Jyothy LABORATORIES LIMITED

ANNUAL REPORT 2012-13

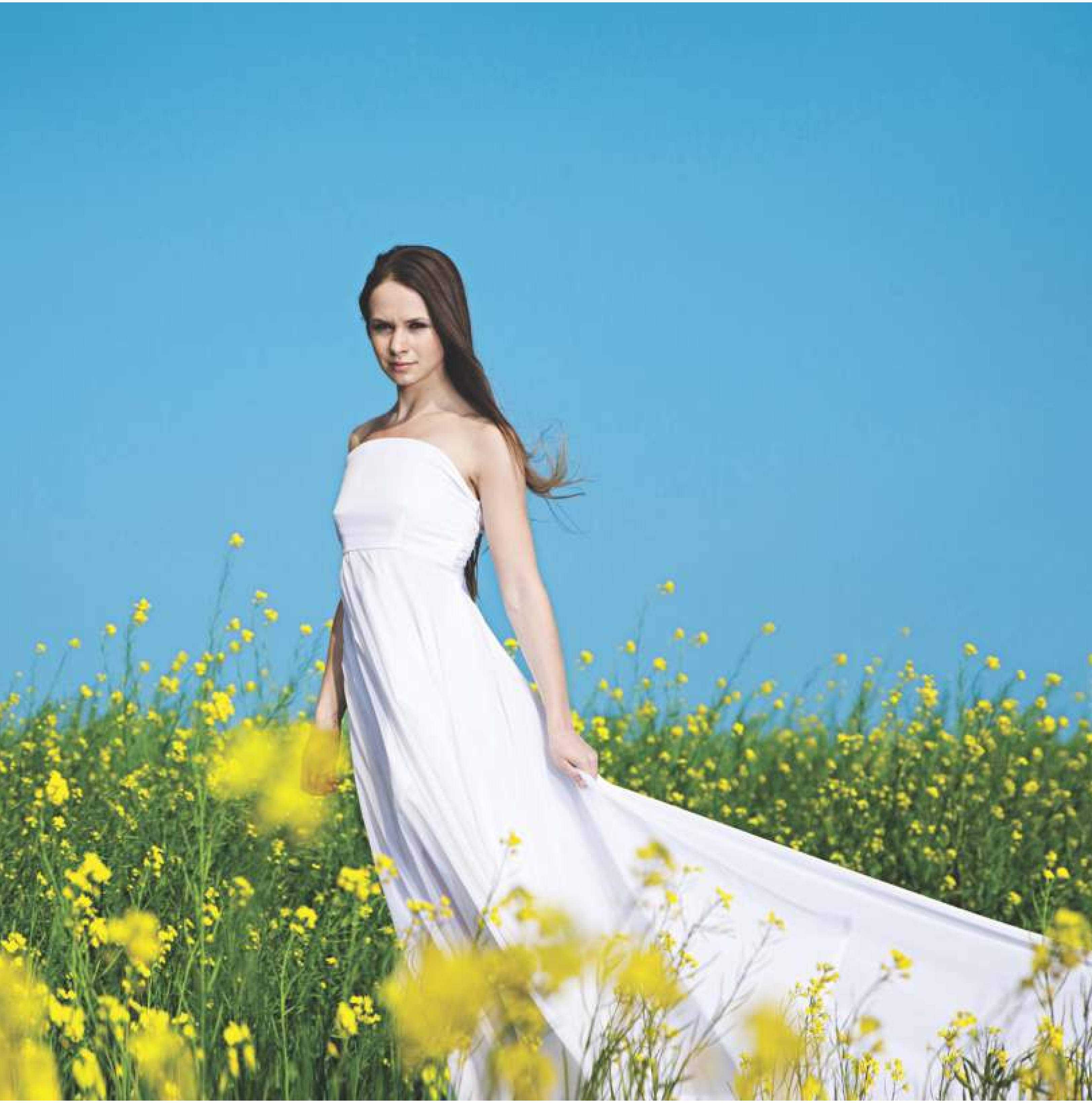
Change - for our constant growth!

The only constant in life, they say, is change! Change for the better. Change as synonymous for growth. Change as in reaching out to new territories and change that accrues with the achievement of objectives.

Jyothy Laboratories Limited represents an example of this phenomenon of continuous change. A company that began 30 years ago with idealistic values as its most important raw material! Values that touched upon product features, customer satisfaction, innovativeness and financial operations. Sure enough, the Jyothy basket of products reflected those values. Products that clean, whiten, refresh, delight and protect.

It began with our flagship brand - Ujala - a liquid fabric whitener. A product that has become a universal symbol of purity and integrity. This was followed by other products - each an offering that touched the lives of consumers in a binding way. The cyclothrin powered mosquito repellent 'Maxo'. Utensil cleaners under the brand name 'Exo'. Fragrance Incense sticks called 'Maya'. A range of personal care products under the brand name 'Jeeva'. And a new retail space has been created for 'Fabric Spa', a laundry chain with brand extensions. Add to that the 'Henkel' brand that was acquired by Jyothy, with their basket of product lines.

Each and every step in line with our mission of constantly changing to new and higher paradigms of growth and diversification.



Corporate Information

M. P. Ramachandran
Chairman & Managing Director

K. Ullas Kamath
Joint Managing Director

S. Raghunandan
Whole-time Director & CEO

M. R. Jyothy
Whole-time Director

CFO & Company Secretary
M.L. Bansal

Nilesh B. Mehta
Independent Director

K. P. Padmakumar
Independent Director

Bipin R. Shah
Independent Director

R. Lakshminarayanan
Independent Director

Statutory Auditors
S.R.Batliboi & Associates LLP

Solicitors & Advocates

AZB Partners

Law & Prudence

V. Lakshmikumaran

Bankers

Axis Bank Ltd.

ICICI Bank Ltd.

The Federal Bank Ltd.

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Letter from the Chairman

Dear Shareholders

"The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking."

~ **Albert Einstein**

The above quotation effectively captures what each one of us at Jyothy Laboratories has been focusing on during FY 2013. We have had a long track record of success at creating brands and achieving high market shares with a certain business model that we had shaped up over the years. We have defended our brands when they were challenged by larger competitors based on the insights we had of our customer's requirements. We used them effectively to build a value for money portfolio for our consumers.

However, with the acquisition of Henkel India, we needed to make big changes, since we moved into a more competitive arena where we hope to cater to a larger consumer base and diverse segments of the market.

Our idea in FY 2012-13 was to optimise our processes by fine-tuning our business to benefit an entity of our size post Henkel and to compete in the new categories we have entered into. We re-visited each functional area of our business and made the required changes to ensure operational efficiencies and garner full benefits of synergies on account of the acquisition.

Once we have that in place, and I believe we are not too far away from it, we will shift focus to scalability. This sequence will ensure that benefits of scalability percolate effectively to the bottom-line and on a sustainable basis.

Early Signs of an Economic Revival

Asia's third largest economy, saw urban consumers spend less in calendar year 2012 due to high inflation, muted salary hikes, and slowing economic growth that affected both real wages and sentiment.

We continue to face a tough economic environment characterised by rising commodity costs and high inflation. Most agencies have forecasted an improvement in the GDP number for FY 2013-14 and even more so for FY 2014-15. The first signs of a turnaround are now visible as inflation seem to be under control while private consumption and investment growth have increased.

As per the latest India Development Update of the World Bank, it is estimated that the Indian economy would grow by 6.1% in 2013-14 on account of robust domestic demand, strong savings and investment rate. Against the backdrop of a normal monsoon projection this year, the

M. P. Ramachandran
Founder, Chairman and Managing Director

World Bank has indicated that India is regaining economic momentum and growth is expected to recover gradually and fulfil its high long-term growth potential.

Compared with other sectors, the consumption story remains intact, though the pace of growth has slowed compared with previous years.

The FMCG sector continues to do well on the back of robust consumption driven by the sheer size of the Indian economy. We believe that the improving macroeconomic trends are a positive sign for us. Despite increasing short-term economic uncertainty and GDP projections being revised frequently, consumption in India is expected to touch US$ 3,600 billion in 2020 from US$ 900 billion in 2010, according to the CII and Boston Consulting Group (BCG) report on Retail and FMCG.

Translating our Efforts into Numbers

For FY 2012-13, Net Sales grew by 53.5%, to ₹ 1,01,738 lakhs on a standalone basis. In terms of profitability the operating profits, which stood at ₹ 12,374 lakhs resulted in a growth of 48.8%. The

EBITDA Margins stood at 12.2% as opposed to 12.5% in the last year. Our EBITDA margins grew steadily quarter on quarter, except for the Q4 where we undertook a one-time write off and also reduced the supply of Ujala for almost 45 days, to facilitate the New Shrink Packaged Ujala.

Given that Operating Profits and corresponding margins had been the areas where we spent most of the time during the year, we have managed to set the ball rolling in a direction and manner whereby the topline growth which we will achieve hereon will be optimised.

We registered a Profit after Tax of ₹ 4,404 lakhs after considering other income. We believe that hereafter, with our focus on sales and a re-engineered business model; we should see an improvement in bottom-line growth.

Our Debt Equity Ratio stands at 0.66. We draw comfort from the fact that we have real estate on hand to sell and pay off to extinguish this debt, though we are clear that we would do this only at the right price and time. We are comfortably servicing the same from internal cash accruals and it is hence, fairly & comfortably manageable.

Having created a sustainable business model for our size and scale, achieving scalability and driving growth through higher market share should keep us busy in FY 2013-14. Greater awareness and visibility will be where most of the efforts will remain concentrated.

Accelerating growth will require being smarter and faster in everything we do. Today's consumer is very discerning and wants value, and value doesn't necessarily mean a low price. It means offering innovative products that are incremental, transformational and in the nature of breakthroughs.

Another important milestone and an outcome of our integration with Henkel has been the establishment of a Research and Development Laboratory in Mumbai. This underlines our commitment to provide constant development of products. Going forward, this initiative will play a big role in driving our Company's growth in the times to come.

Catalysts of Change

With a larger business to manage, we needed more hands and particularly, experienced and expert ones. The year saw the introduction of our CEO to the Company supported by a strong team of 15 senior professionals across Marketing, Distribution, Packaging, Manufacturing, Operations and all the key functions that are present in every multinational FMCG Company.

We have key brand managers now, who focus on the brands. Along with new recruitments, our existing team too is being groomed to take on greater responsibilities. Setting up a second line of management was necessary to induce fresh thinking for the larger entity that Jyothy Laboratories is now. Going forward, I strongly believe that the long standing experience of the Promoters and the complementing professional skill sets of our second line of management will ensure that we emerge further strong in FMCG sector.

While I discussed a lot of changes which we have initiated, I must hasten to add here that at the heart of our core business principle continues to be that of providing value for the money that our customers spend on the products across categories. This remains our organisational goal and all activities and efforts abide by this core value.

The Road Ahead

During FY 2013-14, we hope to strengthen brands which will encompass new creatives, marketing spends and leveraging on the re-engineering distribution system while maintaining production efficiencies. Over a period of time, we hope to grow in excess of the industry mean.

A Vote of Thanks

Although change is a constant phenomenon, it is never easy to manage. The transitionary phase through which our Company is passing too is hence not an easy one by any yardstick. My colleagues deserve a special mention here for being the driving force behind the Company's achievements. I acknowledge and salute the high level of commitment and dedication that they have always brought to the table and this will continue to be crucial in the future and even bigger successes achieved by our company.

I also take this opportunity to thank each one of our stakeholders who have reposed their trust in us as we work towards a bigger and better tomorrow.

M. P. Ramachandran
(CMD)

Ullas Kamath
Joint Managing Director