



“Jyothy Labs Limited Q4 FY2020
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Jyothy Labs Q4 FY2020 Earnings Conference Call, hosted by ICICI Securities. 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 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. Manoj Menon from ICICI Securities. Thank you and over to you Sir!

Manoj Menon: Hi everyone. It is good morning, good afternoon, good evening to which of the part of the world you are in. On behalf of ICICI securities, it is our absolute pleasure to welcome you to the results conference call of Jyothy Labs Limited. As I said we rate Jyothy Labs an add rating and it is an outperformer thought process for us and we have been long term believers in the growth story of the company. We have from the management, Ms. M.R Jyothy- Managing Director, Mr. Ullas Kamath - Joint Managing Director, and Mr. Sanjay Agarwal – CFO for the call. Over to you Sir!

Ullas Kamath: Hi everybody. This is Ullas Kamath here and welcome to the analyst call. It is the one of the unprecedented time, I would say the situation all of you must have been seeing what is happening around the world and it is something first time all of us are experiencing . We have announced our results today and in this call, Jyothy is there, our MD and Sanjay, our CFO. First Sanjay will take you through the presentation, which we have made and thereafter we will take your questions and over to Sanjay, please!

Sanjay Agarwal: Good evening everyone. All of you would have seen our results, let me take you through them in detail. Before I talk about the results and brand performance for the quarter gone by, let me first briefly update you on the current business scenario. Till March 2020 for the preceding three quarters, the economy was facing slowdown in which urban growth for FMCG industry was stable while the rural growth was weak or declining.

In addition to this, we all got impacted by the sudden nationwide lockdown due to the onset of global pandemic COVID-19. Therefore from March 20, 2020 onwards, there was a severe disruption of operations. These brought all our factories and sales operation to a standstill.

Friends, majority of our product portfolio comprises of essential goods, which is a strong right to win for us, all the categories in which we operate are detergents, dish wash, household insecticides and soaps are used in daily household consumption. Hence from mid April when restrictions were partially lifted, we resumed operations and with the resilience

and agility of our sales staff who despite all constraints delivered a positive growth in the month of April and May 2020.

So as we stand today, our manufacturing operations are back to 80% of the pre-COVID production levels, all state depots are open. The general trade business barring a few red and containment zones are coming back to normal. There are some canteen store department and modern trade stores which are not fully operation yet. We expect them to be normalized soon.

During this COVID-19 phase, we have been quite agile in terms of our product launches and distribution strategy. Quickly recognizing and acknowledging the demand of consumer and the need of hour, we launched Margo hand sanitizer, which is infused with neem extracts and it saw an immediate surge in demand. Keeping in mind the safety of our sales stores and enhance the speed of orders and delivery, we also launched a mobile application 'Distiman' which facilitated direct orders from retailers to distributors. Also to supplement and boost direct reach to consumers, we partnered with alternative distribution companies like Jumbotail Udaan and last mile delivery partners like Dunzo, Zomato and Swiggy.

During this lockdown phase, we have done focused media activities especially on EXO and MAXO whenever the Hon'ble Prime Minister addressed the nation and also during the telecast of Ramayana and Mahabharata on Doordarshan.

Given the challenges, we immediately redesigned our Short Term Priorities for the business in three key areas. Product portfolio: we decided to leverage our core essential household brands like Ujala, EXO, Pril, Henkel, Margo and Maxo, which constitute 85% to 90% of our product portfolio. More focus was given to the middle-class India and rural markets as this faced lesser disruption than the urban India.

Second is Consumer Trends: We are seeing an increase demand of low unit packs of Rs.5 and Rs.10 across all brands. Hence, we have ramped up our manufacturing and distribution for these. As you all know, there is also an escalated importance and focus on safety, health and hygiene, so we have renewed our focus on our essential hygiene portfolio. Third is Distribution: Bearing in mind the stress on the economy, we are strictly adhering to the business hygiene by ensuring no additional credit and focusing on secondary sales. As you all know, this is very important in these times and this will ensure a healthy consistent growth in future for us and help in gaining market share for our brands.

We can now move on to the financial results. Due to the sudden halt in primary sales from March 20, 2020 for Q4FY2020, the net sales were down by 23.8 while gross margins have been flat at 45%. You will note that the EBITDA for the quarter declined to 10.3% from

15.8%. At Jyothy, our own manufacturing plants produce 80% of productions and also the sales force is on our payroll. Therefore since both manufacturing and sales team are on own payrolls and the advertisement expenses were fully committed in anticipation of summer season, which is peak for our soaps and household insecticide business. So both these adversely impacted our EBITDA about 5.3% in this quarter. 2.5% by fixed employees cost and media cost by 2.8%. Similarly if we look at the full year, due to decline in the sales for the last quarter, our FY20 revenues have declined by 5.6%, while the gross margins have remained in the range of 47% and EBITDA around 15%.

Moving on to the next slide, just want attention on sales growth. Had it not been for the sudden impact of COVID-19, our business was tracking primary sales growth of 5% till March 20, 2020 and we were expecting to close the quarter with mid single digit growth. Our portfolio of household insecticide and personal care soaps have been impacted greatly because generally in the last fortnight of March our trade partners stock HI products anticipating the onset of high mosquito infestation season from April and also increased their stock of soaps anticipating a higher demand with the arrival of summer season. Sales of both of which got adversely affected due to the nationwide lockdown. If you look at our run rate basis since we are growing at 5% till March 20, 2020 and we were all aligned to have a mid single digit growth, our estimate is that our top line got hit because of the sudden halt of our operations by Rs.150 Crores and there is a corresponding impact of Rs.50 Crores pre-tax on our bottom line.

The month of April and May we have seen positive growth in sales despite all the logistical challenges and restrictions on sales team movement in the most part of India. This is obviously being done with lot of hard work by our supply chain, production and the entire team at Jyothy. The adversities of these challenges were overcome by strength of our core portfolio being Essentials and Hygiene. So these are all the product portfolio which are used by consumers on a day to day basis and these are not discretionary brands. Similarly with the importance of hygiene, consumers are more inclined to buy and not fell sick and hygiene is the highest priority for them. We always give a category wise breakup of our revenue which is there in the next slide.

I will move on to giving a snapshot of our overall financial performance. Before that, a reconciliation of our EBITDA for the quarter, EBITDA for the previous year was 15.8% because of the reasons I spoke about, our employee cost impacted EBITDA by 2.5% and because of the pre-committed advertisement cost, it has adversely impacted EBITDA 2.8%. If you see for the full year, we have been in the guided range of 15% and for FY2021 also we believe we may be in the same range of 15%.

Moving on to brand performances, category wise business share remained unchanged. Fabric care 40%, dish wash 32%, household insecticide 16% our March quarter is always high on HI, while personal care is at 8%.

If you look at our fabric care business, Ujala Fabric Whitener where we are the market leader, we continue to increase our retail visibility similarly for crisp and shine, we are driving the growth and plan to expand the brand to nearby states. Ujala detergent again continues to do well. This quarter we have changed the packaging for the laundry soap, which is doing well. It has also been a good momentum again all these things, which I am talking about is till March 20, 2020.

There has been a good momentum in the sales of both Henko Stain Care and Henko Matic. To enhance its visibility, Henko co-sponsored the regional KBC in Kerala. Dishwash which is 32% in our total business, both Exo and Pril as a category continues to do well with now renewed focus on hygiene. We have been doing focused marketing activities, both for EXO and Pril on digital and social media. Toilet Cleaner T-Shine, as you all know was launched in Kerala where it is doing well. We have changed the packaging and a new communication has also gone on air.

HI business as we discussed earlier the sales of both Maxo coil and vaporizer for the quarter declined as generally in the last fortnight of March, our trade partners in north and east India stock HI products anticipating the onset of high mosquito infestation season but due to the nationwide lockdown in the last fortnight of March, sales of HI were affected. However the good thing is in the last two months the sales have seen a good pickup. We continue to focus on our media activities for Maxo liquid vaporizer and have been witnessing an increase in market share over the last few quarters.

Personal care. Our personal care business is primarily Margo franchise. We continued to invest behind the brand and we have launched extensions in the form of Margo hand wash and hand sanitizer. Margo hand wash was launched in the early part of the quarter in all the southern states and has done very well. Similarly hand sanitizer which was launched in April during the lockdown period, leveraging on a neem equity is in high demand now.

In the whole COVID phase, we have found our new right to win and offers an opportunity for Jyothy Labs portfolio which is more essentials as well as fall in the category of hygiene. Also being an India company and serving Indian consumers, we are proud to support Hon'ble Prime Minister vision for being 'vocal for local' business.

Going forward, we are quite optimistic on our business prospect, we all will adjust to this new normal. We at Jyothy Labs are certain that our distribution reach, our in-house manufacturing capabilities and brand innovations will drive future growth.

With that I finish our presentation. We are very happy to answer your questions or any clarifications you need. Thank you.

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

Percy: Hi. Good evening team. My first question is on the ramp up that you have seen in April and May. It is heartening to note that you have gone into positive territory for both these months, but could you give some idea on where your production ramp up is for the month of April on an average, for month of May on an average, and where you are currently in terms of percentage of normal activity level?

Sanjay Agarwal: We all know till middle of April, 2020, the entire operations for all companies and manufacturing operations were halted. In our case, most of our 26 factories are in rural areas, we had to take permission from the district authorities and since these are our owned factories, we were able to explain that most of the workers were either staying in own premises or they were close by, hence we could quickly resume operations post getting local authorities approval. We were at 40% to 50% end of April and by end of May we are at around 80% of pre Covid levels of production and whatever we are producing, we are 100% able to sell now.

Percy: Okay so right now would you say that this remaining gap of 20%, the constrain is more demand or is it supply still which is the reason you are at 80 instead of 100?

Sanjay Agarwal: Percy, the thing is today the permissions have come, we can only operate one shift. In certain places, the permissions have come wherein we can only have one third of the staff to work. In certain places, we have been instructed that the staffs, I mean the factory people have to stay within the factory premises. So these are the constrains currently, which are there But as the lockdown phase releases, I think by end of June, things will improve from here.

Percy: Okay. So basically April and May you were able to sell the inventory that was piled up because you could not sell last 10 to 12 days of March, but in June if basically you are not able to ramp up to 100% and now that inventory which was excess lying around, has already been sold off, so June month, what is the prognosis, do you think you could slip into negative territory on a Y-O-Y basis because of the lack of permissions, etc.

- Sanjay Agarwal:** The production levels are ramping up as we speak and as you rightly said the stocks of March we were able to sell a lot of it in April and May. Now as we speak the production levels are increasing so we do not see any shortage of goods been produced at the manufacturing level and now permissions are coming wherein single shifts are becoming double shift and government authorities have made an 8 hour shift into 10 hours. So we do not see any production related issues for us at least because we produce our own goods, and are not dependent on any third party.
- Percy:** Got it. Second question is just like you have given some flavor on production or supply versus pre-COVID levels, could you also give some flavor on where do you see demand versus pre-COVID levels because people have lost jobs, incomes have declined of people etc., so currently where we are today, supposing if you are able to produce as much as you wanted to, would you able to sort of sell higher than pre-COVID levels adjusted for seasonality or you think that demand is still weak and even if there was no supply constraint, it would still take time for your sales to come back to where it was pre-COVID?
- Ullas Kamath:** Current demand situation is quite dynamic. As Sanjay said that for production, we are ramping up because all the 26 factories are in our control, we are able to take as much as permission wherever it is possible and we will be able to ramp up and problem now is some of the states are still having difficulty like Maharashtra, Gujarat or Tamil Nadu, is exactly the way how the COVID is behaving, the market is also behaving accordingly. So net-net looks little better, but the everyday's guess where what is going to happen and restrictions are, some of the states have already removed 100% restrictions like Karnataka but the problem is the fear in public. So to that extent, we need to take month-on-month, production for month of June looks okay, but the demand we need to see by the end of the June we know what happens in July. Because if the government spends like in the social sector Rs 1,70,000 Crores and also the huge spend on infrastructure, everything has to come ultimately push of that has to come for consumption in the rural and we are hopeful that rural should recover going forward.
- Percy:** Right Sir and one last question if I may squeeze in, there are some categories like dish washing, detergents, toilet cleaner, etc., which are health and hygiene categories and they will sort of benefit from this higher focus towards health and hygiene that we have in the post COVID world. But on the other hand, you also have Ujala Fabric Whitener, which basically is a category where the people go out of home and therefore the one we are close to look white etc., and this kind of environment where people are not going out as much, do you think there could be a sort of negative impact on fabric whitener for the next couple of quarters?

- MR Jyothy:** Yes so like you rightly said it is only the Ujala post wash that we will be seeing a slight decrease in that sense, but 85% of our product portfolio is in the hygiene category, more on the cleaning and hygiene category, so that should not be a problem. In fact, we have started seeing some positive trends as well as some of the states have started to open. So in the post wash only you will see that, not in the other category.
- Percy:** Right got it. So you are saying most of your product portfolio is actually going to be sort of beneficially impacted by the higher health and hygiene focus on account of COVID?
- MR Jyothy:** Yes almost 85% to 90%.
- Percy:** Okay. That is all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.
- Harit Kapoor:** Hi. Good evening. So just a few from my side. Firstly is on the margins, given that you are seeing significant reduction in the commodity cost side going forward as well as the fact that your revenue expectation should be fairly okay given that your portfolio is in health and hygiene and that you are probably see the benefit of some cost savings coming going forward only which will be seen quarter four. Just wanted to get your sense of how do you look at operating margins, do you see them coming back to that 15%, 16% level in FY2021 or how do you see them?
- Sanjay Agarwal:** So Harit yes, there is positive benefit because of fall in the crude prices, 40% to 50% of our RM/PM is linked with crude prices. So we will get the benefit for the soft prices with the lag of one quarter and for the full year as I said we are targeting EBITDA margin in the range of 15% to 16%.
- Harit Kapoor:** On the region wise, south you have the large portfolio, just wanted to get a sense, trends are different in south versus the rest of the country, do you see a slightly better recovery there, probably ex Tamil Nadu, but do you see a better recovery in the southern region overall versus say rest of the market given that your presence is higher there?
- Sanjay Agarwal:** Yes Harit, South has been always more hygiene focused and therefore the growth will be much better there, but currently it is more urban and rural issue, the places where red and containment zone are not there, it is easy for our sales people to move, so at this point of time, yes south is better, states which are not doing that better would be say Maharashtra, Gujarat, Tamil Nadu. So that is how we look at the entire India. The things are now coming back all over India.

- Harit Kapoor:** Last question, I will come back for more, the innovation side prior to COVID, we have done a few things in terms of the hand wash also the detergents, soap and also EXO you have new launches as well, I just wanted to know that over the next six to nine months, the focus on just pushing these new launches through and consolidating them as well as the balance portfolio or would you think about this over the next six to nine months?
- MR Jyothy:** So like you rightly said we had launched the hand wash earlier this quarter in one state and because of the new environment right now we had to expand it to other states as well and that would be the strategy for hand wash and for sanitizer and in the coming six to nine months like you said we will be seeing some more launches which will happen in the hygiene space.
- Harit Kapoor:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Manoj Menon. Please go ahead.
- Manoj Menon:** Hi team. Just couple of questions, one when I look at the supply architecture which you follow versus some of your peers, you seem to have more number of factories across India and probably closer to the markets. How has been the experience in the last two months, what I am actually trying to understand is, is there is an opportunity for you currently and possibly going into until a point in time when everything stabilizes do you have a fair gain opportunity?
- Ullas Kamath:** Hi Manoj, this is Ullas Kamath here. I think this exactly favored in our thing because the people were operating from few factories, they are actually in problem and when we are closer to the consumer and operating from 26 factories in 17 locations while we did have the fixed cost on employees in the last 10 days of nonfunctioning, in reality we were the first in the market place to take the production because our factory managers were able to go to the local and most of our workers are living in the nearby villages and that is where we were able to call them and they came into factory and production ramped very, very quickly. So going forward also most of the people will be now relooking like having scattered manufacturing facility across the country and in that case we are already there and the way how our supply chain team has worked in April and May, is a clear indication but it is always better to be closer to the market and you can produce as much as required and supply in the market place. So to that extent, we are in a much better position. The second one is that which is like based on the innovation and R&D, it is the first time in my 30 years experience, a product out of Jyothy Labs has come out in 21 days in the form Margo sanitizer and this will also give you kind of understanding of the leadership team and also the R&D and supply chain. Everybody are operating from home and we felt that it is a need of the day and it has come out beautifully, it has come out and now supply is the problem

for us and because it is asked for everywhere. Now in 21 days lockdown period, if the company is able to launch a beautiful product in Margo sanitizer that says a lot of things and that is reason like we always say that go to the market and consumer insight when they wanted and they get it so to that extent I am very, very proud about the Margo sanitizer and also the Margo hand wash. Both are now on top.

Manoj Menon: Okay. Understood. Just two quick questions, one I heard you commenting about the hygiene segment opportunities this year, just trying to understand how big is the opportunity for you because Margo is one product which probably falls under hygiene but how do you define hygiene and how do you see those opportunities this year? Little more detail category wise would be helpful.

MR Jyothy: So Manoj, the thing is sanitizer if you know earlier it was not a big category at all, it was there in existence but most of them were not using it and now after this, the scenario has changed completely, we do not know what would be the estimate but going the way it is look like that is going to remain a big category since you can take it while you are traveling and all those becomes very important, everybody will have one sanitizer in their pockets is what the expectation is and that market is going to grow. Also the hand wash segment as well was not as big, it was more I think in the south because again south like all know is more hygiene conscious, now that would also explore in a bigger way. So we are seeing these kinds of categories growing though while we cannot put any numbers to it, but that is going to explode.

Manoj Menon: Would you put household insecticide also under the hygiene definition?

Ullas Kamath: Yes absolutely Manoj because household insecticides, the season has been very good and it is extended by about three to four weeks that is one positive. The second one is more important is that nobody wants to go to the hospital because of the COVID, whether you get the fever, whether you get the cold, whether you get the body ache, nobody wants to go the hospital. For that they are really, really worried about the mosquitoes. They are not taking it lightly now. So the investment in household insecticides have gone up, every household for one reason that no point going to the doctors because they are scared about the COVID. So that by default the HI has got the much needed respect now from the market.

Manoj Menon: Understood. Thank you so much. I will come back in the queue.

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

- Amit Sinha:** Hi team. Thanks for the opportunity. Firstly is it possible to share segment wise trend of last two months April and May, the reason for asking this is basically you are highlighting that couple of segments have done extremely well including HI. So just wanted to understand what has been the trend in the last two months for segment wise?
- Sanjay Agarwal:** Hi Amit. So for the last two months, obviously first 15 days there was a lockdown and it was difficult for the goods to reach to the retailers, but post that off-takes have been high on household insecticide because that was the key in the peak season. So HI has done well. Similarly, dish wash, the cleanliness has become very important and because of our anti-bacterial dish wash brand, Exo has done pretty well. Similarly in personal care Margo has been doing well in the last two months. So across brands we have been seen a good growth in all our four categories in which we are present.
- Amit Sinha:** So there is no differentiation in terms of the growth rate, ex-post wash, so rest of the categories are doing equally...
- Ullas Kamath:** Absolutely right. 85% of the businesses are absolutely fine, that 15% what Jyothy said that is only thing which will get impact other than that 85% comes under the essential and health and hygiene.
- Amit Sinha:** Sure. Secondly Sir is it possible to get some sense on secondary sales trend for you in the last two months again?
- Sanjay Agarwal:** Yes, secondary is much better than the primary.
- Amit Sinha:** Okay and lastly I think an extension of the earlier question, especially for the soaps category, are you seeing, I mean I understand hand wash and sanitizers would have done phenomenally well in the last two months, but soaps as a category has it seen surge in demand much higher compared to what it has been growing in the last few years?
- MR Jyothy:** Yes. So we have Margo under soaps here and yes it was a slow start in the beginning but since the summer are in here and usually we do well in the summers and that has been on trend the way it has been. So it is the same like all the seasons that have been, maybe slightly muted but still it is a good enough sales that are happening on Margo.
- Amit Sinha:** Okay. Thanks a lot team.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

- Tejas Shah:** Hi. Thanks for the opportunity. Just a couple of questions from my side. So in the recovery phase of April and May, how was the rural growth been versus urban?
- Sanjay Agarwal:** Today it is dependent on city to city, like Mumbai has some challenges, Chennai may have some challenges, Surat and Indore have some challenges. Otherwise urban is doing fine. There are obviously certain red zones and containment areas in urban areas which are in challenge. While in the rural market, it has been much easier to get the goods across but what we see now going forward I think the whole game changer can be the rural distribution and the rural demand given the government support to the rural market, we may see the rural growth also coming back.
- Tejas Shah:** So as of now what are your rural recovery, we are reading about them in media and all is relative to urban not doing well. So rural Y-O-Y, have it picked up?
- Sanjay Agarwal:** Yes. Rural is now doing better.
- Tejas Shah:** Relative to last year, not just urban?
- Sanjay Agarwal:** Yes that is right.
- Tejas Shah:** Okay. Second, how has been the recovery in GT, urban and online different channels?
- Sanjay Agarwal:** GT has been doing fine as we speak now, 85% to 90% of the distributors are back. Modern trade and CSD as we said before, 50% to 60% of their stores are open. So there things are now picking, I think in the month of June you will find most of them again coming back. E-commerce is a small base but they are doing fine and as we speak now things are picking up very well.
- Tejas Shah:** Sure and lastly we have decent land bank and we are waiting for right time for a while now to liquidate and create cash out of it. Now looking at macro environment and the real estate market would not recover in the near future, so any rethought on that or you still hold onto that thing?
- Ullas Kamath:** We still hold on to that because we always wanted right time but now it is really bad time and at least till 2021 I do not think that anybody will venture into buying in real estate, so we are definitely holding onto that, but in case like if I get a buyer we are always there to sell but otherwise in 2021, we will be very very cautious in capital expenditure also at the same time like if we get a buyer will be more than happy but not at a spree sell it.
- Tejas Shah:** One bookkeeping, what will be ETR for next two years?

- Ullas Kamath:** About 15.1%, correct Sanjay?
- Sanjay Agarwal:** Yes. correct. That is right. We continued to be on the MAT, 15% is right.
- Tejas Shah:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Hi Sir. My first question is on the dish wash. So March is not exactly a peak month in the sense dish wash is a more consistent usage. So a 21% dip there is much sharper than the volume dip seen by any staple company as overall plus there is a 70 bps drop in the category of Pril liquid. So could you explain both of these things why such a sharp decline and why 70 bps loss, 70 bps loss on a 16% market share is quite huge, so why it is happening?
- Ullas Kamath:** This is Ullas Kamath here. Historically if you see last three years of average if you see the last like 10 days of sale is between 150 to 200 Crores what we have done and that is the cycle in which the company is working and always it is so, because pre – like HI season, our stock you see in December we will start building up the stock and the most of it will go to the market in the last 10 to 15 days that is number one and number two is that Margo, so again that goes to the market and last 10 to 15 days because of the summer. Now if you quantify this percentage wise while it looks 23.8% like big drop when you see the quarter, but when we analyze last three years also, like we are fine, we are comfortable, but going forward, the percentage has to come down because there were lot of corrections we are doing it between the primary and secondary. Now the second is market share loss what you are seeing, it is of December like 2019 to December 2018. So the last quarter market share data we do not have whatever market share data we have shown in the presentation, it is up to December 2019, and for the current year we are yet to get the quarter number that will get only after June 30, 2020 may be July 30, 2020 we will get that number. So when you see our secondary, when you see the market, which we track every salesman sales through sales automation also the secondary sales it has done much, much, much better internal growth, but however, the market share data only when we get it by July, we know where do we stand but there is no worry as far as market share data of dish wash is concerned.
- Abneesh Roy:** My second question is when we speak to other consumer companies, they say in crisis time consumer goes to the leader brand because of the trust factor, but expect Ujala in rest of the categories we are not the leader and when I see the data also, in dish wash, 21% decline, HI 35% decline and soaps again 35% decline. So it tallies also. So would you say that is

happening and in Q1 again this will come out when we compare, your numbers to the leaders in each space, again this can happen?

Ullas Kamath:

Leader is decided by the consumer not by anybody else. The consumer had to decide who is the leader and whom he wants, and during the lockdown, when you lockdown, I lockdown, everybody lockdown, we have also gone to the store and picked up whatever is available in the market place and people who take 1 kg have gone for 2 kg. People have the money and they have gone for 5 kg also and it is a very, very difficult situation during pandemic and Margo is 100 years old, the leader or no leader, like Ujala is 35 year old, whereas Margo is 100 year old, Henko is 30 year old. So there is nothing in our portfolio, which you say that like we are followers or non-leader. We are leader in our own category in our own state, or the state we are doing extremely well. The problem during the lockdown was the kind of sale what we have done with our portfolio as HI and personal care in the last 10 days was the differentiator and nothing else and if I am plus 5% as of March 20, 2020 and that means that if I continue the same way, I will have been a plus 5 or 6 by March 31, 2020 that is the way how we built up our stock also. That is how we had the stock in the warehouses that is what sold in the month of April and May, so to that extent our planning was fine, our secondary was much more than the primary and in December call you remember that we were telling that we want to reduce the pipeline stock, we did that, we took the correction in December and that has helped us a lot and what we were not able to sell we are able to sell in the month of April because how the sales planning was done, so if you see the market, if you see the way we have done and at least from our point of view we could do whatever the best we can including launching sanitizer and also the Margo Handwash. As of now, the production is a problem for us in sanitizer and Margo Handwash and not the demand as such and these 10 days cannot define or redefine leader and nonleader I am certain about it. It is just 10 days what is happened and another thing is that if the lockdown were to open on April 1, 2020 trust me Rs 150 Crores of the sale what you lost it will have been in the market place by April 10, 2020 because there is no credit sales, in GT we do not add any credit sales, even today there is no credit sales in GT so to that extent absolutely no worry and no concern from our point of view.

Abneesh Roy:

Right. Okay Sir. That is all from me.

Moderator:

Thank you. The next question is from the line of Aviral Jain. Please go ahead.

Aviral Jain:

Thank you so much. Hi Sanjay and the rest of the management team. I had two questions, one was the decline in sales in March, like now people have asked this question, but since there is more salience towards southern states and Kerala, I believe went into lockdown on March 15, 2020 versus the nationwide lockdown, which was announced on March 21, 2020 is that something they do with more pronounced drop in sales?

- Ullas Kamath:** Not really it is an impact of maybe 1% or 2%, for us the difficulty was in Delhi region, much more because they had a lot of difficulties, in second and third week we have started seeing the difficulties in Delhi northern region, but overall if you see this impact was not that much because of Kerala because Kerala did pretty well.
- Aviral Jain:** My second question was Sanjay mentioned that you are targeting 15% to 16% EBITDA margin for this year and there are certain assumptions I am making here, post wash could get impacted for the rest of the year because as Jyothy also commented that people are not doing out as much and it is the product, which we will use once we are going out and it is more discretionary in nature, and I am assuming since we have huge pricing power because of 80%, 85% market share even on Crisp and Shine there is no competing product out there in the market place. Generally the gross margins would be much higher and even the advertising above the line and below the line, because I have been a user on that post wash category, so how would you make up if my assumptions are true in terms of gross margin and EBITDA margin if the post wash category does not grow or kind of reports a significant decline this year, if you could just take me through the EBITDA, which or you can touch the post wash category has gross margin and EBITDA margin in line?
- Sanjay Agarwal:** Aviral you are right, we will have to wait at this point of time because we will have to see how post wash comes back in the next month or so. Depends if you are looking at a very short time frame for this quarter or for the full year. Full year yes post wash will again come back as you said we are the market leader both in Ujala Fabric Whitener and Crisp and Shine, so we should be back on that. There will be certain components of the entire gross margin and EBITDA, which we will have to see and we are aligning ourselves for that. So yes there will be certain RM/PM benefit, which we will get, there may be some post wash sales portfolio which we will see in very short period going up and down. However, from the cost part of it there are certain measures which we are taking and maybe some of those will help us, some of the media spends will have to see in light of how the demand comes back and how the lockdown opens and how people are able to go back to the market. So putting all these things together, as of now we think we will be able to be in the guided range of 15% to 16% for the full year. There will be a mixture of lot of things, but all our efforts are there to get to that number.
- Aviral Jain:** Okay. Sure. All the best for that. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.
- Kaustubh Pawaskar:** Good evening everyone. My question is on the lower unit pack, in the initial comment Sanjay you mentioned that lower unit packs are getting higher demand so can we say that

because of it there would be change in the mix in Q1 or quarters ahead because lower unit pack sales would be on a higher side?

Sanjay Agarwal: On margins it would not be that high impact because lower unit packs generally do not have any trade schemes and promos on it, so at the company level we will still be able to manage good margins and if lower unit packs are going in some of the markets where it just becomes an entry strategy for us, so they are helping us. There has been a good 15% to 20% increase in those lower unit packs in those relevant markets, so actually it is helping us in building our market share also for long term.

Kaustubh Pawaskar: So what is the current contribution from LUP to the overall revenue?

Sanjay Agarwal: It depends on each brand to brand, but if you want the number for the whole company you can take it as around 25%.

Kaustubh Pawaskar: My second question is on the toilet cleaner, T-Shine. Considering the hygiene categories getting higher demand would it be not prudent enough to launch T-Shine national wide maybe at least in four to five states and gradually inching up to pan India level?

MR Jyothy: T-shine while we have it in Kerala as of now and it requires lot of investment. Right now our strategy would be to go immediately to the next southern states and we also have a T-Shine floor cleaner now, which we have already taken it to the other states as well in the current quarter.

Kaustubh Pawaskar: Ad spend would be on the dishwashing space along with the hygiene importance, I believe that there is lot of in-house consumption, which is happening currently because most of the people are staying at home and the food has been prepared because out of home consumption is absolutely not there, so considering that some of the categories like dishwashing or toilet cleaners or even detergents, I think those categories would see better growth if you have a normalized business environment, is it a right understanding?

MR Jyothy: Yes. Correct. So we are witnessing those growths in our portfolio as well.

Kaustubh Pawaskar: Okay. So I think dishwashing segment would see a better growth in quarters ahead?

MR Jyothy: Yes. Definitely and our Exo is pitched on antibacterial, it is all the more hygiene conscious bar since it is the first antibacterial dish wash bar in the country since 2000 and it is doing really well.

Kaustubh Pawaskar: What is your direct reach currently in terms of distribution?

- Sanjay Agarwal:** So our Ujala Fabric Whitener is available in around 3 million retail outlets and our direct reach is around 8.5 lakh retail outlets.
- Kaustubh Pawaskar:** Okay. Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter Investment. Please go ahead.
- Keshav Garg:** Sir in the December quarter promoter shareholding fell from 67% to around 62%, so what is the reason for promoters exiting?
- Ullas Kamath:** They had pledged the shares which you would have seen in the earlier quarterly numbers and the promoters sold 4% stake to reduce their pledge against the share so to that extent the reduction is there.
- Keshav Garg:** Are there any further plans to also exit and what is the remaining pledge?
- Sanjay Agarwal:** Yes. As of now the outstanding is about 60 odd Crores it is equivalent to one year of dividend in the promoters hand, so there is no further dilution or selling will happen it is just that we wanted to reduce that existing pledge, which we did it and as of now what we have is 60 Crores of debt, which is equal to one year of dividend, so we are comfortable with that.
- Keshav Garg:** Sir our household insecticides and laundry service together we have employed 206 Crores and Sir both these divisions are making losses so it is pulling down our return on capital, so when do you foresee these two divisions turning around and especially the laundry division in the past three years top line and losses are constant so what is the strategy over there?
- Sanjay Agarwal:** Strategy is like our laundry businesses are high capex and also now in COVID our experience is very bad because it retail driven and where we do our businesses through the railways and railways are not running and people are sitting at home, so they are not wearing good clothes to the office, there is no weddings happening and there is no travel happening, so it is absolutely like it has affected the laundry business and which is obvious because the reason, which I told you. Now company had taken decision in the past that we do not invest any more capex in JFSL and we also look for a partner if we get one strategic partner and it is the way of the largest launderer in the country and we were the pioneers, we have been in the business for the last 12 years, lot of money has gone into the business and we do not want to exit the business as desperate, we have built a beautiful business and Fabric Spa brand is the biggest brand in the country, we do about 40 Crores of business in our service sector and out of which 75% comes from Bengaluru alone, so we see some hope there. We are looking for some strategic partner there because you need huge money to take

it all India. All I can say is that we are okay to work with somebody in that business, but from the JLL perspective there would not be any further investment, but if any good candidate comes and if they want to take the business forward that is all what we can say at this point in time.

Keshav Garg: Okay Sir and also Sir why are not we writing down our goodwill of 783 Crores, so why are not we basically depreciating or amortizing it?

Sanjay Agarwal: It all pertains to the goodwill what was accounted at the time of purchase of Henkel business and we all know the Henkel business what we have purchased at that point of time and the value which has got generated now, so from accounting perspective there is a goodwill impairment test done every year and the value what is there is far, far more on what the goodwill is on the books, so there is no need for any goodwill to write-off.

Keshav Garg: Sir basically from the Henkel's label only the Pril is doing well and Fa if you go in any mall or anywhere it hardly ever it seems to be there?

Sanjay Agarwal: There was not only Pril and Fa in Henkel acquisition. These are the two brands where we continued to pay royalty to Henkel because these are their global brands, but other than that Margo has done phenomenally well, the turnover was 40 to 50 Crores now it is almost 200 Crores brand similarly for Pril, Mr. White and Henko itself, so all the brands have done phenomenally well and Fa is our conscious call because it is a very crowded space and we want to focus on other brands. So all brands have done pretty well from the time we bought it from Henkel.

Keshav Garg: Maybe Fa we can try shower gel exclusively shower gel brands it sounds like high end foreign brand, so maybe...

Ullas Kamath: We will take our inputs. We will work on that at an appropriate time because in Fa and all the brands formulations are managed by Henkel and we do not have complete liberty as we have in other brands, so to that that extent they need to approve on that, but I will take your suggestion, good suggestion, we will consider that.

Keshav Garg: Okay Sir. Thank you very much

Moderator: Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: My first question was on Ujala Fabric Whitener as it was very large chunk of your overall profitability, now if you are saying that there is a slight decline or there is a moderation in

Ujala Fabric Whitener would that not knock the overall profitability during the work, I understand that crude prices have fallen quite a bit?

Sanjay Agarwal: The company started its journey with Ujala Fabric Whitener, but as we stand today it is only 12% to 14% of our total topline, so a lot of other brands are there and they also have pretty decent good margins, so not too much concerned about if one particular brand going up and down and for entire portfolio we have got fairly good mix of brands in different categories and having good gross margins.

Abhijeet Kundu: Secondly in the initial lockdown as well and the current lockdown, rural markets were not much impacted and what we understood was that in rural market people were moving around as well, so Ujala Fabric Whitener should not have seen substantial impact the impact may not be much in terms of sales right?

Sanjay Agarwal: Yes. That is right.

Abhijeet Kundu: In April or May, the way it has laid out to be like Ujala Fabric Whitener maybe impacted?

Sanjay Agarwal: No. I think let just clarify this point what we said is because 80% to 85% of product portfolios are essentials and that means every day you take a bath and you wash utensils, and therefore you need all of them. Only if it is in the post wash category, which is for us Ujala Fabric Whitener, and Crisp and Shine, since for a month or two, people were staying at home and there could be some drop in sales, but now again it is coming back, people are again back to work in most of part of India and as you said rural market were less affected so Ujala Fabric Whitener has been doing well there.

Abhijeet Kundu: You have seen a very fast recovery in all the states, you have a good amount of exposure in Kerala and that would have also helped your April and May?

Sanjay Agarwal: Yes. That is right Sir.

Abhijeet Kundu: Thank you.

Moderator: Thank you. The next question is from the line of Sajal Kapoor, individual investor. Please go ahead.

Sajal Kapoor: First question is, the 10 days of disruption in the quarter, which had 90 days, the volumes declined by 22%, revenues down 24%, I cannot get my head around to be perfectly honest please, can you help me out in digesting the divergence?

Sanjay Agarwal: It is not only you or me, I think all of us know that the all businesses operations were suddenly disrupted. We already spoke about that household insecticide business we do additional 100 Crores in this quarter, the only reason is since mosquito season comes only in the month of April and May and therefore the trade buys it in the last fortnight of March and they are able to sell it all over India, so the operations were totally disrupted, transportation was halted and because of the part of product portfolio was affected much more and the cutoff date of March 31, 2020 the impact is there, but as we said immediately once the lockdown was announced we proactively sought clearances and permissions for our operations to resume and our sale force was back on the ground. Since manufacturing was in our control, so we got back on manufacturing. Sales team, again our distribution model is unique wherein we have our own sales force on our payroll versus businesses who are dependent on distributor sales force and our product portfolio which is more essential, more hygiene products, so with all these with our committed and resilient sales teams I would say the entire team has done a good job on the ground.

Sajal Kapoor: Second one on the cash flow statement, so yes the PBT is down Y-O-Y and that has taken some hit to our net cash is 170 Crores against 300 Crores, but the biggest contributor there I see is the 77 Crores swing in the payables can you just help us out please?

Sanjay Agarwal: Again the cash flow statement is cut as on a particular date. If for the last 10 to 15 days we were not able to sell x amount of quantity, the inventories have gone up and we could not purchase anything in the last 15 days, the purchases were down, the inventory levels were down, all I can assure you is as we stand today on May 31, 2020 the cash flow has been pretty good and we will present the balance sheet at the next cutoff date to you, you will see healthy cash flows. We also paid to our suppliers upfront to support for the COVID loss because lot of our suppliers to whom we have long relationships even though the due dates were beyond April we paid them upfront so that March 31, 2020 they could pay their staff salaries. All these helped us, we were the first one to get the supplies back from those vendors when our production started in April and May, so a couple of things we do when we are running a business to support our business partners.

Sajal Kapoor: That is a valid point. I was expecting that sort of because it look like prepayment has been because the payables have jumped sharply and I think it is a good gesture to keep your suppliers in good shape because then you can just quickly bounce back, which I think is reassuring and just one last thing very quickly and majority of sale is GT, which is cash and carry, good for cash flows and on the MT and CSD we are only doing a smaller part of the business, so what kind of explains the working capital debt that is the short term debt that is about 200 Crores and that seems to be a sticky Y-O-Y so what are we doing about it because majority of our business is all cash and carry right?

- Sanjay Agarwal:** Sir 20% of our business is institutional when I say institutional is a combination of modern trade and CSD. Now modern trade has a credit period and historically they have been in the range of 20 to 30 days and CSD business they have been historically in 60 days, but nowadays it is a stretched little longer. So primarily the institutional business for which we cannot do much but we do get all our money, we have not had any write-off or any issues from any of these modern trade or CSD channel.
- Ullas Kamath:** Just adding to that because we operate from our own factories our money will get blocked when the time when you take the raw material then the work in progress and then the finished stock and then only we realized the money even though 80% is the GT the money we get is on the day when we supply, we do not give the credit, but we get the money when we deliver the goods on the same day against the RTGS we raise the invoice, but cash to cash when you see there because we operate from our own factories and we generally keep 15 days of stock and other 15 days in transit and other 10 to 12 days in the factory and in the warehouse we will keep about seven to eight days. Because of that like on March 31, 2020 whatever the stock we had we are able to quickly release it in the market place from our warehouse, so the moment we got the permission from the authorities we were the first to go to the market to opening the warehouse because across the state our warehouses did have finished goods and that was as a stock as on March 31, 2020.
- Sajal Kapoor:** Yes. That makes perfect sense to me. Thank you very much for all that update and clarifications and I wish the team the very best and thank you.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** I have a question for Jyothy and Ullas. Last time when we met we said that our ambition is to grow 10% and we said that we are going to spend on the advertising and all, I am not per se looking from the guidance perspective, but in the current circumstances what ambition the management will look at for the next three to four quarters?
- Ullas Kamath:** From my side like this is a great opportunity we got now and I really see opportunities. Some of our things have worked very, very perfect because the distributors whom we are dealing with they were the first to go to the market. Warehouse is the first to open, Factories we opened the Guwahati factory as early as April 10, 2020 with permission. So one is that the recoveries in the month of April and May is the highest because every buyer who is standing in the retail outlet there is no credit given by the retailer, so retail was not being given credit, distributor we never deal with credit. So couple of things which as I told you that what we have learnt is that the way how we are doing the business is the best to do during the crisis. The second one is that we considered our sales people as a frontline

warriors and there was a war room setup in the leadership of Jyothy and she was talking to everybody on a daily basis at ASM level, that made them to feel that, okay somebody is watching and that we did it and that is how April and May has been positive and lastly now we feel that like our 10% growth is definitely in a good time it will have a much more, but this is the time we need to work very hard, at this point in time we are not able to put a number to that, but our confidence has been absolutely like much, much more than what it was before especially the way how our supply chain the team has worked, our sales team has worked, our market team has worked and beyond that if the company can launch in 21 days the Margo sanitizer sitting at home that face it off. So from my side definitely we do our best and we are confident about it.

Shirish Pardeshi:

Okay.

MR Jyothy:

Going by the guidance if it was a really good time than that would hold things, but we are seeing positive results so far. Past has gone and we are in the hygiene category so that should help us, also we are focusing on the local initiative as well. So those things should give us that external interface and good things will happen Sir.

Shirish Pardeshi:

Yes. Just followup on that Jyothy, thanks for that commentary. Now we have almost there and you are taking shot, what category personally excites you, HI, post wash, pre wash?

MR Jyothy:

Well that way it is the dish wash, HI is also doing well for us while I am excited about all categories frankly, has been involved in this since last 15 years and for me each and every brand is very important and we are seeing a good demand on hand wash and things like that on a personal care, Margo as well. So for me frankly all of these are very, very close to my heart and they all will do well.

Shirish Pardeshi:

Just last question on HI would you be able to share FY2020 what is the category growth and if you can explain liquid versus Maxo at this point?

MR Jyothy:

The category growth was somewhere around 9-10% on this, but on coil it is very low single digit.

Shirish Pardeshi:

Electric?

MR Jyothy:

Yes, Electric is what I said around 9% to 10%.

Shirish Pardeshi:

Okay and lowest is coil?

MR Jyothy:

Yes.

- Shirish Pardeshi:** What percentage coil contribute in the overall HI?
- MR Jyothy:** For us?
- Shirish Pardeshi:** Total for industry.
- MR Jyothy:** Yes. They are almost equal. 50% to 70% in the portfolio for us and for industry it is 50%.
- Shirish Pardeshi:** Alright. Thank you and all the best.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Ullas Kamath:** Thank you everyone for your patient hearing and it is almost 1 hour 15 minutes. Thanks for all your questions and in case if you have any followup questions Sanjay is always available, his telephone number is there on our presentation and thank you very much for listening to our earnings presentation. Thank you all.
- Moderator:** On behalf of ICICI Securities that concludes this conference. Thanks for joining us and you may disconnect your lines.