



"Jyothy Labs
Q2 FY2021 Earnings Conference Call"

November 04, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Jyothy Labs Q2 FY2021 Earnings 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 from ICICI Securities Limited. Thank you and over to you Sir!

Manoj Menon: Good evening everyone, it is our absolute pleasure at ISec to host the 2Q FY2021 results conference call of Jyothy Labs. The management is represented by of Ms. M.R Jyothy- Managing Director, Mr. Ullas Kamath - Joint Managing Director, and Mr. Sanjay Agarwal – Chief Financial Officer. At ISec we have constructive view on Jyothy Labs business and the stock is one of our preferred mid-capex within the consumer staple space. We remain long-term believers in the significant market opportunities which the Jyothy Labs business has got. Over to the management for the presentation and the Q&A later!

Sanjay Agarwal: Good afternoon friends. Thank you all dialing into Jyothy Labs conference call results. So before we talk about the results and the brand performance for the quarter gone by we will briefly update you on the current market scenario. Overall consumer sentiments have improved with economy and life almost back to normal, we Indians and our business fundamentals have shown an immense resilience and the way we look at it, businesses have aligned for new normal or a new abnormal. In terms of consumer trends our ground level assessments indicate that we are at crossroads and underlying consumption trends are yet to settle. Second, the Brands have become very important for consumers more so during the ongoing pandemic times. Third, in terms of the specific channels, general trade is doing well as consumers are preferring to buy at neighborhood Kirana stores or on e-commerce websites while large format stores of modern trade and canteen store department still are continuing to face operational issues so they are either operating for restricted hours and we have seen reduced footfalls there. There has been a shift of consumer shopping habits during this pandemic and general trade and e-commerce have become their channel preference. In terms of rural and urban trends, rural demand has been inching superior than urban demand on back

of good monsoons and government support, government interventions have been there to provide good social security measures, which have really helped to increase the consumption of various goods in the rural markets.

Now talking specifically about performance of Jyothy Labs, despite the ongoing challenges we have taken the crisis as an opportunity and recommitted ourselves and delivered a resilient performance. The way we look at our business, we have aligned our portfolio plus our execution and keeping a strict financial prudence. I think these have been behind the growth what we have been delivering now. Our portfolio we have aligned and leveraging on our core essential and hygiene portfolio, execution and planning has been key for us and we have been quite proactive in using data analytics, help of technology and also tactical marketing efforts which have helped us in growing all our brands and while all this thing is good, we have also kept a strict financial prudence and focused on all our key financial parameters to enhance shareholder value.

In terms of portfolio, core day-to-day essential and hygiene portfolio across our dish wash, personal care, detergents, HI and toilet cleaner and floor cleaner have helped us in doing a good growth across the brands.

Backed by the strength of the portfolio, we have focused on execution and execution has been done with a laser focus and we have redesigned our priorities and we have seen good results from it. We have enhanced our depth of distribution in rural areas. We have been focusing on low unit packs across brands Rs.5 and Rs.10 across markets and also our focused on e-commerce platform which we have grown in this quarter to 1.7x of our previous year numbers, so overall e-commerce is gaining share in our portfolio. Adding or continuing our efforts on focus on innovation and new launches, this quarter we have launched Exo Bioh Fresh 100% organic vegetable and fruit cleaner, which has been launched in Kerala. Also to ensure that timely supply of goods is there across India, production at all 27 factories have been very seamless and in addition we have been able to implement several cost optimization programs to improve the efficiency and productivity. Media activities, we have decided to do more focused media spends and increasing to support full business potential. We are present in large categories and with a strong pan India distribution with increased media spends we know our brands will see a good growth. Finally most important People, having a motivated

workforce is always important and we believe especially in this environment where employees are working on a virtual mode, we have done across the board salary increments and incentive payouts, which has further boosted the morale of the entire organization.

In terms of the financial prudence, proactive measures and cost management and alignment within all the business teams have ensured supplies across channels, across India. All these steps have led to significant improvement in the net working capital days to 17 days now and with better cash flow management working capital for the first time, Jyothy Labs standalone balance sheet is on net cash surplus as of September 30, 2020 and even at consolidated level our debt, which includes both the long term and short-term working capital is only at Rs.40 Crores, so we are happy that our Q2 numbers have been better than Q1 on all the parameters and sales volume EBITDA, PAT, free cash flows everything has been good.

In terms of the results, our net sales revenue is up by 6.2%, FMCG business is up by 7.6% and volume by 8.5%, gross margins have marginally increased to 47.7%, media spends have been increased by 6.4% keeping in line with the sales growth, operating EBITDA has improved to 17.3% and increased by 11.1% and PAT has been at Rs.60 Crores, an increase by 12.2%.

Similarly for the half year, Revenue is up by 4.5%, gross margins remained flat, EBITDA has increased by 13.6% and for the half year our PAT is Rs.110 Crores an increase by 21%.

With respect to be category wise revenue, fabric care sales declined by 11.7% and just to spend a minute on that. In our portfolio fabric care is equally divided between main wash and post wash, post wash as all of you primarily comprise of Ujala fabric whitener and then Ujala Crisp & Shine. Ujala fabric whitener sales has broadly come back to the pre-COVID levels while Crisp & Shine may take a quarter or so. In terms of the main wash, as the operations are still restricted at modern trade and CSD, detergent powders which are more premium packs in our portfolio have seen a decline. It depends on how modern trade and CSD business normalizes in the coming months, we are seeing some signs of that channel also coming back to normal. Also third part to the fabric care decline is there has been

softer raw material prices and we have passed on to consumers with selective price off's that too has also impacted the topline. On the other brands, which is dish wash has seen increased emphasis on hygiene and focus on our distribution has helped us to grow 23.6%, HI, which had a mini season for this quarter as well as consumers adopting a more cautious and a preventive approach to health has grown by 22%. Personal care primarily Neem based Margo portfolio of soaps, hand wash, face wash, sanitizer has grown by 14.5% in all the total business has grown by 7.6%, laundry business which is 2% of our topline has declined as it has retail stores across metros, which is in Delhi, Mumbai, Bengaluru, Pune so that has seen a decline and which as things normalize will also be coming back to normal.

Next slide is on snapshot of our financial performance and key financial ratios. To sum it up the way we look at it is, it is a good all-round performance on all profit loss and balance sheet metrics. On the next slide is EBITDA movement from last year to this year, last year EBITDA was 16.6% for this quarter, there has been a marginal saving in gross margin and EBITDA for this quarter stands at 17.3% and for the half year stands at 17.5%. In terms of the key balance sheet metrics, working capital days have come down from 23 days to 17 days, March was an aberration because everything got dislocated and therefore from last year to this year there has been a good considerable improvement in net working capital, similarly on the consolidated basis our net debt is now at 0.04.

We will now move on to the brand performances and initiatives. Our category wise business share has slightly been changed, now fabric care is at 34%, dish wash is 38%, HI and personal care at 12% each, so now we will discuss with each of the category wise performances.

On fabric care, Ujala fabric whitener where we are the market leader, we continue to increase our retail visibility and also showcasing the benefit of using Ujala Fabric Whitener for post detergent wash has started giving good results and as we are seeing the out-of-home activities getting normalized, our sales has almost reached to pre-COVID levels now. In terms of Crisp & Shine, this is more of a specialty post wash product, here we still have to see the normalizing trends coming in and we believe in the next one to two quarters once the schools and offices functioning becomes complete normal we would see the growth again coming back; however, it is a unique product and we own this category so we have

launched our new TVC with south superstar Nayanthara and we continue to give importance knowing the potential of this brand.

Similarly for Ujala IDD, which is currently being only focused in Kerala we have seen good GT sales growth and we believe as modern trade and CSD stores also get normalized, overall growth numbers will be far better in coming months and quarters. On Henko, we are again focusing more on general trade as MT and CSD have yet to stabilize and we have been focusing on a lot on retail visibility and drive in the focus market and also initiating pan India national rollout with TV campaigns.

In terms of the dish wash, dish washing is 38% of our total business. There is a renewed focus on hygiene and also backed by our focus distribution. Both Exo and Pril continue to do well, also consumer habits of staying at home has increased consumption of food at home and resulting in more utensils being washed so that is one of the reasons and also focus on smaller packs which has enabled us to unlock new households in rural markets and propelling a good growth trajectory. Again to catch hold of new consumers in the dish wash as the category has lesser household penetration, we have been focusing on marketing for both Exo and Pril on digital and social media and digital is enabling us to experiment with different content messages and medium. Similarly we have been focusing on consumer awareness on Exo gel as you all will recall, we launched it a couple of quarters back as it has a power of a bar and shine of a liquid, so we have done at various retail touch points campaigns by merchandisers.

In terms of our innovations and product launches to meet consumer demand, in the past couple of quarters we have launched Margo hand wash, face wash, sanitizer and in the same trend we saw a demand for vegetable cleaner, we have launched the same in Kerala and based on the feedback then we will decide on the next steps. We think it is an important launch within Exo brand as our brands stands for Exo Family Healthy Family and vegetable cleaner fits pretty well with the overall strength for the Exo brand.

Household insecticide we have seen a healthy growth in sales of coils and liquid vaporizers and machines primarily because of mini season has done well and the

consumers are adopting more cautious approach to health. We have been focusing on continuing to spend on TV, media and additional emphasis on digital campaign, which is helping us to get good upticks in some of the key states, activities on digital campaign has been on rise.

The fourth large category for us is Personal care where is primarily Margo franchise which has again been doing well, here also again we are investing on digital medium to reach out to consumers in addition to our regular TVC.

T-Shine floor cleaner, which we launched in the last quarter, has got good response because it has been a unique product offering with 100% organic compound base floor cleaner and given the positive feedback we are supporting the brand now with new TVC campaign featuring southern Superstar Navya Nair. So Going Forward we are quite optimistic on our business prospect while business environment and consumer sentiment may still remain volatile. We will continue to focus on our core essential and hygiene portfolio and we aim to deliver a steady sustainable profitable volume led growth and how do we plan to do that. Our broader strategy is to make use of the full business potential of all the business categories in which we are present which are large and growing categories and more importantly support them with additional media support and focusing on geographical expansion of existing brands. Finally input prices if they remain soft it will support on the gross margin in addition to several cost optimization measures and strict adherence to business hygiene will help us with healthy cash flow management. With that I will finish my presentation and we are happy to answer any questions or clarifications you need. Thank you.

Moderator: Thank you very much. We will now begin question and answer session. The first question is from the line of Ashwini Agarwal from Ashmore Investment Management LLP. Please go ahead.

Ashwini Agarwal: Congratulations for a good quarter in a challenging time. So just wanted to get your sense on how should we think about the rest of the six months you delivered an EBITDA margin ahead of last year and ahead of your formal guidance despite spending Rs.5 Crores on the Prime Minister Relief Fund and you are seeing an improvement in gross margin, which I suppose is a function of those price increases that you have taken, also comment on the working capital saving the

working capital days are probably down to the lowest ever that we have seen so is the gross margin improvement, EBITDA margin improvement, working capital improvement are these things likely to stick or are you likely to invest some of these gains back into growing the business?

Sanjay Agarwal:

Thanks Ashwini, a good question. if we look at it from 3 to 6 months perspective our growth will be steady, now what number it would be, I think it will be difficult to predict those numbers sitting now because we are still not out of the woods. However, most of the categories of ours which are dish wash, HI, personal care..I think we will have a sustainable growth what we have seen now. Fabric care is one category, which in Q1 we were down -23, in Q2 we are -11 and from the trends we have seen of month-on-month improvement there has been an improvement. In terms of EBITDA, one is the soft raw material prices has helped; however, in one side of the brands fabric care, dish wash RM prices have been soft while in personal care for soaps RM prices have gone up so broadly if I look at it from an overall portfolio gross margin should remain where we have been. In terms of EBITDA, yes for the half year we have tracked at around 17.5% and that is broadly coming in from very focused execution and keeping good business hygiene. Going forward, this quarter as well as in the past we had observed and we had called out in our past analyst call as well that whenever we have increased media spend our ROI or investments on media has always been better, so as of now we are still keeping EBITDA guidance of 15% to 16% and since we have seen consumer spending sentiment has improved across most of the categories and our distribution has become far more digital with use of technology. We would believe any further investment on our brands will give us much better results so we will still keep our EBITDA guidance of 15% to 16% and we will keep that buffer with us for any tactical strategic marketing, which we should do to grow the brands for a longer term. In terms of your last question on working capital days, we are at 17 days in September, we would call it at around 20-21 days as net WC for long-term because this quarter MT & CSD sales were lesser and therefore the receivables are lower than what we had seen in the last year, so 17 is a good number what we are happy with it, but on a consistent basis maybe we will be at around 20, 21 days.

Ashwini Agarwal:

Got it and one quick comment on the HI business so obviously there has been some amount of consumer focus has also been a fewer imports of the agarbatti is

laced with insecticides and crack down on that, how do you see the next six months evolving, what are you seeing in the marketplace in terms of demand, in terms of spurious product or those agarbatti is coming back etc.?

Sanjay Agarwal: HI again is a category which in the last many years have been very volatile, one for the first half of this year the season had come on time and it remained and therefore all of us seen a good growth. This is one category which is purpose driven, if there is a mosquito bite then generally you will go and buy a product, but right now nobody would want to even visit hospital leave aside getting admitted hence awareness about using a mosquito repellent is far higher. On spurious incense sticks which were very active year back they have come down again because the smaller guys have not been able to operate and government has also done a lot of activities to stop them because it has a negative health impact, so we are seeing HI as a category doing well and more so for us our focus is on the liquid vaporize and that is where our entire media spends have been done. We have a unique product offering, the first automatic machine.

Ashwini Agarwal: Last question on the insecticide HI, what is a breakup between coils and liquid?

Sanjay Agarwal: Its 70% coil and 30 % liquid. while we would want to take it up to much better on liquid side of it.

Ashwini Agarwal: Thank you so much Sanjay. All the best.

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

Prakash Kapadia: When I look at the operating cash flow that has been a substantial improvement for the half year, so give us some insight as to what has led to this and how much of this improvement is sustainable and secondly all of us are hearing about the rural growth being much better than urban so any product categories now we were seeing a structural headroom to grow or consumer changing habits in our portfolio especially in the rural segment give some insight that will be helpful?

Sanjay Agarwal: On the cash flow, one PBT has gone up on a half yearly basis from Rs.100 Crores to Rs.130 Crores, second is the receivables has been broadly been the same on higher revenue base and the trade payables have increased to that extent our cash

flow management has been good. As I said earlier net working capital days may again go back to 20-21 days, but overall the cash flows way we are seeing our distributor stocks have been at around 2 to 2.5 weeks all that will remain on a sustainable basis. Second in terms of the rural demand broadly our portfolio is 40% rural and 60% urban and some of the brands what we have like Ujala and Maxo and Exo that we have a good penetration in the rural market and which we think will give us good results and we are also focusing on addition of sub stockists in the rural market, van coverage, etc. Nobody would have expected at this point in time last year when everybody was focusing more on urban and we all were saying urban is say 1.3x of rural growth and now we are seeing a reverse of that. The demand we are seeing in rural India, it should sustain for long-term, but given the measures government has taken, which have been excellent steps across the broader liquidity management, etc we believe that rural growth should remain, however it also need to sustain over a longer period of time.

Prakash Kapadia: In spite of consumer habit or hygiene factor coming in and rural demand has accelerated?. Does it mean longer term growth for us in rural India?

Sanjay Agarwal: There is clearly an upgrade in rural India, so they are watching TV and reading all the mediums to understand the new trends....Swachh Bharat have also played a key role. The reason why all the low unit packs are picking up first time as they are buying Rs.5, Rs.10 Exo or Henko or a Margo as it an aspirational thing that they also want to use better products when they have money on hand, monsoons have been good, government is taking care of a lot of their food requirements so incrementally there is an acceleration of these discretionary products for them in their personal lives.

Prakash Kapadia: Thank you.

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

Percy Panthaki: My first question is on the dishwashing segment where the growth is in excess of 20% so just wanted to understand what is driving this growth and is this sustainable kind of growth?

- Sanjay Agarwal:** For us we have a strong market share in both Exo and Pril and because both the products have a unique offering in terms of Exo being first antibacterial and Pril which introduced the liquid dishwash to consumers and now with Pril Tamarind. So one the product offering is unique and consumers find much better value in using our products. Second is the distribution, down south, we have a very high market share, we have to increase our distribution more in the rest of India and primarily in the west and north where it is a focus brand for all our sales distribution and last but not the least what any one of us could not do to focus on hygiene has come at the forefront for everybody during COVID times. dishwashing in large part of India is still done by ash, so first time using of a bar has been predominantly the key reason for the growth,.
- Percy Panthaki:** So basically the category growth is also similar to the kind of growth you have reported?
- Sanjay Agarwal:** We will not know what the category growth would be I think what we believe we must have gained market share in this category.
- Percy Panthaki:** Okay. Second question is on household insecticide despite a good topline performance and also the fact that 30%-35% of the sales now actually comes from liquid we still have a loss in this segment so what is the long-term plan what is the growth to profitability unless we get a 10% kind of margin at least in any FMCG category why should we even consider being in the category?
- Sanjay Agarwal:** I agree with you Percy. We also want to increase our liquid share much more than where we are and all our efforts have given results in the last couple of quarters. If we exclude the media spend on the EBIT, which you are seeing in the quarterly results we are very much in positive, so if you exclude advertisement we are positive and it is again an investment we need to do for a couple of quarters and you will see maybe by next few quarters that HI including advertisement cost will also become positive from the EBIT perspective.
- Percy Panthaki:** But is the ad spent like materially above what the normal level should be otherwise it makes no sense to deduct it unless that is the case?
- Sanjay Agarwal:** That is right, there is a disproportionate more investment needs to be done to get our liquid share increased in the overall portfolio.

- Percy Panthaki:** Right and last question if I may be permitted see your Q4 last year there was a substantial decline in the sales so Q4 this year how do we look at growth, should we be looking at two years CAGR for Q4 and would you say that the two-year CAGR would be similar to the kind of two-year CAGR we are clocking right now?
- Sanjay Agarwal:** I think we will take one quarter at a time and it should be definitely be much better than what we had seen because of the base year effect. Yes one can take two year CAGR number to decide on the Q4 performance when we reach there.
- Percy Panthaki:** Right, that is all from me, all the best.
- Moderator:** Thank you. The next question is from the line of Shantanu Basu from SMIFS. Please go ahead.
- Shantanu Basu:** I want to know the percentage of sales that was generated from your kirana stores, e-commerce channel, modern trade and CSD?
- Sanjay Agarwal:** Modern trade, e-commerce, CSD has been broadly been 20% of our business and the general trade which are kirana stores is around 80%, so it is 80 GT and balance 20 institutional business.
- Shantanu Basu:** Okay and how much was e-commerce and modern trade the breakup?
- Sanjay Agarwal:** E-commerce broadly has been around 2% for us in the past and it has been accelerating well and now it is around 3% of a total portfolio.
- Shantanu Basu:** Okay and modern trade?
- Sanjay Agarwal:** Around 7%, 8%.
- Shantanu Basu:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Simran from SMC Global Securities Limited. Please go ahead.
- Simran:** Thank you for giving me the opportunity. First of all congratulations for the very good results to the management. Sir I have a couple of questions to ask. First of all

I want to ask that can you give any operating margin guidance for the next six months in the EBITDA side and secondly what is the topline from the CSD and how you see the situation in the CSD going forward and Sir how you see the trend in the urban area means demand in the urban area because right now we all are stating that rural India is outperforming at the level best and Sir my last question is that the MD of the company appears less on the TV for the interviews any specific reason for that?

Sanjay Agarwal: Our operating margin or EBITDA guidance, we have given our guidance for the full year in the range of 15% to 16%. Second is CSD business has contributed around 8% to 10% of our total topline. Third on urban and rural demand, it is not that the urban demand has broken, it is that currently rural is doing better than the urban and for us rural is 40%, urban is 60%, in rural LUPs are growing, also rural is on smaller base, the growth seems to be much higher. Urban, metros where we all live it seems people are buying more larger packs or family pack as consumer still prefer to avoid going out much, so both the channels are growing well. If we see numbers of all the companies they are doing well but in terms of relative performance rural has been better.

Simran: MD of the company Ms. Jyothy, we see less of her interviews on the business channels, any specific reason for that because as she has taken the newly charge in the company in the past one-and-a-half years, so any specific reason for that?

Sanjay Agarwal: I think she was on ET Now last week itself, I do not know whether you were able to catch hold of that event or not. She has been there on investor interactions, we will let you know next time when she is coming on any of these media channels.

Simran: Thank you Sir and my last question is in the last year annual report of FY2020 on page 144, I was doing analysis and there is contingent liability of close of Rs.120 Crores on your annual report, can you throw some light on that means how you are going to come down this contingent liability of Rs.120 Crores, which is showing in your annual report going forward?

Sanjay Agarwal: Out of that Rs.80 Crores odd is corporate guarantee which we have given for loan taken by our subsidiary.

Simran: Thanks for answering and all the best.

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

Kaustubh Pawaskar: Good evening Sir. Thanks for giving me the opportunity and congrats for good set of numbers. Just I have two questions. First on your new launch that is Exo Bioh Fresh why it has been launched only in Kerala because most of your competitors have launched it pan India and say products considering whatever the opportunity currently it is there in the market or your thought process like do you have better distribution reach or presence in Kerala, you would like to first try the product in that particular state and then expand into the other markets?

Jyothy: Yes, Exo is a strong brand for us and we have always followed that path that we launch first in Kerala and we see how the results are and then we go the next step and for this also we have done the same way, we have launched it there, we will be doing our investments, we see how the trends are and then we will take the next step that is how we have been and that is how we will be following.

Kaustubh Pawaskar: But is this launch or something like you want to continue into your portfolio, whether this demand for such kind of products will continue in the post pandemic era or something for over the period of time again the demand for such products would not be there?

Jyothy: That is also one reason, which we need to see going forward that is why we are taking that calculated step, but for this product and other product that are born out of COVID necessity, this one looks like will be there for long term because it is not just the virus that we are concerned about there was a need for this kind of product in the past as well because on the fruits and vegetables if you see the consumers did have a fear of pesticides being used and otherwise germs and also the wax that is coated on fruits for the shine, so all of those whether it you used to get really washed away in water by near just washing was always a point especially also in the monsoon seasons where contamination and all of those happen, the need for this kind of product looks like after the virus also people who are used to hygiene and who give importance to hygiene would continue, while other categories yes the only time will tell as the virus goes and whether those will continue, but for veggie and fruit cleaner looks like it should remain.

Sanjay Agarwal: I hope that has clarified your question Sir?

Kaustubh Pawaskar: My first question has been clarified. My second question is on your low unit pack, so what is the contribution currently of your low unit pack and whether it has improved in the past few quarters?

Sanjay Agarwal: Overall across brands, across the portfolio we are around 25% to 30% on the low unit packs of Rs.5, Rs.10 or 100g, the contribution rate is improving marginally.

Kaustubh Pawaskar: Thank you.

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

Shirish Pardeshi: Good evening everyone and thanks for the opportunity. Sanjay hearty congratulations to you for smarter recovery in this quarter. I have got a few questions. The first question is on the fabric care, we are seeing the competition is hitting up and regional competition is also coming back very strongly and of course there was a period where input material was quite benign, so would you able to help me understand how the competitive scenario is evolving in your stronger feet like Kerala or South India?

Sanjay Agarwal: Most of the states if you are looking at only for the fabric care the issues have been that people are confined to home, so there has been a decline in consumption to begin with, but now things are now getting back to normal and barring only the channel issues everything seems to be fine, but in terms of Kerala we are seeing decent growth, not anything abnormally high or any decline and Kerala has always been our strong market and we continue to focus on that.

Shirish Pardeshi: I was more interested in how your growth IDD versus Henko?

Sanjay Agarwal: IDD and Henko both have done well in Kerala in the general trade market.

Shirish Pardeshi: If you can give us some colour on volume and value growth how it has performed in the quarter which has gone by?

Sanjay Agarwal: If you are only talking about the general trade both have done well over the previous years.

Shirish Pardeshi: I also wanted to understand, you have mentioned that there is a focus on Maxo brand and Maxo gel is one of the key interventions you have taken, tell me the purpose of this and what is it that one can make out, we also have some strong brand like Pril and now you are also trying to expand the Maxo franchise with gel, so what is the thought behind and what can be the opportunity in the next two, three years?

Jyothy: First of all one correction, it is not Maxo gel it is Exo, Exo is in dish wash and Exo as a brand we are quite strong on the dish wash bar segment, now that we are seeing good growth happening on the liquid side as well, we did launch Exo gel sometime in the past and that it is a thicker gel that is there for a value conscious consumer and that is the offering that is coming from gel from Exo and also Exo stands for antibacterial, which is germ kill product as well and precisely what is the current need of the market that is what we are offering and Exo is quite a known brand in the dish wash category and we have only leverage that brand to the next level.

Shirish Pardeshi: Thank you Jyothy for correcting me I was talking about, I was more interested in knowing who is the target audience or is it again going to be South India focus where penetration of hand wash and dish wash segment is much higher?

Jyothy: Yes, our thing is to go for south that is where the brand is relatively much known and also the liquid usage is much more in the south compared to the rest of the country. Exo operates in the antibacterial segment and that is the reason we have launched it in the south and the other question was?

Shirish Pardeshi: I am saying which is the target audience?

Jyothy: It is not Maxo it is Exo.

Shirish Pardeshi: Are you saying that from bar to liquid is the transition which you are looking?

Jyothy: Yes, bar to liquid and why precisely people never use to come to liquid is the whole thing that liquid is expensive, also the maids using liquid and lot of wastage happening, so it is for a value seeking consumer where this one bottle of liquid would last them for more than a month rather than gel is quite thick in consistency

and it does multiple plates compared to your ordinary liquid that is there in the market, so it is upgrading bar users to liquid.

Shirish Pardeshi: Related followup on that what kind of margin difference you would have between bar and gel?

Sanjay Agarwal: Both of them have average company margin, so not anything different.

Shirish Pardeshi: My last question on the distribution and you did speak about general trade, so could you throw some light in terms of what is the distribution expansion, which we have undertaken or may be the benchmark you want to say next six months or a year and what kind of activities we are now doing of course from the presentation I can read that is van coverage, but any quantitative numbers you can share on the coverage?

Sanjay Agarwal: There is nothing different what we have done, I think we are doing the same thing with far more sharper focus in terms of as I said earlier we are focusing more with the help of data analytics and technology, so the same salesman when he is doing one beat if we can improve his productive calls by 10% that is the great achievement for us, so we have been focusing more on improving the productive calls, we have been focused on selling more lines in the same shop, so that is something which we are focusing for the last couple of quarters and we continue to improve that. Similarly in the rural, the van coverage and adding some sub-stockists, all these have given incremental gains, there are no specific targets we carry, we would say that is more of a continuous focus each of the sale zones have it now and they are delivering on the same.

Shirish Pardeshi: What is the current rural village coverage we have Sanjay?

Sanjay Agarwal: We touch cover populations above 10000 for now.

Shirish Pardeshi: Okay and just one followup we have seen wholesale channel had been very, very volatile, any colour on that how this channel is now, is the channel is back or is still have some issues?

- Sanjay Agarwal:** Wholesale has been better from what one had seen in the first quarter, it still has to come back like Mumbai Masjid Bandar and all, but it is doing much better than what it was in the last quarter.
- Shirish Pardeshi:** Thank you 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 and congrats on a robust recovery. My first question pertains to HHI, what will be the gross margin difference between coils and liquids in HHI?
- Sanjay Agarwal:** Coil has been on the lower side, liquids have been more than the company average gross margins and that is where we will leave it that and going forward on an overall basis once liquid share improves as we said earlier the overall gross margins or the EBIT will be in the positive range.
- Tejas Shah:** And in our past profitability at what contribution that number will be achieved, is it 60, 70?
- Sanjay Agarwal:** It is not 60, 70 as I said earlier even now also we are profitable, but it is the function of once the brand becomes much larger scale in liquid vaporizers the overall portfolio will be profitable.
- Tejas Shah:** The reason Sanjay I am asking this question is since you started sharing this data from FY2016 onwards the highest margin that you would have touched on annual basis is 3.6 for the category and in the last six quarters despite decent growth it has been loss making proposition, so apart from just a financial capital allocation managerial bandwidth is also going in a category where we are not seeing or we are seeing subpar profitability, so from that perspective it is actually management call, but if the growth is not delivering profitability then perhaps you are chasing a mirage here that is just a suggestion because we have been discussing this for the last three, four years now, just a followup on this, on a book keeping question actually how much debt is there on the balance sheet as of September?

- Sanjay Agarwal:** On a standalone basis it is a net cash position of around Rs.30 Crores and on a consolidated basis the net debt is around Rs.40 Crores.
- Tejas Shah:** There are two line items in our balance sheet, other financial liabilities and other current financial liabilities it is around Rs.60 Crores and Rs.40 Crores that pertains to?
- Sanjay Agarwal:** Other financial liability there was a new addition of lease liabilities to be recorded, so that comprises majority of it.
- Tejas Shah:** Fair enough. That is it from my side and all the best to the team.
- Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.
- Gaurav Jogani:** Thank you for giving me the opportunity Sir and congratulations on the good set of numbers. My first question is with regards to what would be the contribution of the new products most likely hand washers, toilet cleaners and other products?
- Sanjay Agarwal:** All these new launches, which we have done in Exo becoming an Exo Ginger as a portfolio, so we try to get each of our portfolios to a newer format in which the consumers incremental value. We believe that in every quarter we do one or two launches so all brands becomes more stronger. We at least aim that 2% to 3% of the growth we get it from these new launches.
- Gaurav Jogani:** And Sir amongst these new launches that you have done I believe the sanitizer sales would have come up, this thing becoming back to normal, but how has been the experience in hand washes and like what kind of sales contribution do we see going ahead in this product?
- Sanjay Agarwal:** Sanitizers and all are smaller contributions, we had launched it because we believe Margo which is antibacterial based on Neem has a unique proposition for sanitizers. We are not focusing on very large numbers, but again they complete the entire brand strength, so like Exo bio vegetable cleaner, which we said we launched it under Exo is basically to give a complete offering of healthy life to our consumers. Our launches will be keeping it in mind long term rather than just seeing a short term trend in any of the launches what we have.

Gaurav Jogani: The hand washes has now been in growth category and it seems the more sustainable one, so what kind of sales contribution do you expect from this kind of product?

Sanjay Agarwal: Hand sanitizer, hand wash, face wash we generally launch it in one part of India in one geography and then we extend it, so on a lower base number yes the growth will be much higher, but it will take a couple of years to be a numbers that we can report it to you.

Gaurav Jogani: One last question from my end is that we have seen the fabric care like the Henko and the other products having higher sales for the modern trade as such. So do you think the growth rate can accelerate once these modern trade and the GT channels came back to normalization level?

Sanjay Agarwal: Absolutely right Sir.

Gaurav Jogani: What kind of growths in that case you can expect from this category in that space?

Sanjay Agarwal: In the past fabric care has seen high single digit growth and sometimes touching double digit and we would expect once all this pandemic issues resolve including channel issues, we should definitely come back to the same growth.

Gaurav Jogani: Would you like to give any guidelines of what kind of ad spends that you are looking for this year and the next year?

Sanjay Agarwal: In Q1 we did more tactical spends on news channel and digital media, in Q2 since the business has become more or less normal, we have been investing behind the brands and we have seen good results, for the next half year we will see increased investments on media spend across our brand portfolios keeping in line where we see the potential and also keeping in mind the overall EBITDA what we need to maintain, so you will definitely see increased investments on media spend.

Gaurav Jogani: Any number that you like to give?

Sanjay Agarwal: I think it is again a moving target in that manner where we see better return, we will do it in that state and on that brand, but overall yes we will try to keep our year EBITDA margins in the range of 15% to 16%.

Gaurav Jogani: Last book keeping question on the tax rate bid, the average tax rate for the first half has been around 17% or 18%, so what kind of tax rate would be for the full year FY2021-2022?

Sanjay Agarwal: We can keep the same tax rate for 2021-2022 at 17%- 18%.

Gaurav Jogani: That is helpful Sir. Thank you.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: I have a couple of questions actually, when I think about the next 12, 18, 24 months for you, going by the trends what we have seen currently if I adjust for the detergents or rather the fabric care decline the rest of the portfolio has probably grown something like 16%, 17% is that is what my maths suggest, which is a extremely good performance, so when I think about the outlook six months or 12 months from today one thing normalize from a consumer behaviour point of view, is it fair to assume that once the fabric care normal gets back to normal trajectory of growth, the rest of the portfolio may or may not grow and then we will actually have situation where one plus one is equal to three, that is one question, the second is a one insight, which I want to understand from you is any statistic which you have in the last six months on, how the household penetration improvement for some of your categories because that essentially would give a lead indicator for what is likely to happen in FY2022?

Sanjay Agarwal: First part of it, yes Manoj currently if we exclude the fabric care, the overall growth will be higher, but we have all the brands it is not fair to exclude one brand and then only talk about it, yes, we believe for all the other categories, the growth is going to be sustainable and for fabric care we are hoping that modern trade and CSD also come back around, we should have a decent growth in fabric care, which will lead to the overall better growth. In spite of fabric care not doing well to our expectation we had a good all round performance in the first half. Your second question on household penetration, if rural low unit packs have been growing, so household penetration is improving there and there is a strong acceleration in e-commerce activities and not only in the urban, but also in Tier-2, Tier-3 cities e-commerce companies have been doing very well. We do not have a specific data to share with you given the current environment, but yes household penetration

and sentiments of consumer on spending has improved across many of the categories.

Manoj Menon: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good evening Sir. A couple of questions. My first question is the reason for the fall in margins in your personal care segment in spite of growth in sales what is the reason for it and where do we see the margin sustaining maybe next year?

Sanjay Agarwal: Personal care EBIT margin has come down primarily because of higher raw material prices of PFAD and PKFAD, which is the key raw material for manufacturing of soaps.

Ankit Babel: You have not taken any price hikes to compensate that?

Sanjay Agarwal: Not as of now.

Ankit Babel: Any plans for the same to go back to your 30% margin?

Sanjay Agarwal: No, I think whatever we are making is also decent numbers, so for now there are no plans to increase any prices there.

Ankit Babel: My second question is that when we analyze the results of other companies when we talk to the management of those companies, but we feel that most of the companies have utilized this opportunity to reset their cost basis right from advertisements to overheads to other fixed cost and everything and some companies have been guiding for 1% to 2% kind of structural saving in cost at the percentage to sales, but when I analyze the numbers of Jyothy most of your line items be it employee, be it advertisement or be it even the other expenses everything is up to Y-o-Y, so are not we are doing anything to reduce our cost base or to structurally have some profitability gain?

Sanjay Agarwal: If you look at for half year revenue is up by 4.5% while our EBITDA is increased by 13.6%, so cost has been effectively managed. You have rightly said our

employee cost has marginally gone up and our media spends have gone up, but those we think are good cost and we would not believe to cut down on these good cost. Yes, we need to improve efficiency in a manufacturing, supply chain, sales distribution which we have done and if you see a gross margin improvement is because of that. So we are happy investing behind the brands and keeping the employee morale also good.

Ankit Babel: Just a followup on this then in one of the interviews Mr. Kamath mentioned that for FMCG companies once they reach a certain margin levels they do not go below that going forward, suppose this year we end at around though you have been guiding for 15%, 16%, but if I take a realistic thing I believe you can end at even 16.5% to 17%, so going by Mr. Kamath Sir's view can I assume that for Jyothy now this 16.5% to 17% could be a new normal going forward once if you achieve that number in FY2021?

Sanjay Agarwal: Yes, it is good always to improve one's past performance and which is what we will definitely aim for, but as I said we also need to invest behind our brands, so if there is a 1% here and there we will take it again as a good cost and continue in that direction to give a better higher volume growth in future, a better market share gain for each of our brands, so our focus will be on market share gains than focus on 50 bps or 100 bps EBITDA expansion every month or every quarter.

Ankit Babel: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Kunal Satam from QRC Investment Advisors. Please go ahead. As there is no response from the current participants I have muted the line. The next question is from the line of Vinod Sharma from Step by Step Consultant. Please go ahead.

Vinod Sharma: Congrats for good set of numbers. When you are talking about HI business you have coils, you have liquids, you do not have mosquito rackets or are they not part of FMCG business of any of the company?

Jyothy: Right now nothing is planned Sir, we would like to focus first on the liquid and then see how that category is performing and only then may be later think about and bring that.

- Vinod Sharma:** Why I am saying that because Ujala I think you were the pioneer right?
- Jyothy:** Yes.
- Vinod Sharma:** You are category creators and coils and liquids whole lot of companies are making, so just as a participant?
- Jyothy:** There are lot of those kind of things available, there are many unorganized players and segment in that.
- Vinod Sharma:** Nothing organized or branded right?
- Jyothy:** Yes, nothing organized or branded at the same time there would not be much to differentiate there, so we do not see that we could get into especially because there is no differentiation where we would like to be is where we could create something which is truly different and which matters, which makes a difference in their life and that is what our focus is on Sir, so we will see how this whole thing may be growth and then we will see if at all we could create something out of that, as of now there is nothing.
- Vinod Sharma:** Fair enough because this is urban kind of a thing like modern trade and other people they are keeping with Chinese things not Indian things. Thank you and all the best.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to Mr. Ullas Kamath for closing comments.
- Ullas Kamath:** Thank you very much for participating in our analyst call. If you have any further questions you can always talk to Sanjay Agarwal and we are happy to answer your questions if there is any. So thank you very much and have a safe and happy and healthy stay.
- Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.