"Jyothy Labs Limited
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Jyothy Labs Limtied Q4 FY2021 Conference Call hosted by ICICI Securities Limited. 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. Manoj Menon, Head of Research from ICICI Securities Limited. Thank you and over to you, Sir!

Manoj Menon: Hi, everyone. Good morning, good afternoon, good evening depending on the part of the world you are joining from. Welcome to the Jyothy Labs Q4 FY2021 results conference call. It is our privilege to host the management of the company represented by Ms. M. R. Jyothy – Managing Director, Mr. Ullas Kamath - Joint Managing Director, Mr. Sanjay Agarwal – Chief Financial Officer. We have a bullish stand on Jyothy Labs. We have a buy rating with the target price of 190, which is approximately 30% upside from the current price and we have been longstanding believers of the Jyothy Labs value creation story. Over to the management for comments and Q&A after that. Over to you, Sir!

Sanjay Agarwal: Thank you, Manoj. Friends, this is Sanjay Agarwal. We are happy to report the healthy financial performance of the company for Q4 FY2021. Before we begin, as you would have seen our opening slide, we want to thank all our team members who inspite of fear of COVID-19 have been maintaining all necessary safety protocol and have gone beyond their call of duty to make sure that the company is able to service its consumers 24/7. I would request our Managing Direction, M. R. Jyothy to further brief on this.

M. R. Jyothy: Thanks Sanjay and good evening for all our analyst friends. This is only for your info. The thing that which we want to bring to your attention is one is it sad that country is undergoing the second phase of COVID really bad. It is a bad scenario out there and it is a difficult time for all of us and in the midst of it we are also facing the same thing. What we are doing on our behalf, we are keeping track on each one of our people. For us our people come first. What we are trying to do is while doing the business, taking care of each one of them. They have been provided with N95 masks. They have been monitored on a daily basis. We have helpline numbers for support. We have inhouse doctor consultation, personal calls to all impacted employees, our HR monitors and are on-calls with them. We have also extended our Mediclaim to all the off-roll employees and at the CFA and distributors salesmen as well. This is all to ensure that none of us have to lose the precious life. We are doing all that we can to see that all of them are safe including their family. I am on a call with them on a weekly basis just to ensure that we are with them and to assure them that in this time of difficulty we are with each one of them, so with that it is only an update, it is just only as a thing that I wanted to ensure that from our side we are with our people and I hope that we all will be able to come out of this very soon and God give the strength to each one of us. With that I hand over this to Sanjay to take forward the presentation.

Sanjay Agarwal: Thank you Jyothy. Before we talk about specific Q4FY2021 numbers, I will just give a perspective on market scenario. I am on slide 6, if anyone of you is going through our presentation. So we are reporting these numbers for Q4 FY2021 when India was in un-lock phase. Q4 had similar up-trends of Q3 of FY2021, wherein we were witnessing healthy consumer demand across home and personal care. There was a good rural demand and urban consumption trends were also good post the normalization of activity and almost all trade channels were operating back to pre-COVID levels including modern trade and CSD channels, which is quite encouraging for the team.

However, as we speak, we are in Q1 of FY21-22 and the rise of COVID cases are now increasing, which is disrupting the supply chain and restricting mobility of sales team and again now neighborhood stores are back in the spotlight. One of the interesting phenomena is we are seeing in the neighborhood grocery stores which have led to the growth of FMCG stores is these merchants have reconfigured their business model and the whole momentum has shifted to digital and that is where we are also focusing and working with these merchants for adoption of digital technology. Also as expected online channel is seeing a very good traction.

The next slide, we wanted to talk about how we have strengthened our consumer centric approach, which has accelerated our growth plans under the leadership of our new Managing Director, M.R. Jyothy. Our five strategic levers are as follows: Distribution, we are driving products to the last mile, we have hired some senior team in sales, trade marketing, R&D, this all is increasing or improving the productivity of the sales people and we are using digitization a lot in that, focusing on the GT, taking brands to the consumer, following cluster approach to accelerate growth, and the resultant is that our pipeline stock has come down to 8 to 10 days now, so that is the strength we are building in the distribution.

The second is on the Brand Investment. We are increasing media spends as you would have seen in the last 2 to 3 quarters and going forward, so we are investing in the business and we are listening to consumers and in the next slide we will talk about our market share gains as well. So, there is a full commitment to strengthen our brands, that is the second strategic lever on which we have worked for the last 12 months and which is what is going to lead a part for our growth. The third is on the Digital Technology, so there is adoption of digitization across the organization including demand planning and it is quite noteworthy to know that during COVID19 period we have implemented CRS, continuous replenishment system across all India. Also technology is changing the way we are thinking about go to market strategy as well, hence technology and digitization is the backbone on which we are working. The fourth lever is Innovation, as you all know we are an Indian company and our focus always has been on the core, so while thrust is in on innovation. You would have seen number of innovations coming from different categories to strengthen our existing brands and the objective is to drive healthy growth across categories and the fifth and not the least is to focus on Sustainability.

Today, consumers are buying more sustainable products and that is one of the key drivers in all our decision making, so with all these five strategic levers, I would request you to the next slide, which is most important slide in the whole presentation is on the Results summary, how our journey has been for the last 12 months because that has set the pace for us going forward and if you see the sales growth, Q1 we were at 5%, Q2 we were at 8%, Q3 we were at 15%, and Q4 we are at 26% of this all adds up to a yearly growth of 11.6% and this is in-spite of weak post wash fabric care sales, which is broadly 12% to 15% of our business, which has remained impacted in the year.

If we look at ex post wash fabric care, our sales growth for the year has been 18%, so very healthy growth we have managed in spite of all the challenges and that is backed by our essential & hygiene portfolio. If you look at it for the last 12 months, our EBITDA growth has been 25.3%, happy to report that that our EBITDA margin guidance, which were given in the beginning of the year to be between 15% to 16%, we have delivered 16.5%. Our PAT growth is at 17.3%. That is on the P&L side of it. On the balance sheet side of it, you would have glance through our numbers, we are net debt free company on consolidated balance sheet and if we look at our cash flow from operations to EBITDA stands at healthy 125%.

So, we have a healthy cash flow conversion what we have done and I will talk about the balance sheet numbers in the subsequent slides. The other thing is while we run our business with a strong discipline, we had kept on driving efficiencies and maintaining business hygiene, which has helped us very well. This is to keep 100% alignment in primary and secondary sales, 100% cash sales and the resultant has been that our pipeline stock with distributors, which used to be 22 to 25 days a year back has come down to 8 to 10 days and this has helped. We have been able to do it with the help of lot of measures including the CRS, which I just spoke. Now, this definitely has impacted our revenue for this quarter by 8% to 10%, but it has set the course for life and most importantly ROI for our distributors have improved significantly which will definitely help us in doing business with them.

On the second part of it, if you look at across all our categories and brands, we have done exceptionally well. There has been a consistent market share gains for all our brands that is Exo bar market share gain of 120 bps in one calender year, Pril Liquid 130 bps Maxo coil 170 bps, Maxo LV 40 bps, Ujala Fabric Whitener 60 bps, Ujala IDD Kerala 100 bps. We believe what we are doing is running and building something together. We really look forward for a higher growths, this a good summary slide to see where we are heading to and what we have done in spite of all the challenges.

Moving on to the next slide on a results for the Q4, revenue is up by 26%, FMCG sale is up by 27.3%, gross margins have remained flat, A&P spend an increase by 7.9%. Our operating EBITDA at 14.3% to 70.9 Crores, our PBT before exceptional item is 56.3 Crores. Just to talk about this exceptional item, we had set up our manufacturing plants in Guwahati and Jammu way back in 2000 on the premise that 100% of the excise duty paid through PLA would be refunded and that is how many, many companies set up their plants out there; however, in 2008, there was change via notification in the Industrial Policy by the government in which 100% excise duty benefit was restricted to certain specified percentages which was litigated by the industry and we were also part of that. We won in the High Court of Guwahati and Jammu and the matter then was pending in the Supreme Court in which the order has come against the industry and therefore we have to write-off 23.5 Crores. This is a non cash one time item what we had accrued in our book in those years and which we have now write off post Supreme Court order.

PAT for the quarter is at 27.3 Crores increased by 2.6%. Without the exceptional loss our PAT would have been in the range of 50 Crores.

Similarly for the full year, our revenue is up by 11.6%, gross margin flattish at 47.1%, operating EBITDA 16.5% which generated Rs 314.5 Crores, PAT at 190 Crores after exceptional loss of 23 Crores and the most important thing is net debt free, net cash balance on March 31, 2021, on a consolidated basis is at Rs 76.89 Crores and with the healthy balance sheet of net debt free and focusing a lot on execution, there is a healthy cash flow generation and today Board has subject to AGM approval has proposed a dividend of Rs.4 per share which was Rs 3 for the last year. Rs 4 works out to a payout ratio of 75%, so a very healthy dividend we have proposed for our shareholders.

The next slide is a snapshot of our financial performance with key financial ratios, overall very good all-round performance with healthy margins. With respect to the category wise revenues all categories are performing well and as we have spoken in the past except post wash fabric care which has yet to completely normalize. Fabric care sales has grown by 15.7%, dish wash 33.2%, HI 35.8%, personal care 38.4%, overall FMCG growth has been at 27.3%, similarly for the full year, FMCG business has grown by 13.1%. Next slide is just a quick understanding of our EBITDA margin movement from the last year to this year. Gross margin is flat, employee cost, A&P and other expenses have reduced as a percentage of sale and therefore for the quarter EBITDA margin is at 14.3% and for the full year is at 16.5%.

Moving on to key balance sheet data points, the key two things to look out our working capital days. There is a significant improvement in our working capital days from last 2 years of 23 and 35 days to 15 days and that has happened with all the execution points which we spoke. This is a very healthy number to continue and we will aim to be at this number or try to improve going forward and secondly the net debt ratio is minus 0.05% being a debt free status.

Moving on to specific brand performances and initiatives, our category wise business revenue broadly have remained same over the last 2 to 3 years wherein fabric care is 36%, dish wash a third of the company 34%, HI and personal care 18% and 10% respectively.

In terms of fabric care, which is a 36% of business, main wash has started doing well since modern trade and CSD business came back to normal in Q4 while post wash is still constrained as offices and schools have yet to resume.

Ujala fabric whitener where we are the market leader, we continue to increase our retail visibility, our market share gains again here has been very healthy. If you look at calender year 2017, we used to be at 80%, now we are at 82.6%, reason I am saying here is because in spite of owning the category we have been focusing on how we can improve our penetration in it, so we have been doing lot of BTL activity, wall paintings, van branding, showcase the superiority of Ujala Supreme over low cost blues, so that is the growth what we have seen in Ujala Supreme. Similarly for Crisp & Shine, it is a speciality post wash product, on quarter-on-quarter basis it has improved, but still to come back to pre-COVID levels and we hope things normalize because the whole post wash fabric care is important for us from a margin profile as well. It has much higher margins than our overall portfolio so once both fabric whitener and Crisp & Shine sales are back to normal it will aid in our margins as well.

Next slide is on Ujala IDD where we are the top position in the mid price detergent powder market in Kerala. Here to our market share has increased from 17%, which was there in calender 2017 to 20.7% now, it is a very good increase in market share and we continue to have TV presence with Manju Warrier in Kerala and Tamil Nadu where currently this brand is operating.

On Henko, the growth is back with modern trade & CSD channels and urban centers were almost normalized. However, in Q1FY22, CSD and modern trade we still have to see how much impact we are going to have due to lockdowns, as of now there have been some issues, but we will have to see how the lock down extends, if yes, we will have some issues otherwise things are broadly going along as of now.

For dish wash, we had a growth of 33%, it accounts for 34% of our business, the double digit growth is driven by both Pril and Exo where we are seeing higher penetration in market share gain and also we spoke in the past as well the growth is backed by more inhouse consumption, emphasis on hygiene and also our strong distribution focus across all channels and we have been focusing on smaller SKU's, which have gained a lot of acceptance and selling pretty strong in the rural markets. Seeing the momentum in both Exo and Pril we have been increasing our marketing efforts and integrated campaigns first on digital, improving brand visibility across retail outlets, these have helped in increasing marketing efforts to reach out to consumers.

Moving on to the HI, we continue to deliver healthy growth, once again here both in Maxo coil and liquid vaporizer, we have gained market share and this is a heavily competitive space and in that we have gained market share demonstrates that our execution is being done well. The seasonal sales have been satisfactory and again, consumers being driven more towards preventive measures towards health and our focus continues to remain on liquid vaporizer. This quarter we also launched fit all machine liquid vaporizer bottle, which has further enhanced the brand value for Maxo it has its unique offerings. We are quite bullish with launch of this new refill launch. Last category for us is personal care, which is 9% of our total business. Personal care is primarily Margo portfolio, which is soap, hand wash, face wash, sanitizer and we have seen good demand backed by our focus distribution and also consumers preference for natural based products, so that is something, which has driven personal care growth and in coming seasons we see a good growth coming in that.

The last slide now to talk about the way forward. We are driving toward higher volume led growth. We are shifting gears and we are preparing for the future. How we are preparing for the future, we are having sharp management focus on brand investments, which I have already spoke, use of technology, and strengthening our distribution infrastructure, find different ways of reaching to the consumer to the last point so those have been the fulcrum on which we are driving all our growth. Also since there is a sequential inflation in commodity cost we just wanted to highlight that from our perspective given we have a diversified portfolio we will make efforts to balance it with strategic price increases, drive towards higher margin product sales from our portfolio, cost optimization and initiatives and balance with trade scheme to protect our margins on yearly basis.

With that, I finish my presentation. We are happy to answer any questions or clarifications you may 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 Manoj Menon from ICICI Securities Advisors. Please go ahead.

Manoj Menon: I had just a coupe of clarifications if I may, the first Sanjay while you commented about the cash generation improvement essentially significant improvement in multiple line items in the balance sheet and also I heard you making one small statement about the endeavor to sustain it, if you could just elaborate on some of the projects, which you would have worked on at the corporate level and let us say what you would have done on some of the line items, which resulted in these outcomes and that is one. The second is, as this outcomes been higher than expected, lower than expected so what I am simply trying to understand is two things, one, the efforts, which has gone in to through some examples which you have demonstrated and point number two, the sustainability of it, which is my job to extrapolate, so that is question number one?

Sanjay Agarwal: Manoj, the first question you said you were asking on line items of balance sheet or the P&L?

Manoj Menon: My question was referring to only to the working capital improvement, which has resulted in the cash generation improvement?

Sanjay Agarwal: Right, so the most important thing is first of all we have done sales on cash basis and we have been very, very clear on keeping the primary sales and secondary sales same and push in the market on that perspective, kept our inventory levels low and very good creditors management, so I think very basic things what we have done, that is how the working capital has been managed and we think it is a sustainable working capital days going forward what we were able to do.

Manoj Menon: Is it fair to assume that the current working capital activity, the numbers what we have is it something which is likely to hold for the next 3 years or so, is that a fair assumption?

Sanjay Agarwal: Yes, Manoj that is right because once we have taken decision of doing our CRS things that the entire primary is backed by secondary and the entire business is on cash sales and once the process has been set I do not think so we will be changing it and the 15 days is fair benchmark to have for 3 year and going forward.

Manoj Menon: Understood, the second one, I am sorry if I am missed that comment, just from a clarification point of view, I read about CRS in detail, but did you quantify the impact of CRS, which may have impacted your reported revenues in the last three months, is there a quantification there?

Sanjay Agarwal: So, Manoj, it will be around 45 Crores to 50 Crores, which is around 8% to 10% of the top line for the quarter.

Manoj Menon: 8% to 10%, okay, I understood, so basically my two year etc., from negative should look like a mid single digit number, I understood if I do that, I understood on an underlying basis, got it. The last question, we heard some comments about market share gains, just only wanted to understand only one perspective from all three of you how do you look at the source of this share gains, what I am just trying to understand is, is it really from more formulation of category, is it coming from more activity driven, innovation driven, so what are the source of share gains so that again what is the forecast ability of this share gains, or the stickiness of the share gains actually that is what I am trying to understand, thank you?

M. R. Jyothy: So, Manoj, on the market shares it would have definitely come from the competition and some bit being in the local players that are there and these are more state wise it would differ, but what you see is on a national level, so individual states there would be local players and competition and national players as well, so some gains from both ends has happened, as you would have seen our last year performance that has been there has been on small unit and we have tried to be there and take advantage of every opportunity that was given to us, one is through increased reach by distribution and also backed by activities and BTL being there so rural for us has been a great driver last year and we have been able to be present in the necessary SKU's at all levels and that was the main reason behind the market share gains, so some states you would see more and so on an average, yes, at a national level that is how we have gained.

Manoj Menon: Sure, thanks.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Good evening team. My first question is on the effort you have taken on distribution, so would you be able to just give me some data on that in terms of your direct reach as well as total reach for the end of this year and how it compares to 12 months ago and 24 months ago?

Sanjay Agarwal: Percy, We have added around 500 plus sub-stockist to focus more on the rural side of it and because that is where long-term growth is and we thought this is a right time to invest there with the help of technology. Second on the distribution in the urban areas, the point is to aid the salesmen with lot of data and we do lot of back end analytics to assess them in doing the right beat's, how do we add or make their calls more productive, so I think that has been our more focus in the urban side of it and in the rural to focusing on how to increase our depth through van operations. In summary, our focus is more on adding sub-stockist, using digital, van operations. As regards the numeric distribution, we are reaching at around 8 to 9 lakhs shops on a direct basis and our Ujala Fabric Whitener is available in around 3 million outlets. Also, we are not going madly with just increasing the number of outlets we have said in the past as well, but the objective is to how we can sell more line per call, how we can use more productive calls and in the current environment even aid the sales people when they cannot go out in lock down to do even tele calling and make sure that the daily sales numbers are maintained.

Percy Panthaki: Right, secondly just wanted to understand, I understand that there are couple of segments, which are under pressure mainly post wash and some part of year even your detergents, but including everything your entire portfolio, the two year CAGR for FY2021 full year is about 2.5%, now with the COVID also being there, second wave may be of course the kind of restrictions are not there in the second wave as much as they were in the first wave, but still there is some amount of consumers behavior, which will get affected in post wash and detergents, so with this 2.5% kind of growth that we have currently for the full year and the situation on the ground environmental factors, etc., are not changing very drastically, how would you look at your sales growth going into the future, I am not asking for a numeric guidance, but any kind of qualitative commentary you can make on the same will help?

Sanjay Agarwal: On the 2 years CAGR we also have to look at it that we have brought down the distributor pipeline stock from 22, 25 days to 8 to 10 days so that has also factored in may be 3% to 4% of sales on our yearly number. Second because of the post wash fabric care not being there as I said before, if we look at ex post wash fabric care, the number is 18% for the full year, which as we move along and hopefully the current lock downs are not that stringent like what we had seen last time and hopefully in the next couple weeks which are very critical we will see where the country is heading towards, but if things come back to normal hopefully then all that growth which we have not seen on post wash fabric care will come back. Also through the last year when we are trying to do two years CAGR, the modern trade channel were not there for most part of the year, so that has also impacted and certainly these are few things, which we need to keep in mind when we are doing two year CAGR, which we believe once things become normal we will be able to have a much higher growth. The key strength what we got or what we have today is our essentials portfolio which is helping us and the distribution and the brand innovation which we are doing is helping us gain our market share. So I think those are the most important things the way when we look at our business profile, how we look at going forward. We already spoke about our plans and we are extremely confident of all those plans which is evident from the fact that we are gaining market share, but going forward, we will be competitive and we will be growing higher than the category growth and all our efforts will be there to get to double digit volume growth in the medium term going forward.

Percy Panthaki: Right, and my last question is thanks for giving the market share for all the brands, just one brand is missing which in Henko, if you can give the market shares and the movement there also it would help?

Sanjay Agarwal: On Henko, we have not been subscribing market share, detergent is Rs 20,000 Crores plus large category and we have a small number out there so we do not track from that perspective but we know our internal numbers that growth have been good both in modern trade and CSD and urban centers.

Percy Panthaki: Got it. That is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Thanks for taking my question. I have two questions, if I look at sales growth for 2021 except for fabric care all other segments have grown, so just could you give some colour, how much of the sales growth which we have seen structural habit change and on the market share, Jyothy did comment, if you could give some more clarity, which category has further tailwinds to enhance our market share that was the first question and if you could quantify the NPD contribution for FY2020 these were the two questions?

M. R. Jyothy: So, for us last year fabric care was the one, which did not do that well with the kind of environment that was there at that point in time. We also have a large presence in modern trade from detergents perspective as well, post wash is the one that actually suffered, one is because of no activity of people going out thereby reducing the usage of post wash as such, so what we are expecting and we are seeing is once things come back to normal, which is pre-COVID levels, once activity is resumed, once offices and schools open all of these would be back on track, very well back on track, one is the brand strength that Ujala has and both the post washes are under Ujala, one is for Fabric Whitening and one is completely unique proposition of giving Crisp and form and shapes to your clothes, which is completely dependent on an outdoor activity, which is you need to be very active and hence the usage of such thing would definitely change once people's activity resume so that is for sure, it is going to come back, the rest is if you would have seen the insect repellent portfolio for us has done well mainly from the thing that people want to take a preventive approach, which in a way has helped us. One is we could get lot of trials that has happened, so the positive way to see for me is last year helped us if I were say more of trial have happened, we have had large number of smaller SKU's gaining momentum, which also means that many, many households have tried our products and we are very sure with the kind of quality and the brand presence and the investments that we are doing on each of these brands backed by innovation, the efforts are to continue and even if we are able to retain at least 50% of the users who have tried even once that itself is a very big gain for us, so that is how we see the future, it is only that the fabric care and the post wash, which has got badly hit last time, but in the fourth quarter as you would have seen things for us had started looking out, now with whatever the way things are, the moment things are back on track, all of this will be a sure kind of gain for us. We have been investing behind innovation in each existing category as well and that also should yield us a big gain, we have been nicely positioned and differentiated with competition even in, if you see Exo bar, we are the only dish wash bar in the country to get corona virus kill clean and Maxo Genius where we fit all machines it is a very, very important when you see from a consumer lens, so these are the innovations even within the existing category that we were able to bring a kind of difference that will make in consumers life, so this happens on an ongoing basis, our job is to see that we make our consumers life better by providing them convenience and I think that these efforts will definitely help us gain market share and thereby growth. NPD of the year their contribution for now is small, if you would have seen it is only last few quarters that we launched it, it will take some time to go while we are investing on the brands some of them have been regional and very specific to certain states, we will scale up as and when we see response in these markets to take it to a national level, so those are the kind of things, the initiatives that we have taken.

Prakash Kapadia: If you could talk about focus which you are targeting to put in a sustainable volume growth in some of the products where we have seen market share gains or not necessary?

M. R. Jyothy: Sir, I could not get your question, you were not clear.

Prakash Kapadia: I was trying to understand some of the market share gains and recently brand which you have launched or the LUP are these more targeted toward rural of India or not necessary?

M. R. Jyothy: We have seen traction more in the rural, but definitely like you said not necessary, we have seen things at both the ends, but more specific to rural and like how Sanjay said that our distribution our focus also has been on driving distribution so all of this has helped us, so it is in the element of which has helped us to gain growth in these brands.

Prakash Kapadia: Sure, I understood. Thank you and all the best.

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

Harit: Good evening. Just had three questions, first one is on the price increases so just wanted to get a sense of what is the level of price increases we expect over the next 6 to 12 months in order to pass on some of the inflationary pressure, how much we already taken and how much is going forward?

Sanjay Agarwal: Harit, as you know the RM price market has been quite volatile over the last 6 to 9 months, so we are calibrating all our approach in that and we have taken, if you are looking for a number, say 2% to 3% of top line is today we had taken selective price increases in few brands and done reduction in trade schemes so which effectively takes care of 50% to 60% of the price hike. Going forward, we are monitoring it very closely and seeing how we can avoid a price hike, but as a last option, we will take price hike to protect our margins.

Harit: Got it. The second question was on the innovation side, so you have spoken about innovation quite in detail, I just wanted to get your sense on just looking forward into fiscal year 2022, is the focus going to be around this five innovation, which is done or should we look at more innovations to this over the next 12 months?

M. R. Jyothy: So, whatever we have launched so far we will focus on growing them, so these are relatively new in the market, so our focus is first to also see to it that these grow, while I say that we would see some few innovations coming, but broadly we would want to focus on what we have already launched in the market.

Harit: Got it and how many of these five would be national and how has to be regional, or they all regional or how many are national now?

M. R. Jyothy: So, if you see that are things done on Exo dish wash bar that we have is a national one, the Maxo Genius is a national one, few of the others are more regional, more south specific, one mainly because south as a market are pro-innovations and you get to test these things out first there before you go national, so that is the approach we have taken and depending on how we get the feedback those will be then taken up on a different scale.

Harit: Understood, last question was just a data point, I just wanted to know the number on what is the LV share now and total Maxo and how it has changed in the last 12 months?

M. R. Jyothy: So, it is from 8.4%, it has gone to 8.8%.

Harit: I just wanted to know the sales mix as a percentage of sales, how much is LV for you now and how it has changed over the last one year?

Sanjay Agarwal: Coil used to be 70% and LV was 30%, now LV is around 35% to 40% of our total portfolio.

Harit: So, 30%, Sanjay was about a year back?

Sanjay Agarwal: Yes, year back and now we were at around 35% to 38% as we speak.

Harit: That is it from me. Thanks and all the best.

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

Tejas Shah: Thanks for the opportunity. First question pertains to distribution, you have mentioned that at one point hiring of senior team so if you can share some details on hiring is for which position and from where people have joined in the organization?

M. R. Jyothy: So, we have hired on a national level, which is the national sales manager we have appointed a year-and-a-half back and he comes from Britannia and we have hired people across different levels as well within the sales team.

Tejas Shah: So, others are actually recent hiring in this year?

M. R. Jyothy: No, most of them we also had somebody in our R&D, all of these hires were done about a year or two back.

Tejas Shah: Sure, thanks. Second question pertains to you also mentioned about digital initiatives, so what exactly and you have used the word new edge tech in distribution, so what does it entail and how should as an analyst I should expect benefit of the same in coming quarters or years will it show up in better earning growth momentum in terms of sales or better efficiency in margins or better in terms of trade?

Sanjay Agarwal: So, it will lead to both the things, one it will lead to better working capital management at the company level because we have implemented a CRS system it helps us to plan demand right from factories to the retailer, it helps us in planning all our SKUs, otherwise in a normal scenario it is more of an estimate, but now it is more system driven estimate of which SKUs are going in which part of India at what point of time, so it helps in demand planning. It helps in inventory management, it helps in retail distribution because once we have the SFA app, once we have our retailers app too, it increases my sales. We are able to effectively use 2500 sales team and all and all it makes us more agile and it makes us more confident of the business like today in a lock down situation we know that not 100% of the SKUs we can push because there is a limited bandwidth sales people are going in those 4 hours and they need to cover up their 50 to 60 shops so we know which are those 80% of the SKUs, which will make up to their numbers, that is at the retail distribution. Similarly at the factory level, for demand planning we know certain parts, which require more physical work so then we will be discontinuing those SKUs for now and making sure that the factories are operating in limited time at maximum capacity. So technology just helps us in getting us from end to end in a much efficient manner and it saves money at every stage.

Tejas Shah: Sure, so in that regard we are seeing a lot of FMCG companies implementing CRS this year and again coincidently most of them chose fourth quarter only, so any insight if you can share, any particular advantage of the system post-COVID or was it part of the plan and it got pushed because of COVID last year?

Sanjay Agarwal: In the past, we always had our March analyst meet in person at Trident, BKC but now we are doing these tele-con calls. Hence, we all have learnt and all of us personally have accelerated our technology or digitization story in the last 12 months. We started our journey with distributor digitization, which happened two years back with DMS. A year before we did SFA, which is a sales force automation so distributors were done, sales force was done, this was the year when CRS was to be done and it just coincided that we started of in April, May, June and now by end of the year we are almost completed and it will keep refining as we go along because it throws lot of data. I think it's just a coincidence that everybody has got themselves more sharper in delivery and execution.

Tejas Shah: Sure, and from your presentation it sees that all the pillars that we have identified for growth seems to be increase and we are working on all those pillars now, so should we expect sustainable acceleration in growth rate for the company or in other words what are we preparing organization for in terms of it should be sustainable double digit growth from here or it is a very volatile environment to guide on that?

M. R. Jyothy: See, our efforts definitely I would say are to grow at double digit numbers while I say that I know what is the current environment, but the efforts are there, the plan is in place, we also have able people with us, so I would only say that efforts from every end, technology, investment, people, business plan everything is there in place and hopefully, that will be done.

Tejas Shah: Lastly if I may, dividend policy has actually very favorable for shareholders, but in light of our not sure in past guidance that we want to or we are at least interested in buying some regional brands or regional champions so in light of that ambition how should we see this dividend policy sustenance will it be able to accommodate both the ambitions of us?

Sanjay Agarwal: We have a healthy dividend policy wherein 60% to 70% of our net profit has been shared and this time also since this is the first time when we have become debt free and our balance sheet is ready to reward all the shareholders, so therefore the board thought it was wise to have Rs.4 per share as a dividend which is a good thing. Going forward, this may not be the best time to do any acquisition at least for now when things are in lock down situation but we are open for any regional M&A or any national brand wherein we can find value in those brands, something we think we can add value we will definitely look at that and second thing is we will buy in the categories in which we are present, we will not be extending ourselves into any non-core categories for us for now. In summary, we are open for that but there is nothing which is there in the immediate timeline for us, current business is growing organically on all the core pillars on which we are currently working.

Tejas Shah: So, at least in the near future dividend policy should be seen as for this year, right?

Sanjay Agarwal: Yes, that is right.

Tejas Shah: Thanks for very detailed answer and all the best.

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

Gaurav Jogani: Thank you for taking my question, Sir. Sir, my question is with regards to the RM inflation that we have seen and especially in the Labsa prices we had been hearing that Labsa prices had gone up around 50% in the last 12 months, so in that context how are you looking the margins trajectory going ahead for this year and if that is the case would that in anyway impact our investments?

Sanjay Agarwal: You are right, Labsa prices have been going up and we are monitoring it very closely and we have taken selective price increases in detergents, even the palm oil prices have been going up in soaps. If the prices continue to keep going up, we are ready to take further price increases, we have reduced some trade schemes which will take care part of it, other part of it, it may impact the margins. Currently with our portfolio mix, we are aiming to protect the margins over medium term.

Gaurav Jogani: Sure, would you like to give any margin guidance in that sense like how we had been in the last year?

Sanjay Agarwal: Well we would definitely like to do that, but in the current context I think it will be too much of crystal gazing and predicting it currently when we are sitting in this environment it will be little difficult but as I said we will take all our efforts to protect the margins. If RM prices move very irrationally from here on obviously we will be taking further price hikes to protect that, but it lot depends on how the overall situation looks like.

Gaurav Jogani: Sure, and there is two bookkeeping questions from my end, one is with respect to what has been the volume growth for this quarter and second is the tax rate that we can see for the next 2 years?

Sanjay Agarwal: So, volume growth is around 24% for the quarter and the tax rate is around 18%.

Gaurav Jogani: For the next 2 years, 18%?

Sanjay Agarwal: Yes, that is right.

Gaurav Jogani: Thank you. That is all from my side.

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

Shirish Pardeshi: Good evening and thanks for the opportunity. I have three questions, the first question just relating to the previous participant what is the weighted inflation you are seeing at this point of time, you did say that you have taken about 2% to 3% price increase and you are cutting down promotions, but I would be more keen to if you can specify what is weighted inflation basket you are seeing?

Sanjay Agarwal: So, weighted inflation will be around 5% to 6% of our RM basket.

Unknown Speaker: Thanks for the opportunity. My first question is in this quarter you have taken correction in inventory, which particular category have you seen maximum impact, my believe is that there would be dish wash in which would have not impacted because dish washing across all quarters have been very well, this quarter also has done well, but not at the same rate as previous quarter has done well, so that is my first question?

Sanjay Agarwal: Maxo was the largest contributor for the impact of CRS on inventory in this quarter.

Unknown Speaker: And how has trade coming in dish wash now, I mean have you seen pickup, have you seen something in that or expect to see?

M. R. Jyothy: So, for us dish wash has been doing well since last year and this is still continuing to do well, it is also to do with people staying at home and the lock downs being imposed, but the trend is showing an upward trend so far.

Unknown Speaker: And I note this question was asked last quarter as well, but at what level of LV will HI business for you start seeing profit. The investment in ad spends if far higher and the losses are there, but there would be some target in mind or at which level we would see some event of profitability or there could be some cut down in ad spends?

Sanjay Agarwal: Sir, as we have been saying in the past that our sales saliency in the portfolio has been more on coils and we are moving towards liquid with our unique machine and now with the new refill launch we were looking for better profitability. If you see in this quarter at EBITDA level, we have reported a positive contribution from HI after ad spend as well, so we are on that path to profitability and hopefully will now continue going forward subject to media investments we do in this category.

Unknown Speaker: So over two to three years what should be expected contribution for non-coil portfolio?

Sanjay Agarwal: We have moved up our ratio from 30% to 35% to 40% we have come at the break even level may be by around 45% to 50% we will have a consistent profitability in HI as well which is definitely in few years down the line.

Shirish Pardeshi: That is it from my side. Thanks.

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

Kaustubh Pawaskar: Thanks for giving me the opportunity. Just one more question on HI, what is the contribution of Genius now, because that has been doing extremely well for you and I believe that you know LV contribution increasing, I think Genius is also contributing to it?

M. R. Jyothy: Contribution of Genius machines, so we have both, one is Genius machine and one is the ordinary machine. The Genius machine is the automatic one and we also have a regular machines. The Genius machine is right now 10% of the overall sales. Our focus is to grow the Genius machine as much as possible wherein we will also see the liquid penetration increase as the brand grows, so one other very important thing is that our liquid vaporizer fit all machines so for us that is also a plus point. whichever machine be the competitor or any other machine that will be in the market or in the household people may not bother, they just have to buy Maxo Genius, which fits in any machine, so with that one is we have a very strong machine with us, which gives the convenience to the consumers, they need not get up, go and change mode it is an automatic machine, and also it is our liquid vaporizer is more connivence for consumers they do not really have to think which machine do they have back home so at both the ends we have proper solutions for a consumer.

Kaustubh Pawaskar: Right, my second question is in your presentation you mentioned that April was good and you have seen a double digit growth so how are things looking now because May was a little bit difficult because that you know the southern market, the surge in the COVID cases little bit late compare to some of the other market, so now you are seeing some bit of impact on your sales in the month of May?

Sanjay Agarwal: So, definitely the second wave is much harsher and broader which is impacting our service levels in distribution; however, the consumer demand is intact, so we are not too much worried about that part of it. We are continuing to focus on our execution.

Kaustubh Pawaskar: Thank you.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Kamath for closing comments.

Ullas Kamath: Thank you everyone and in case if you have any further questions you can always contact Sanjay and thanks for attending our earnings call. Stay safe and stay at home. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.