted the demand for FMCG products. Urban demand is stable, while rural offtake is muted. Working capital has been stretched for channel partners and thirdly categories which have lower penetration like dish wash and household insecticide have seen a better growth. In summary for us this quarter has been relatively a mixed quarter. Revenues have declined primarily because of one-off issues. However, our market shares across all our brands continue to remain intact, which we'll discuss in further detail. Moving on to financial results, our revenue is down by 5.9%. Gross Margin has improved from 46.5% to 48.7% in the current quarter Because of benign input cost environment and certain costs efficiencies. Advertisement cost is at Rs 25.2 crore and as percentage to sales is 6% versus 5.5% last year. Operating EBITDA is at 15.8% versus 16.1%. PAT at Rs 45 crore as against Rs. 51.1 crore. For the nine months, our revenue has grown by 1.6%, gross margin has improved from 47% to 47.8%. Advertisement expense is at Rs 87.1 crore versus Rs 80.4 crore up by 8.4%. And correspondingly, AIP cost to sales it at 6.6 % versus 6.2 % last year. Our operating EBITDA for the nine months FY 20 is at 16% versus 15.4% in the same period last year, up by 5.5%. PAT for the nine months FY 20 is at Rs 136 crores as against Rs 130.8 crore up by 4%.

To give a brief outline of the Q3FY20 sales there has been a reduction in revenue of 5.9%. Primarily due to 4% one off moderation in the institutional sales and if I can take a minute to just explain about this. This is primarily on account of the CSD sales, wherein the Q1 of FY19 sales as you all will recollect, the sales ordering process at CSD in Q1 FY19 was changing, and hence the sales orders had started coming in the end of Q2 and Q3. which led to a higher base of Q3 FY19 therefore, in this quarter of FY20, which has been a normal quarter in comparison to the Q3 of last year, there is a de-growth. If you look at in the month of January and the orders we have received in February of this year, we are in line with the previous year numbers. So, this has been one-off correction which we have taken from the base numbers, so that the business going forward remains intact. The impact of this reduction in CSD business has been more in fabric care and personal care and accordingly you will see both the categories have seen a de-growth.

Secondly, 1.9% de-growth has happened on account of general trade where we have seen more pressure because of rural slow down. Rural accounts for 35% to 40% of our business and there we have seen more working capital constraints at the distributor and the wholesale level. We continue to do our business on cash and carry in GT and have not been giving any additional credit in GT. So the hygiene of the business has been maintained perfectly. Inspite of all these above stated factors our market share across all our brands continue to remain intact.

Our category wise net revenues are as follows. Fabric care has de-grown from Rs. 193 crore to Rs. 172 crore. Dish washing has been flat at Rs. 150 crore. Household insecticide business has shown signs of improvement it is up by 1.7%. Personal care that was small quarter being a winter season is down from Rs 40 crore to Rs 36 crore. Overall for this quarter our revenue standard at Rs 421 crore and for the nine-month ended December 31st , 2019 revenue was up by 1.6% at Rs. 1318 crore compared to same period last year.

In summary, our revenue from operation for Q3 FY 20 is at Rs. 421 crore versus Rs. 447 crore. Operating EBITDA is at Rs 66.3 crore versus Rs 72.1 crore, PAT is at Rs 45 crore versus Rs 51.1 crore and cumulatively for the nine-month ended December 31st quarter revenue is up by 1.6% and t PAT for the same period is up by 4%. If you look at the overall financial parameters, our gross margin for the Q3 FY 20 has improved from 46.5% to 48.7%. Operating EBITDA margin has remained in the range of 15% compared to 16% over the same period previous year as well as for nine month ended December 31st this year. Similarly, for the Q3 FY 20 the PAT margin has remained in the range of 10 to 11%.

A quick presentation of how the EBITDA has moved from last year to this year. There's been a 2.2% saving in gross margins. Employee cost has gone up as we have added sales force on the ground strategically across India to strengthen our retail coverage, advertisement expenses have gone up 0.5% leading to current period EBITDA at 15.8%. Now moving on to brand performance and initiatives, the next slide talks about the category strategies, which I am sure most of you know, have been driven by premiumization**,** innovation and differentiation. Our category wise business share which has broadly remained same in this quarter also 27% is main wash, 14% is post wash, dish wash 36%, personal care is 8% and HI is 10%.

If we look at the fabric care business, there is a transitioning de-growth of 11% in this quarter. If we look at the constituents of the Fabric care, Ujala fabric whitener our market share remains intact and to increase the usage of fabric whitener we have been focusing on activations and drive visibility through dangler packs and also educating about superiority of Ujala Supreme over low cost through consumer activations. Ujala Crisp and Shine has grown 12.9% in the last nine months and we have been driving the category growth through new variants like gold collection to generate consumer interest. Currently, we've been primarily selling in Kerala & Tamil Nadu and have plans to extend it to Karnataka. Ujala IDD detergent which we sell only in Kerala as of now, remains to have a leadership position as a mid-price detergent brand in Kerala. Our market share has improved there from 15.5 % to 16.3 %. We have launched a new TVC ad with a brand ambassador Manju Warrier and fast wash bar also continues to do well.

The next slide talks about Henko franchise, which is a premium detergent brand for us, which has been growing at 11% on a nine-month basis and we have seen double digit growth in Stain Care and Henko Matic for the nine months. We have been focusing on certain BTL initiatives in our key markets and have done tie-ups with electronic chains to sample Henko Matic with washing machine buyers, overall, we see good traction in Henko franchise. The next category for us is dish wash, which is one of the fastest growing portfolios for us, accounts for 36% of our business. You can see our national All India market shares have remains for the full calendar year at 11% and for Pril liquid at 16%. So, they have been maintaining their leadership in both the bar and liquid format.

To further strengthen our position in the dish wash category based on the consumer insights, we have launched a dish wash brand Exo in super gel form. You can see the pictures and currently it's been sold in Kerala. The whole format of Exo gel is the power of bar and shine of a liquid and our initial response has been encouraging. So we are very hopeful that the brand Exo will get further strengthened with the launch of gel. To drive further penetration in the dish wash category we have been focusing on small packs and which we've been speaking about in the past both about the Exo bar for Rs.5, Rs.10 that's grown at 19% in this quarter and similarly, we had introduced pouches in Pril Tamarind two quarters back which now constitutes to 10% of the Pril brand. So overall strategy of pushing for higher penetration in the dish wash category is faring well.

The third category for us is household insecticides and after many quarters we have seen positive growth, both in volume and value. Value wise the franchise has grown by 1.7% in this quarter, with a 5% volume growth. Genius LV has been performing very well and its salient has increased to 15% of the total LV sales . The next slide talks about household insecticide market shares both for coil and LV. Coil MS has remained intact for the full calendar year at 21.1%, while for the LV, it has increased from 7.6% to 8.1%. And this has been because we have been continuously spending doing media spends on LV having Rajkumar Rao as a brand ambassador. Q4 is the one of the largest quarters for HI and if season is fine, and LV is doing good we think the next quarter can have a decent growth in HI for us.

However, the issues still remain about the mosquito repellent incense sticks. The coil category continues to be challenged by growth of incense sticks primarily the spurious one in spite of government actions and HICA bringing awareness to the consumers of not to use it. As you will see on the slide as per AC Nielsen at MRP the growth in the incense sticks category has been at 40% from Rs 551 crore to Rs 776 crore. So this continues to remain an issue for this category.

With this we come to the last part, the fourth category for us which is personal care and primarily Margo. We've been focusing on visibility drives and trade activation. Last year we launched Margo Glycerin, now we are extending the Margo Glycerin from West Bengal to Tamil Nadu and onto Kerala. Further extending the brand equity of Margo with the new millennial. We have launched Margo face wash which is India's first Neem Paste based Face Wash in West Bengal. Again here the initial feedback has been positive.

T-Shine which is currently available in Kerala market, 100% organic based toilet cleaner. We have re-launched it with revised formulation and packaging, and currently sampling as well as promoter activity have been done to let consumers know about the product features.

The next slide talks about a snapshot of our innovation. Differentiated positioning, we have across our brand, disruptive products like India's first Neem paste face wash, Crisp & Shine (which gives form & finish to clothes) . Similarly, the world class packaging in Pril, Henko and all other brands.

Moving on to way forward for Q4 FY20, we believe some of these government initiatives, which have been aimed at rural India and middle class will improve the consumption of FMCG products. At the company level we continue to focus on gaining market share across brands, we continue to focus on BTL activities to enhance secondary sales. Similarly to tackle down the slowdown, our frequency of retail servicing, whether it is from monthly to fortnightly, fortnightly to weekly that has been the key message to the sales and also strengthening our distribution with the aid of technology and addition of manpower in different states. With that, I will wrap up my presentation. Thanking you all and we'll be happy to answer, any questions you have.

Moderator: Thank you. We will now begin the question answer session. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Just a few questions from my side. One must say that it's actually a fairly detailed presentation so happy to see that. The first is actually on the channel credit comment which you made. I could just take names because it's in the public domain which is Lever and Dabur. It appears that they're actually giving credit to distributors, but if I understood your commentary correctly, you're not really done any such thing?

Sanjay Agarwal: Yes, Manoj, The objective was, not to break the hygiene of the business and GT business which we have been doing on cash and carry continues to be on the same line and whatever correction we have taken has corrected the inventory or the stock at the distributor level, which keeps us on good terms to do the business with them and in this environment with a less of credit and less of inventory with them.

Manoj Menon: Okay, would it be fair to then assume that secondary growth has been significantly higher than primary or how do I think about that?

Sanjay Agarwal: That's right Manoj. Our secondary growth has been positive for us.

Manoj Menon: Would you have the number by any chance ballpark?

Sanjay Agarwal: It's been fairly flattish.

Manoj Menon: Okay, understood. Secondly just a couple of questions again, on the revenue side and then before the one on margins. Good to see a recovery or other trajectory improvement in insecticides. But that said, the trajectory improvement appears to be definitely lower than what at least consensus was, assuming or hoping for, because the reason I am asking this is because, there appears to be a little more competitive activity in that category led by Godrej , which was probably not the case one year back. So, two questions here one, how do I think about the category trajectory improvement and what it means for you? and point number two, the competitive situation if at all is there any change or is it just an assumption my assumption which is actually right or wrong?

Sanjay Agarwal: For the first time we have seen HI category growth has been positive and therefore, our results as well as market leader results have been positive and lot depends now on how the season picks up in this next quarter. And if that is fine then I don't think so, there will be an issue of negative growth. At the same time the incense sticks, the coils have not done that well what liquids have started to do well.

Manoj Menon: Understood, okay. And any qualitative comment on the innovation pipeline

Sanjay Agarwal: So we always had the Maxo Genius, which is the first automatic machine where you don't have to switch on in a high and low mode. We continue to focus on that and that's why the product has been accepted and our market share has increased now to 8.1% on a national basis.

Manoj Menon: Okay. One question on gross margin, inspite of revenue decline, is it essentially the gross margin improvement is predominantly mix or what could be the other drivers if you could help?

Sanjay Agarwal: Primarily it is because of the RM prices, LABSA, our key RM prices have been soft and also certain operational efficiencies, which has brought the RM or the gross margins to go up by 2%.

Manoj Menon: Okay. And, if I may ask any comment on how do you think about the next few quarters in terms of the overall revenue trajectory?

Sanjay Agarwal: So, for the next few quarters, for this quarter lot depends on how Maxo performs, the HI category performance if that goes well then yes we will be in the positive range and for next few quarters it will be driven more by the macro, the overall liquidity environment issues with the distributor and wholesale level eases out then we can definitely see better growths to come in.

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

Abneesh Roy: My first question is on HI, when do we see negative pricing in HI go away. So can you expect that in Q4?

Sanjay Agarwal: What do you mean by a negative pricing Abneesh?

Abneesh Roy: This quarter is you see there's a negative pricing of 3%, so volume growth of 5% but sales growth only 2%.

Sanjay Agarwal: Right this is more of a product mix and more on the coil side of it, the liquids have remained there's not much of a price gap out there.

Abneesh Roy: No, but Genius has grown so much strongly so wouldn't that have helped the pricing because coils would have lagged the Genius growth, why that not. Is it because of the discounting which is there in LV?

Sanjay Agarwal: We are not doing any discounting in LV and our pricings have remained flat what we have been giving last year and this year and I think we have been driving more about talking about the superiority of the product what we have and some of the media spends is where we are giving money rather than giving any prices offs.

Abneesh Roy: On incense stick how has been the last six months FY19 was very strong for the illegal industry. So my question is on illegal industry in first six months of this financial year how the growth has been and in Q3 also if any comment is there and how has your own incense stick done?

Sanjay Agarwal: If you would have seen the slide talks about how the illegal incense sticks has been growing at 40% from FY18 to FY 19. So that continues to grow in spite of all other initiatives government has been taking to bring awareness to the consumers for not using it. HI category has been either flattish or if we are going to see a mid-single digit growth there that will be there in spite of, this incense stick growing at 40%. But what we think is, if the season picks up and as what the initial signs have been, we would be, this category should start doing well.

Abneesh Roy: My second question is on the Kerala market, you have a disproportionate presence there. And corona obviously, has impacted that state the most currently. So, are you seeing on the trade channels any impact either because of closure or because people are going out less?

Sanjay Agarwal: No Abneesh, I think it's too early to say that there's been any impact because of that. Also we will pray and wish that nothing affects the people in Kerala or anywhere in India.

Abneesh Roy: Last question is on multi active concentrate which you called out revolutionary product. So my question is this will take core from the bar or the liquid or this will create a new category because in pricing it doesn't seem cheap, for one kg I think it's around Rs.200 pricing. So, why is it revolutionary?

M.R Jyothy: So, this is a new gel format. So the put-on price is higher but Exo stands for value for money. And this will wash more number of plates compared to the existing liquids in the market. So that's how you have that power. Why we say power of bar because it's a multi active concentrate in the formulation and the delivery that you get is the shine of the liquid. The pricing is premium because, it washes much more plates, it gives economy of usage and much more value for money.

Abneesh Roy: And last question on soaps market leader seems to be growing slower than some of other number two, number three players. So what is your comment on the promotional intensity as it increased in the last two, three quarters and do you see that reducing now that the raw pressure is again there?

Sanjay Agarwal: Our Margo soap is a niche product , and it doesn't directly compete with the other market players. we haven't reduced our prices, we continue to focus on the brand and with certain extensions of glycerin and face wash. We believe that it has its own journey and we are not intending to increase price at this point of time.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy: Hi Sir, this is Percy here, Sir just trying to understand your topline a little better in the context of the 6% decline that you posted. So two thoughts here on this, firstly the 4% sort of impact of CSD that you called out in the base. I was just wondering, is it really that large because I was looking at your transcript of Q3 FY19 and there was no mention at that time. And secondly, on a sequential basis, if I look at your sales, it has declined 12% versus Q2, Q2 versus Q3. And historically if I take the last 5 to 7 years and see how Q2 versus Q3, what is the traditional or historic seasonality, that's just about flat to minus 2% kind of a number whereas this quarter it is minus 12. So, what explains this big difference in the sequential growth?

Sanjay Agarwal: Yes, so CSD is around 8-10% of our business. And when you look at the Q3 of FY19 because the orders didn't come in the Q1 and most part of the Q2 therefore Q3 became a higher base. Now when you look at Q3, you will not find Margo when you're comparing with Q2, you will find Q3 will have the least saliency of Margo, which is the seasonal product.

Percy: But sir that would have held true even in the past right. So if I take your last 5 to 7 years and see on an average Q2 to Q3, what is the differential, it falls by only 2% but this quarter the fall is much higher than that. So, is it some other factor like as you said, probably some pipeline correction this quarter or something, if we can get some more color on what really are the factors going into this decline? And if some of them are like one offs then we get a sense how to project forward?

Sanjay Agarwal: Yes, so it is exactly what we have explained in the presentation also. The reduction in CSD sales has impacted both the fabric care and the personal care business this time. Secondly the Maxo seasonal sales happen only in the Q4 and Margo sales happens less in Q3. Third point which you said is on bringing the stock levels low at the distributor's stock point. Yes that is right, we wanted to consciously do it, because in this environment where we did not wanted the distributors or the wholesaler where we offer them credit and they stock it just for us to make the numbers and therefore, we have brought down the inventory at the distributors level and continue to be on cash and carry with them.

Percy: Sir on distributor inventory, what is the current number of days and how much it has come down in the last three months?

Sanjay Agarwal: It will depend on market-to-market and brand-to-brand, but on an average, it will be around, it has come down from 30 odd days to 25 to 22 days.

Percy: Okay, understood. Sir second question is on margins, FY21 the kind of EBITDA margins that you can do, would it be similar to FY20 or do you see any risk of a decline there?

Sanjay Agarwal: We'll definitely be doing in the range of around 16%.

Percy: Okay, fair enough. So, if there is any kind of gross margin benefit, it will get reinvested in the brands?

Sanjay Agarwal: Absolutely right.

Percy: Right sir. And traditionally you have been giving some kind of idea on what your topline growth target would be for the year. So is there any such sort of help you can give us in terms of understanding what your aspirations are for FY21 in terms of growth?

Sanjay Agarwal: Sure. Lot will be dependent on the macros , also we will be giving this guidance post March results and you will definitely hear about it.

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

Harit Kapoor: Just a few questions firstly on the personal care side, so, you've seen a dip on the personal care EBIT margin for this quarter. Is that largely because of the negative operating leverage, seen a lower sales growth, what would have been the reason?

Sanjay Agarwal: One is definitely on that and this quarter since we have launched Margo face wash there has been more spends in this particular quarter.

Harit Kapoor: Okay. Do you expect this to be fairly subdued going forward given the fact that the material costs have also gone up now?

Sanjay Agarwal: No, the EBIT margins will come back in Margo, this next quarter should refine as well as PFAD prices have again started to become being more soft so we don't see any pressure coming in on the margins front in personal care.

Harit Kapoor: You have mentioned in the presentation that there was a re-launch in T-Shine. So what type of re-launch is this, its communication lead or product lead, packaging lead what has changed?

M.R Jyothy: So it's all the three, so what we were doing is, we were doing a test market in Kerala and whatever the learning's we have incorporated that and we have revised the formulation completely changed the design and packaging and also the communication so it's all the three and we are seeing results in that.

Harit Kapoor: And this was done beginning of this quarter?

M.R Jyothy: Yes, just about last quarter.

Harit Kapoor: Okay, the other thing was on coil so if you could just tell me now what's the salience of coils for you in the overall HI piece now?

Sanjay Agarwal: Its approx. 70% coils and 30% is liquid.

Harit Kapoor: And incense would be how much now sir?

Sanjay Agarwal: Incense sticks sale is too small.

Harit Kapoor: Got it. Just one last question, according to some of the market research agencies the sense is that the south market in this year has done better than the other regions in terms of growth. So, since you are a fairly significant player in south would you also have seen a similar kind of a trend in terms of your growth versus the rest of India growth?

Sanjay Agarwal: Yes, that's right Harit. South continues to do well, 40% of our business comes from there and that continues to do well as compared to other states.

Moderator: Thank you. The next question is from the line of Pooja Doshi from Motilal Oswal. Please go ahead.

Pooja Doshi: Sir I just wanted to know what will be our effective tax rate on standalone basis for FY20?

Sanjay Agarwal: On a consolidated basis it will be approx. 15%.

Pooja Doshi: Would it be a similar number for the next year as well?

Sanjay Agarwal: That's right.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: I have two questions. The first question is on Henko. You have done a solid growth of 15% YTD, nine months and 13% on Henko Stain. What are the reasons I mean, the whole segment is growing faster that's for sure. But is that distribution lead or is promotion lead?

M.R Jyothy: It's both and we have been focusing on certain markets only, not on a national level. There are certain pockets and states where we are concentrating both from an ATL and BTL perspective.

Shirish Pardeshi: Thanks for that. Would you be able to share what is the volume growth, we have got on Henko?

Sanjay Agarwal: For the nine months it will be in the same 10 to 12%.

Shirish Pardeshi: Okay, thanks Sanjay. And my second question is on CSD. Can you tell me in terms of value what has been the FY19 CSD sales?

Sanjay Agarwal: It is around 8 to 10% of our total sales.

Moderator: Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: My first question is on the overall distribution related issues which we are hearing from some of the other players in the sector. So what we understand is that especially in urban GT, there are ROI related issues for the distributors, question is are you also facing similar kind of issues with your distributors and what are the steps which you have taken to solve this?

Sanjay Agarwal: Yes Amit, so this is exactly the reason where businesses are not doing well, distributors are concerned about the ROI and we have continued our business on cash and carry, we have not pushed the unnecessary stock and decided to take correction at the distributor level on their stocks. So that there is a healthy business for them to make the ROIs. The issue is more at the wholesale level, more in the rural markets than in the urban markets.

Amit Sinha: Okay for you it is more in the rural markets. Some of the other players highlighted that they are facing more trouble in urban markets. Okay, fine. Secondly, in CSD is it fair to assume that the Ujala and Margo will be the maximum contribution for CSD overall for the entire year and also for the quarter?

Sanjay Agarwal: No it's not Ujala it is basically all the fabric care, all the detergents as well as personal care and we also have dish wash which sells there. So across all the brands do get distributed through the CSD channel. Yes, the prominence is more in case of fabric care and personal care.

Amit Sinha: Okay. No just wanted to understand, since you have given the trying to kind of get the normalized run rate and since you have highlighted that, on a secondary basis the numbers are broadly flattish. So, if I have to kind of take that normalization for fabric care as well, will it be a broadly kind of flattish trajectory for the segment as well?

Sanjay Agarwal: Yes, you can take it as a 2% in that case.

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

Gaurav Jogani: Sir my question is with regards to the tax rate for this particular quarter, it's quite less any particular reason for the same?

Sanjay Agarwal: There are two things one, since we are in MAT, the MAT rate has come down from 18.5% to 15%. That is one reason and second is a throughput of 80IA plants where we get tax exemption has also increased in this quarter, and it's been increasing and it's increased in this quarter as well. So therefore, the overall tax rate has come down. Both so the rate has come down and our throughput from 80IA has increased.

Gaurav Jogani: Okay, so in that context, so for the full year can be built in a 15% tax rate, including this particular quarter and the gains that you're receiving from the 80IA plant?

Sanjay Agarwal: Yes, that's right.

Gaurav Jogani: Okay. And sir my next question is with regards to the guidance that you have given in Q2 that you will be able to do a 10 to 12% growth rate for the year. So, where does that guidance stands now for FY20 given the performance in Q2?

Ullas Kamath: For the entire year 19-20 based on the Q3 performance what we have in front of you and we are waiting for Q4 numbers because, like the rural and uptick has to happen and the sentiments are definitely better posts the budget the government focus on consumption and creation of demand and we are prepared. And for the Q4, we are predominantly depending on household insecticides. So, December quarter has given us a lot of hopes that we are up by about 5% in volume. And if that continues, you will see a positive single digit, like maybe mid or maybe high, higher single digit growth in the March quarter, but it all depends on mosquito repellant business how we do in the March quarter. So, at the beginning of the year, yes, we did give 12 to 14% of guidance. But the kind of impact slowdown has affected FMCG is not just for us it's for the entire segment it's visible across the company. So, at this point in time we are going quarter-by-quarter and probably after the March quarter will be in a better position to indicate the guidance for the next year based on the off take what we have and also the government investment in social sector and also the middle income group who are expected to get back to the consumption that's all what we can say at this point in time.

Gaurav Jogani: And sir just one last question from my end is that, you have mentioned that the GT continues to operate on cash and carry. So, what does that exactly mean does the GT channel is now – feeded by the cash and carry channel that?

Ullas Kamath : No, that cash and carry is different, that's not the channel we are talking about. Historically, Jyothy Labs never gave credit in the marketplace. In Jyothy Labs we have 20% of revenue comes from institutional sales , ie modern trade, CSD and e-commerce, and remaining 80% is general trade. General trade is what we give to the distributor and distributor give to the wholesale and the retail. That 80% channel we don't give any credit. And that is what we call cash and carry, but not the cash in carry of the channel what you see. So, we sell the goods against the RTGS and after we get the money only, we send the stock to them. Now 80% is what we continue to do it while you have seen comments from other companies saying that whenever selective basis has given the credit, but we are not. Because as a small company, if we get into the credit business and the general trade is difficult to come out to cash and carry once again, to that extent we continue to operate to maintain the hygiene at the general trade, we continue to operate on completely against the cheque and no credit there so far. So the only 20% of our business has credit that is all institutional sales.

Moderator: Thank you. The next question is from the line of is Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: My first question is regarding the impact of modern trade or sort off internet retailers such as Amazon and their desire to create their own brands in particular for categories such as homecare and related. We also have noticed, certain other retailers such as Tesco, etc launching their own store brands. So, are you seeing any impact of this in particular on your modern trade channel side of the business?

Ullas Kamath : No, at this point in time no and our experience with the modern trade in the past also the private label as such has not been that great successful in India, because of the gap between the brand and unbranded one is not that large what you see in the Western or Eastern country. So, the gap is about 10 to 20%. So, consumers in India still believe in the brand and we are spending the money on the brands, everybody so at this point in time there is no worry. And the movement of the stock through the modern trade for all the brand owners is far, far superior than what it used to be in the past. So that extent no worries, private labels are there, every modern trade has their own brands, and every e-commerce wants to get into this. But at this point in time, we are not seeing any worries on that.

Ayaz Motiwala: And sir the new innovations that you've done in terms of a way to roll these out or test these out, are you going back to the modern trade approach or the e-commerce approach. Are you trying to test them in more select markets like the West Bengal launch of the face wash that you've done. Is that one of the ways that you are trying to approach launches of new products and innovation?

M.R Jyothy: So the launches will see state wise approach because that will give us the confidence in taking that further. So we would want to have some learning there and then scale it up. While we are open to an online business kind of things for new age products like a face wash.

Ayaz Motiwala: And last question on spare land and financial assets which we have talked about in the past, especially when you had made the acquisition, you mentioned about a lot of spare land as well as factories which could be redundant, in particular because of the tax benefits which you talked about. Can we expect some move in that direction?

Ullas Kamath : One of them already we have sold it's there in the last March numbers you will see that one of the big piece of land in Chennai we have already sold and amortize that and couple of others around the block, but during this slowdown period we don't want to be selling in a desperate cost. So it is there on the block and as and when they get fetch our price what we are expecting, definitely you can see that. So even in Jyothy's portfolio also the land bank what we have which we are not utilizing for future expansion, definitely if we get a price, we will liquidate.

Moderator: Thank you. The next question is from the line of Aniket Bopani from Infina Finance. Please go ahead.

Aniket Bopani: I have two questions. First one is, so just trying to understand the impact of CSD I just wanted to collaborate this better. So you said in your earlier comments that CSD accounts to 10% of your total revenues right?

Sanjay Agarwal: Yes.

Aniket Bopani: So, if total revenue impact of that category is 4% on total sales then shouldn't it have actually declined by 50% or I am missing something here?

Sanjay Agarwal: You are talking about the nine months number.

Aniket Bopani: I am talking about this quarter?

Sanjay Agarwal: This quarter it is around 20% decline in the CSD business.

Aniket Bopani: Okay. Then why is the impact called out at 4%, this not able to reconcile the impact here, because you said it is 10% of your sales or is it a higher number of your sales?

Ullas Kamath : 4% is on the entire the quarterly numbers and our reduction in CSD number for the current quarter is about 20% and the base number was high and that's why the correction has taken place and that comes to 4% on the Rs 421 crore turnover that is the 4% we are talking about the actual sales reduction is in range of Rs. 17-18 crore.

Aniket Bopani: Okay understood. Sir second question is so just trying to understand your outlook a little bit better. So, assuming that the HI season pans out to be steady as you expecting are the other segments also expected to grow in the low to mid-single digits irrespective of what happens to HI or are we saying that except of HI it will still be a flattish Q4?

Ullas Kamath : See in the HI the indications what we are getting in December month and January month, I am sure that it will be a positive only for the March quarter because this is generally we get to know in the third quarter how the movement of soft will be and based on that, we can be more certain that you know like for March quarter the HI will be positive whether it is 5% growth or 8% growth, but it will be a growth they don't mean a decline. The second question what you're saying is that how it will be on the fabric care and personal care, this correction which has happened in the fabric care 11% and personal care 10% is purely the inventory lead correction both in institutional and also in the general trade in rural segment that has been done. So, going by that according to me, there won't be much change in the March quarter and we should get the desired positive growth, both in HI and also in fabric care and personal care.

Aniket Bopani: Understood, so you should get back to growth and just for understanding in the dish wash segment as well the growth was quite muted. So, if you could probably outline what's the trends there that you are seeing and what's the percentage of dish wash business that would be coming from rural versus urban, and where exactly have you seen the softness particularly?

Sanjay Agarwal: In Exo dish wash will be 40% rural and 60% urban. And the growth rates have been for the last few years if you will see we have been growing in double digits. And with rural slow down what we have seen now is where the growth has been tapered. But in the years to come with launch of the Exo gel and other initiatives which we are doing, we think the brand will, brand is second largest dish wash brand in the country and it's a 500 crore brand now so it continues to do well.

Aniket Bopani: So has Pril delivered better growth compared to Exo?

Sanjay Agarwal: That's right because Pril has a higher market share and the penetration of liquids and the usage of liquid has been improving. And it's more urban focus and therefore, the growth in Pril liquid has been better than the Exo at this point.

Moderator: Thank you. The next question is from the line of Abhiraj Jain from SP India. Please go ahead.

Abhiraj Jain: My questions have two-fold one is, if you can just break down your decline in fabric care and slowdown in personal care between CSD and general trade. So how much of decline of the 11% in this quarter for fabric has come on account of decline in CSD business?

Sanjay Agarwal: As we explained modern trade business has been doing fine and growing. CSD is one off because of what we explained otherwise CSD also grows in double digit.

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Abhiraj Jain: Okay. And is there any specific brand because Henko has grown, Ujala IDD is only Kerala centric so is it mostly Ujala whitener Crisp and Shine or what?

Sanjay Agarwal: No, when we have spoken about Henko growing it is more of the nine months numbers. And for this quarter all the constituents of fabric care have been impacted because of this one-off base correction.

Abhiraj Jain: And my second question was around distributor management systems, where you have very good track of the secondary sales that you guys are generating through the distributors. How much of the total sales of entire Jyothy universe goes through DMS? So are all the distributors 100% on DMS for their secondary as well

Sanjay Agarwal: Yes, 100% of our distributors are on DMS, the entire sales force of the company +2000 people uses the SFA. So to that extent, yes, the visibility for us from primary to secondary, band by brand, every district is monitored, and we track it daily basis.

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

Harit Kapoor: I just had one clarification, the way to deal with GT in terms of maintaining strict channel hygiene, has that changed over the last say two, three quarters. Is there a departure from the way you were earlier doing it versus now or it was always that you were working on cash and carry and you were keeping it extremely strict in terms of pipeline?

Ullas Kamath: We always been on cash and carry there was no credit by general trade right from many years. And what we are seeing in the last three, four quarters is the stress on the working capital and when we are not growing, they will also be not growing, but their fixed expenses are going up, the investment will be coming down. So, there are only two options for any company either extend the credit that they will make their working capital investment will come down and their ROI will go up. Or reduce their pipeline stock, in this now that we are on 100% distribution management system and we can see that they stock on a daily basis and entire sales force +2000 on a daily basis, we know what the secondary sales are happening, to that extent we took a conscious decision of reducing the stock at a distributor level so that their effective investment in the business will come down and due to that, the return on investment will go up. Just we have taken a decision not to give credit at this point in time because as a small company once you extend the credit, you will not be able to get back to cash and carry once again with them because that becomes a habit. So, we didn't want to break that hygiene. So we decided that okay we will go with taking the cheques and then only release the stock. But let them stock less. Also, we thought we will do it in a small quarter in December, rather than doing it in a March quarter, because that is the biggest quarter for us and also in insecticides, we didn't want to extend the credit there. So we thought we'll do it in December we have done that and January month sale, gives us the confidence that it has gone very nicely in the marketplace and also the Union Budget now focusing on consumer demand and more money in middle class, lower middle class with all the benefits, what you have seen is the budget has makes us to believe that what we have done is the right thing, and we'll watch and wait for the March quarter, then if at all if we need to do some correction, we can always do that. But at this point in time, we feel that the reduction of the pipeline stock by getting better returns to the distributor was a right thing what we did.

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

Ullas Kamath: Thank you friends, for your patient listening and if any follow-up questions are there you can always contact Sanjay or me we will be available. Thank you very much.

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