



**JHS SVENDGAARD LABORATORIES LIMITED
Q2 FY23 EARNINGS CONFERENCE CALL
NOVEMBER 15, 2022**

**MANAGEMENT: Mr. Paramveer Singh- Chief Executive Officer
Mr. Ashish Goel- Chief Financial Officer**

JHS Svendgaard Laboratories Limited
Q2 FY23 earnings conference call
November 15, 2022

Moderator: Good day and welcome to the Q2 FY23 earnings conference call of JHS Svendgaard Laboratories Limited. This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involved risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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. Paramveer Singh, CEO from JHS Svendgaard Laboratories Limited. Thank you and over to you sir.

Paramveer Singh: Good evening everyone. I would like to wish you all a very warm welcome to JHS Svendgaard Laboratories Limited earning conference call for the second quarter and half year ended 30th September 2022. On call with me today, I have Mr. Ashish Goel – our group CFO along with Mr. Neeraj Kumar and Adfactors – our Investor Relations Team. I would like to share a brief overview of our company and the recent developments before we get into the business and financial performance.

JHS Svendgaard Laboratories Limited was established in 1996 as a manufacturer of toothbrushes. During recent years the company partnered with various industrial giants like Gillette and Amway among others, to manufacturer Oral-B toothbrushes range of oral care products respectively. Subsequently, during the 2000s we extended our portfolio by adding three facilities to manufacture toothpastes, mouth washes and denture tablets. Over the years, we further expanded seven prestigious FMCG brands to our portfolio including P&G, Wella, Patanjali, Hindustan Lever Limited (for Close Up toothpaste). The company also has its proprietary brand Aquawhite which specializes in kids oral care products. Today, we are India's the largest integrated manufacturer of oral care products with diverse products portfolio for adults as well as children. JHS Svendgaard Laboratories Limited has 6 manufacturing units spanning over 20 acres in Himachal Pradesh. These include 2 units each for toothbrush and toothpaste that are ayurvedic and cosmetics

under the FDA category. The new plant for personal care products like talcum powders, lotions and shampoos has all the necessary statutory approvals from respective authorities and is ready for commercial operations. The company has a strong in-house R&D function and as well-established sales and distribution network across India. We also have strategic access to export markets covering the US, Europe, Middle East, Southeast Asian market. As of now, exports have dipped quite a bit but we soon expect it to gain some traction. With a dynamic and experienced leadership team, JHS Svendgaard Laboratories Limited has established itself as a trusted player in its segments and is well positioned to grow in the future.

Now, coming to some key developments over the year, in line with our strategy to add more partners and products in our portfolio, during the first half of this year and we entered into an exclusive tie up with Italian company that is Artsana Group to manufacture kids' oral care products in India for their brand name Chicco. As of now the company has commenced production and supply of toothpaste across the country and soon will start with toothbrushes as well. Artsana has served in over 120 countries. The United States market is second after Italy in terms of sales, and in India Chicco is amongst leading brands in kids' oral healthcare with leadership position in Europe. Our focus is on further expanding geographical footprint to Southern and Central parts of the country possibly through M&A. This would enable us to expand our share of products with our existing clients as well. We want to expand our portfolio to soap bars, personal care products etc. We are focusing on adding new clients and not only rely on existing clients for business. This helps us to expand and reach newer geographies as planned. I am happy to share that this quarter we also added new clients in toothbrush category like My Recharge, Hindocare, CSD, Med Plus apart from Chicco. Now, turning to our financial performance, Ashish our CFO will take us through the numbers. Thank you very much.

Ashish Goel:

Thank you, Paramveer. Good evening everyone. Now I'd like to take you through the financial performance of the company for the second quarter ending 30th September 2022. We have reported Rs 24.05 crores in revenues during quarter two of financial year 2023 as against Rs. 24.64 crores in quarter two of the corresponding quarter in previous financial year. There has been a margin year-on-year decline of approximately 2%. This decrease is on account of drop in revenues from our major revenue contributor which is toothpaste segment. However with the addition of new customers for our toothpaste business we expect the volumes and value to increase going forward. This was however also offset by good growth and significant tractions in the toothbrush business and retail business. We have reported an EBITDA loss of Rs. 2.49 crores. This can largely be

contributed to the decline in the revenue of the manufacturing business. The PAT for the quarter two financial year 2023 stood at a loss of Rs. 41 lakh. As of half yearly performance as on 30th September 2022 we reported Rs. 45.36 crores in revenues during the first half of financial year 2023 as against Rs. 46.22 crores in the corresponding period previous year. This decrease in revenues is again mainly on account of decline in the third party business of toothpaste category which has largely been offset with the increase in revenue from retail business. Our EBITDA for the period stood at a loss of Rs. 4.41 crores largely due to the decline in the revenues, our PAT during the first half of the year stood at a loss of Rs. 4.57 crores as against a profit of Rs. 18 lakh in the first half of the previous financial year. The absence of exports and lower than optimum capacity utilization continued to impact profitability but as our CEO mentioned that we are working towards to increase our share in the export market as well. So, that will be all from our side. We can now take questions. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aniket Redkar an individual investor. Please go ahead.

Aniket Redkar: Can you give the revenue split product wise and the segment wise for this quarter and the half year?

Ashish Goel: As on the half year ended 30th September 22, from a segment wise perspective, we have done a revenue of 83% from the manufacturing business and approximately 4% is from our own proprietary brand business and another 12-13% is on the retail side. Of the manufacturing business, 30% is being contributed through the toothbrush segment and another 50% is being contributed to the toothpaste segment largely and remaining is contributed by mouthwash and the other allied oral care products.

Aniket Redkar: What are the margins we expecting from these new products like talcum powder, creams and all?

Ashish Goel: As far as the semi-liquid category is considered, referring to creams and lotions, we are looking at a contribution margin an upwards of 20-25% and as far as the talcum category is considered, we are looking at a margin an upwards of 15-20%.

Aniket Redkar: Can you give EBITDA margin for the same toothbrush, toothpaste and mouthwash?

Ashish Goel: As I mentioned, I can help you with the overall contribution margin category wise. For toothbrush it will be in the range of 25-35%, whereas in the case of toothpaste it will

range from 10-25% depending on the client volumes and business. As far as the Mouthwash category is considered, it is in the range of 35-45%.

Aniket Redkar: As far as the export market is concerned, what is the export contribution for this quarter and a half year and how do we plan to grow in the export market?

Ashish Goel: As far as the export contribution stands as on the first half of this financial year, it is somewhere around 1%. However, the company is already in advanced stages of discussion with various leads from US and UK markets and is in the process of getting the necessary certifications in place and we expect that by Q4 of this financial year we should all have that in place and the export numbers will again increase thereafter and we are looking at it as an overall sale contribution of somewhere around in the range of 15-20% from export business from next financial year onwards.

Aniket Redkar: Can you give a brief on the Aquawhite brand which we have and what kind of steps we are taking in to shape up our own brand and what are the recent developments happening in this Aquawhite.

Ashish Goel: So, as far as Aquawhite business is considered, we are going pretty cautiously there in terms of which segment we need to focus and target in order to increase our market share. We have been largely now focusing on the institutional business and the online business. As a recent development, we also got ourselves the product got registered in the CSD canteens, which are the army canteens and that is something which has also given significant tractions for the Aquawhite business as an overall portfolio. We'll continue to remain cautious in terms of which segment are we getting onto and will focus on the institutional business largely as far as our own proprietary brand is considered.

Aniket Redkar: So, do we have any new products in the pipeline?

Ashish Goel: As far as the Aquawhite category is considered, there are continuous innovations in terms of product category and SKUs that are coming up well within the oral care portfolio only. But as a company on the manufacturing front as mentioned, we are soon going to commercialize talcum powder also as a new category.

Aniket Redkar: I just wanted to understand more about the financial part that our EBITDA has declined. Is this just because of the revenue and the higher operating expenses?

Ashish Goel: Per se largely because of the decline in the revenues, I would say because as far as the operating expenses which have been reflecting in the consolidated numbers those are largely on account of the retail business but as such it is largely the lower capacity utilization which can be attributed for the purpose of decline in the EBITDA margin.

Aniket Redkar: And how do you see in terms of revenue for the next coming quarter in terms of growth?

Ashish Goel: We are very excited and prepared to take up new clients, new business, and new categories also and we are looking forward to recovering the sale loss which has happened during the previous financial year and coupled with a double-digit growth.

Moderator: The next question is from the line of Jay Mittal, an individual investor. Please go ahead.

Jay Mittal: Good afternoon sir, congratulations the tie-up with Artsana group, I believe Chicco is a well-known kid's brand. If you could just shed some more light on the nature of your agreement, it mentions in your presentation that it's an exclusive tie up so would we be the only manufacturers for Chicco brand in India or how would that work sir?

Ashish Goel: Good evening, Mr. Jay. As you rightly mentioned and observed that we have been successful in localizing the supply solutions for the oral care category and not just for the toothbrushes, but even for toothpaste also we are probably the exclusive supplier of these products to Chicco and going forward we are looking at that apart from meeting their domestic demands we are also looking forward to be their global suppliers to other geographies as well.

Jay Mittal: So, we would be the only manufacturers for Chicco?

Ashish Goel: For now, yes.

Jay Mittal: So, any sort of guidance or expectations, what kind of revenues we can expect from this brand maybe this year or the next year?

Ashish Goel: As our MD and the whole team has been focusing that we will anyways not want to be dependent on any single client but in terms of the revenue share, we are looking at an upwards of 5% as the overall contribution from this year which will again with the growth can go up to 10% in the coming years.

Jay Mittal: Would it benefit our EBITDA margins or would that be around the same level as the current levels?

Ashish Goel: Yes, this new clients as we are adding to our portfolio which they are better off in terms of the EBITDA margin considering the size and scale of business that they are currently having. We are obviously having better margins here as far as this client in category is considered.

Jay Mittal: Also wanted to ask you mentioned that for the new Talcum Powder facility we've received statutory approvals and everything. What kind of timelines would we be looking at in terms of when production would begin and the revenues from that particular facility would start coming up?

Ashish Goel: Apart from these statutory approvals, there's an approval on the product validation which is currently in the process and we are looking forward that in Q4 of this financial year we should start doing the commercial operations and the numbers shall start reflecting.

Jay Mittal: Any other products like you mentioned that the new products that are in pipeline. Is there any time scale in terms of any new product up for launch this year?

Ashish Goel: I would say from a product and client perspective also, there have been tie ups which have been established in the first half of this year which are currently under the process of getting commercialized and we shall soon see new clients in the oral care category also. As far as new clients altogether in the new product category as well which includes talcum and we as company are also looking forward for some brown field expansion for which it is in advance stage of discussion with two leads currently and we are hoping that by the end of this financial year we should be closing down on either of them or maybe both of them and that would be another portfolio that would be added to the company's equity.

Jay Mittal: Mentioned in your presentation that volume is reduced because of a particular customer. Would that be one-off case or can we sort of not expect volumes from that particular customer going forward?

Ashish Goel: I would rather say from a category perspective this is the case and per se this is also been impacted in case of MLM companies after the pandemic their business in particular been impacted largely but the company at the same time is constantly working to mitigate that volume loss and value loss by adding new clients like Artsana which are in the specialized category which can support the volume as well as the bottom-line as well.

Jay Mittal: It mentions also that some new customers have been added for the toothpaste business. So, volumes would look upwards in the remaining two quarters of this financial year.

Ashish Goel: Even as soon as the recovery of these MLM companies happens, which obviously as brand owners they are constantly striving to the business is still with the company and that shall be added further to our books.

Jay Mittal: Just last couple of questions; for the brown field that you mentioned do we have any CAPEX budget or anything like that in mind?

Ashish Goel: Yes, we are well covered as far as the brown field, the current two companies that we are talking to; we have covered for that in terms of whatever is the CAPEX that would be required to undertake that. And if there is any additional CAPEX that would be required, company shall be opting its options in terms of the requirements. But, as soon as those transactions get materialized then it will be the right stage to call out for the requirement.

Jay Mittal: Just one last question, do we have a R&D budget in terms of percent of revenue or something like that sir?

Ashish Goel: It varies because as we are dealing largely with these established clients who have their own preset formulations as well as the product ideas designs. So, we were principally following that there is a little lesser contribution there. But, as far as these new age clients like whether it's Chicco or maybe another company's regional MLMs are considered, that is where the company is constantly striving to add new product USPs to its portfolio so as to bring them on board.

Moderator: The next question is from the line of Harshita Patel, an individual investor. Please go ahead.

Harshita Patel: My question is regarding finance costs. Our finance cost has decreased by 30% despite increasing long-term borrowing. Why is it so? Can you please explain?

Ashish Goel: Good evening Ms. Harshita, as far as the finance cost is considered since the company is largely debt-free so, that finance cost which has been reflecting has been reflected on account of certain vehicle loans of which few have been repaid in full during the relevant period. That has been the prime reason for the reduction in the financial expenditure.

Harshita Patel: So, how do we see the next three years spanning out in the terms of top-line and bottom-line?

Ashish Goel: We're really looking forward in terms of great numbers in terms of whether it be the addition of new clients, new product categories along with certain brown field expansion

and a couple of more additional projects that are coming up. If I have to put it across, we are looking at a double-digit CAGR over the next 3-5 years. As far as profitability is considered, we are just currently operating in half year at a breakeven level and we are expecting significant improvement in the EBITDA margins in upwards of 12-13% with the addition of these new clients and new SKUs. In comparison to the previous financial year, in the current financial year itself, we are looking at almost 150-200% recovery in terms of profitability.

Harshita Patel: So, any other new mergers and acquisitions we can expect?

Ashish Goel: Yes, as I mentioned that there are currently two proposed transactions which are currently at the advanced stages. The companies are exchanging information on the same front for the purpose of diligence and we hope that by Q4 we should be in a position to materialize either or both of them.

Moderator: The next question is a follow up from the line of Aniket Redkar an individual investor. Please go ahead.

Aniket Redkar: I just wanted to know about the R&D budget. What is the R&D budget?

Ashish Goel: Mr. Aniket, as I mentioned that particularly in the case of third-party manufacturing which is largely the business portion of the company, the product designs and the product formulation specifications are being provided by the clients itself. What company at its own end is continuously striving in terms of R&D is to cater to the regional and the new age customers that are coming into this oral care category. So, from that perspective we have an in-house team which takes care of the entire R&D. From a budget perspective we are looking at somewhere between 0.5-1% of our overall business in terms of developing all those new SKUs.

Aniket Redkar: As far as expansion plan is concerned, what are all plans in terms of the marketing basically?

Ashish Goel: Since we are largely third-party manufacturing, so our marketing is more towards B2B wherein to get new clients and new business which we are continuously working on and ultimately it's the brand owners which really generates the demand for the end users from the end users for the product. So, from a B2B business perspective we are adding more key account managers to our team to handle the export markets as well as domestic markets independently.

Aniket Redkar: Are they planning to expand the business development and marketing team basically?

Ashish Goel: Yes.

Aniket Redkar: What would be the budget for the same?

Ashish Goel: From a budget perspective, we would need another two key account managers at a senior position which would be handling the different geographies and the new categories also.

Aniket Redkar: I have one last question. There is an increase in the current investment from March 2022 to September 2022 from Rs. 2 crores to Rs. 10 crores. I just wanted to understand it.

Ashish Goel: Basically, these are the funds which have been realized from our debtors and currently these will become as a supporting infrastructure for the purpose of all those M&A deals and the CAPEX plans. So, this is largely the liquid funds which are available with the company.

Moderator: The next question is from the line of Nayan Gala from Etica Wealth. Please go ahead.

Nayan Gala: I have recently started to track your company and I was just going through your presentation. I see in terms of your geographical breakup, in terms of revenue, in FY21 we were exporting around 5% which in FY22 it has come down to nearly zero. Going ahead, if you can help us understand, what is the plan in terms of which geographies do you plan to focus?

Ashish Goel: Good evening, Mr. Nayan. As you rightly mentioned, there has been a significant decline in terms of the export markets but the company is now going post-COVID is going pretty cautious in terms of selecting the category and the clients as far as the export market is considered and now is focusing on the US and the UK markets for which currently we are in the process of getting relevant certifications which are required for the purpose of exporting of oral care categories. We expect that by Q4 all those certification shall be in place. Going forward from next financial year onwards, we are looking at an upwards of 5-10% contribution from the export business per se in the overall business.

Nayan Gala: A majority of will be European and American markets that you are focusing currently?

Ashish Goel: Yes.

Nayan Gala: What is the opportunity in terms of the export market if you can elaborate on that part as well?

Ashish Goel: Post-COVID, everybody is looking towards India as the next global manufacturing hub and that is what we want to really tap on and convert this opportunity into real business. So we're really excited about it and apart from US and UK markets, we are also working to get into the African markets also directly which were earlier being supplied through the UAE and maybe the Afghan nations. We are looking to enter that market directly as well.

Nayan Gala: I can say around 10-15% of the overall revenue that we are targeting over a period of next 2-3 years. Is it correct?

Ashish Goel: Yes, coupled with the growth in the domestic business as well.

Nayan Gala: I was just asking about the export business.

Ashish Goel: Yes, we're looking at that kind of a contribution from export markets going forward.

Nayan Gala: Do we have any plans to incorporate our own brand and sell under our own brand or we are focusing on...

Ashish Goel: We already have our own brand by the name of Aquawhite which is largely catering to the kids oral care category and we will continue to focus on that through the institutional and the online channel.

Nayan Gala: In the adult category, do we have plans in the near future?

Ashish Goel: We also have adult category along with the kids' category, but as a USP we are focusing on the kids' category because that's where we add value rather than being just a me-too brand.

Moderator: The next question is a follow up from the line of Jay Mittal an individual investor. Please go ahead.

Jay Mittal: I just wanted to; if you could shed some light in detail about this recent demerger and amalgamation notification about JHS Svendgaard Retail Ventures Limited and JHS Svendgaard Brands Limited, what is the intent is and what to expect?

Ashish Goel:

Sure. So, as far as these three entities are concerned, for which also the segment reporting is being done. So, whereas JHS Svendgaard Brands Limited as an entity is particularly dealing with the proprietary brand of the company which is Aquawhite into the Oral Care category. Under the composite scheme which you just referred to, we are merging JHS Svendgaard Brands Limited in the parent business of JHS Svendgaard Laboratories Limited itself since we are any which way the segment in terms of the customers and are very focused on institutional business. But, in order to reduce the administrative expenditure and bring in the synergies from a product innovation perspective, these two entities are getting merged. As far as the JHS Svendgaard Retail Ventures Limited is considered, that entity is getting demerged and separately listed. Since that business is totally different from oral care as well as manufacturing that's purely a retail business wherein we are having retail outlets at different airports across the country. Also we provide manpower solutions there to various PSUs. From a risk profile perspective, risk and return profile perspective that business is completely independent. That is where the company is getting that entity as separately listed and while merging the branded business with the parent entity.

Jay Mittal:

Lastly, over the next 3-5 years sort of taking a medium-term to longer-term view, if you could give some general guidance about where we can expect growth to be coming from in terms of brand or in terms of product category and in terms of geography, if you could just give some details in that.

Ashish Goel:

Since anyway, there are limited places and there are new age customer brands which are coming in the oral care category. So, apart from the organic growth well within the oral care category in order to have additional growth as a company, we are looking for which we are already working and as our MD and promoter have also been mentioning that we are diversifying ourselves into the new product categories also as well as we are increasing our footprints in terms of manufacturing facilities across the country which will be happening by way of Greenfield projects as well as brown field expansion. And exports as we just discussed before this is anyway a focus area because as far as the India market is considered the top 6 customers or top 6 brand owners, we are there with most of them and in order to get more business within the oral care category, it is the export market now which the company shall focus and get the volumes from.

Moderator:

The next question is a follow up from the line of Nayan Gala from Etica Wealth. Please go ahead.