

Investor and Analyst Q3 FY15 Conference Call

February 6, 2015



Moderator:

Ladies and gentlemen good day and welcome to the Godrej Consumer Products Limited's Q3 FY15 results conference call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode. 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. Rakshit Ranjan from Ambit Capital. Thank you and over to you, sir.

Rakshit Ranjan:

Thank you. Good afternoon everyone we welcome you to the conference call of Godrej Consumer. We have with us the senior management team of Godrej Consumer lead by Mr. Adi Godrej – Chairman. I will hand the call first to Mr. Godrej to give an overview of the quarterly performance and then we will open the call for Q&A. Over to you, sir.

Adi Godrej:

Thank you Rakshit and good afternoon. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the third quarter of fiscal year 2014-15.

Joining me are Vivek Gambhir (Managing Director), Nisaba Godrej (Executive Director), Omar Momin (Executive Vice President - Strategy and Business Development), P. Ganesh (Executive Vice President - Finance, Commercial and Company Secretary) and Sameer Shah (Vice President - Planning and Investor Relations).

After a few quarters of sluggish growth, consumer demand in India started to show early signs of recovery in the third quarter of fiscal year 2015. In the quarter gone by, Home and Personal care sector growth improved to 7.3% from about 4.5% in the second quarter. This marks the third consequent quarter of improvement in growth rates. After a challenging few quarters, the growth prospects of the Indian economy are looking more favourable. We expect the economy to pick up pace in FY 2016. We are beginning to see improved consumer sentiment on the ground and are hopeful that this will translate into better consumer demand in the quarters ahead.

In this challenging environment, our business has delivered strong, competitive double-digit growth across categories. We have also further strengthened our leadership positions across our core categories.



Overall, the third quarter was a strong quarter for sales growth across our key geographies of India, Indonesia, Africa and Latin America. Our consolidated organic sales in constant currency terms increased by 16%, which is much ahead of the market. Our organic constant currency operating earnings growth was even stronger at 28%, led by prudent cost management, benign commodity costs and our efforts to effectively leverage our brand platforms. In organic constant currency terms, our international business registered a robust top-line growth of 20% and an operating earnings growth of 43%.

I will now recap our six key business imperatives and assess how we have performed on these priorities during the quarter. After this, I will discuss the highlights of our financial performance during the quarter. We will then be happy to answer your questions.

One of our most important imperatives is to sustain leading positions in the three core categories that we participate in - home care, personal wash and hair care. Our focus remains on growing ahead of the market, driving consumption and penetration, and strengthening our portfolio. If we look at our India business, we have outperformed reported category growth rates, across categories. For the quarter, our sales growth has been more than one and half times the overall household and personal care category growth.

Our Household Insecticides business returned back to healthy growth levels, post a challenging quarter that was impacted by monsoon vagaries. We clocked a growth of 16%, well ahead of the category, and we exited December 2014 with our highest ever market share. We will continue to make efforts to widen this gap in market share gap versus our competitors and sustain our double-digit growth in the quarters ahead. During the quarter, we launched a Neem Low Smoke Coil variant, to premiumise our coil franchise and aid market share gains. Good knight fast card continues to see strong demand and we plan to leverage our distribution strength for our next level of growth. Similarly, our other innovations like Good knight Xpress liquid vapouriser continue to be well received by our consumers.

Soaps category growth during the quarter recovered to low single digits. We continued our double-digit growth momentum and outperformed the category with a value growth of 11%. We recorded strong growth across our key brands. This was aided by focused marketing campaigns, consumer offers and localised activation programmes. Gross margins during the quarter benefited from reduced duties and lower palm oil prices and have improved significantly. The recently launched Godrej No. 1 face wash has been successfully rolled out in the market, while Cinthol's new germ protection variant 'Confidence+' continues to do well. In our efforts to premiumise our portfolio, we are also test marketing a new winter soap in select markets in North India.



In Hair Colours, we have sustained our strong growth momentum and delivered a predominantly volume led sales growth of 10%, despite a significantly higher base from last year. We outperformed the category and gained further share. Godrej Expert Rich Crème continues to gain market share, backed by a strong build-up in distribution and large-scale activation programmes. We continue to drive initiatives to increase penetration as well as consumption in the category.

Our Liquid Detergent sales increased by 13%, despite the late onset of the winter. Ezee continues to do well aided by the Ezee 'Rahaat Ek Abhiyaan' campaign.

In addition to sustaining our leadership positions in our core categories, we are also strengthening our presence in our emerging categories.

Our Air Freshener brand, Godrej aer, continues to do well, aided by our innovative gel format technology and consumer engagement initiatives. In little over two years of launch, it now features among the top 3 players in the car air care and home spray categories.

Our portfolio of Godrej Protekt hand washes, sanitisers, and anti-mosquito spray - a foray into the Health and Wellness space - continues to be well received in modern trade. We believe that the hand wash and sanitiser categories have a lot more room to grow, given changing consumer needs and increased awareness of hygiene levels.

Our recently launched BBLUNT range of hair care and styling products has been well received by the consumers.

The second pillar of our strategy is to drive growth in our international business, guided by our 3 by 3 strategy, of focusing on three core categories of home care, personal wash and hair care in emerging geographies in Asia, Africa and Latin America.

Our biggest international business, Megasari in Indonesia, continued its strong growth momentum and registered a strong constant currency net sales growth of 19%, much ahead of the overall FMCG growth in Indonesia. Our growth was much stronger at 27%, if we exclude the impact of our foods distribution business. EBITDA margins of 19%, which is before the payment of a technical and business support fee, was higher by 330 basis points year-over-year, driven by price hikes, cost efficiencies and judicious marketing spends. Stella continues to grow strongly and further extend its leadership in the air freshener category. We continued our new launch momentum with the launch of Hit Non-Stop 60 days, Stella Kids and Christmas edition.



Our African operations, which comprise Rapidol, Kinky, Tura and Darling, delivered another strong quarter with 36% constant currency sales growth. This was mainly led by our Darling business, which grew by 42% in constant currency terms. The organic EBITDA margin of 18% was flat year-over-year, while improved by 670 basis points, sequentially driven by strong sales growth and acceleration in cost savings initiatives. In January 2015, we entered into an agreement with Frika Hair (Pty) Limited, for the acquisition of 100% equity stake in its hair extensions business in South Africa. This acquisition will further consolidate our presence in the South African hair extensions market.

Our Latin American operations in Argentina and Chile continued to show improvements during the quarter. Revenues grew by 25% in constant currency terms, led by healthy market share gains. The implementation of our cost transformation project in Argentina, Project Iceberg, has helped improve profitability. Our EBITDA margins improved by 270 basis points year-over-year to 13%, which is our highest ever third quarter margin. During the quarter, we refreshed variants and introduced new packaging for products under the Issue brand.

Our UK business remained under pressure. We had a constant currency de-growth of 13%, as one of the lead brands that we distribute continues to face growth challenges due to grey and counterfeit issues. EBITDA margins were around 8%, improving by 230 basis points on a year-over-year basis, due to a better mix and cost saving initiatives.

Our third strategic pillar is to accelerate the pace of innovation and strengthen our brand portfolio. The last few quarters have seen many innovations and new launches across categories and across geographies. We launched new formats in aer air fresheners, new shades and packs in Godrej Expert Rich Crème Hair Colour, Good knight Fast Card and Good knight Xpress, new Godrej No. 1 and Cinthol soap variants, a new range of Protekt handwashes, sanitisers, and anti-mosquito spray and made a foray into premium hair care with BBLUNT in India. We have entered the skin-cleansing category with the launch of a Godrej No. 1 face wash and are test marketing a winter soap in North India. In our international business too, we had several new launches. We introduced new variants for Stella air fresheners and Hit household insecticides in Indonesia and Issue hair colour in Argentina.

We will continue to focus on new launches to drive superior growth. We have been making upfront marketing investments to ensure that we adequately support our new launches. We believe that we will reap the benefits of this upfront spend as the new launches continue to gain scale.



One of our other key imperatives is to create a future ready sales organisation for the India business. We are expanding our distribution reach in rural and urban areas. Our rural growth continues to be ahead of urban growth. We are also gearing up to tap opportunities in e-commerce. We have set up a separate e-commerce team and are in discussions with leading e-commerce players to partner with them more systematically.

Our fifth pillar is to build a global best-in-class supply chain. We have taken strong steps in this area by establishing centres of excellence in TPM, lean, six sigma and low cost automation. We have set up a strategic sourcing team to leverage scale and reduce our procurement costs. We also recently launched an initiative to improve our supply chain planning and execution capabilities by using an advanced technology solution.

We have made good progress on 'Project Pi' which is our cost transformation project and we expect to see positive impact over the coming quarters.

Finally, we continue to execute different initiatives to foster an agile and high performance culture. GCPL was ranked the number 1 FMCG company to work for in India by the Great Place to Work Institute. Recently, we were also ranked by the Great Place to Work Institute as one of the best workplaces in Asia. GCPL has featured on the list of best companies to work for, for 11 years in a row. Our rankings in these people surveys reinforce our commitment to creating an outstanding workplace that attracts and retains talented employees and delivers superior value to our consumers.

I will now cover the highlights of our financial performance for the quarter.

For the quarter ended December 31, 2014, our organic consolidated constant currency net sales growth was 16%, led by strong performances across our India, Indonesia, Africa and Latin America businesses.

Our sales in India grew by 12% versus the corresponding quarter last year, led by strong double-digit growth across categories. Our India growth was well ahead of the overall Home and Personal Care category growth. EBITDA growth of 18%, was ahead of sales growth, and expanded by 100 basis points year-over-year.

Our International operations, which accounted for little less than half of our consolidated turnover during the quarter, recorded a constant currency growth of 20%.

Gross margins expanded by 30 basis points. In our India business, gross margins expanded by 350 basis points aided by a favourable mix, cost saving initiatives and benign input costs. Gross margins in our international business were impacted by the lag between price hikes and input cost inflation and geography mix. Overall, as the benefits



of benign commodity costs and cost savings projects start to kick in, we expect that our margins will remain healthy.

Our EBITDA margins without trademark licensing fees of 17.6% expanded by 180 basis points, on account of better margins in our India, Indonesia and Latin America businesses. In India, EBITDA growth of 18%, was ahead of sales growth, and margins expanded by 100 basis points year-over-year. In our international operations, organic EBITDA margins of around 15%, expanded by 260 basis points year-over-year.

Earnings per share (non-annualised) stood at INR7.74 for the quarter. The Board of Directors has declared an interim dividend of 100%, which translates to INR 1 per share.

With a potential recovery underway, we are confident that the growth rates will improve in coming quarters. With our relentless focus on innovation, we are in a good position to capitalise on the uptick in demand and growth. We will continue to focus on sustaining and extending leadership in our core categories. We are becoming operationally more efficient, while investing for the longer term. We expect growth during the second half of this year should be better than the first half. Consequently, our intent is to deliver a stronger performance overall this year, compared to the previous year.

The medium and long-term growth prospects in India and our other emerging markets remain robust. I am confident that with our clear strategic focus, differentiated product portfolio, superior execution and top-notch team, we will continue to deliver industry-leading results in the future.

I now conclude my opening remarks on the quarter's performance and open the floor for questions.

Continue: - Q&A...



Questions and Answers:

Moderator:

The first question from the line of Percy Panthaki from IIFL.

Percy Panthaki

When you announced Project Pi, you mentioned that this would result in savings of about Rs. 250 crore on an annual basis in about 2.5 years. Would you realize the full benefits in FY17 but you would get a large amount of those benefits in FY16 itself and half of those would flow through to the bottom-line, half of them will be reinvested in the business. Will FY16 PBT increase by approximately Rs. 100 crore on account of Project Pi?

Sameer Shah

The guidance given at that point in time was annualized for FY16 of about Rs. 200 crore to Rs. 250 crore savings. This was not supposed to be uniformly spread across FY16. We will have sizeable Project Pi led cost saving initiative in the P&L but it depends how much of it will be reinvested back and how much of it will flow to the bottom-line.

Percy Panthaki

How much of it will be reinvested?

Sameer Shah

It is difficult to predict that because there are many moving parts in the business.

Percy Panthaki

As it been a few quarters, can you give the breakup of the Rs. 250 crore savings? Which line items will they come from and how will it add up?

Vivek Gambhir

It is a combination of different levers that provide advantages for us. On gross margins, we have seen improvements coming from our better strategic sourcing, specific cost reduction projects through cross functional team to reduce the cost of manufacturing to reduce the cost of design and reduce the cost of packaging. On the marketing side, we have seen benefits in terms of better marketing optimization in marketing spends more targeted BTL spends and along with that we have seen benefits of better inventory management of the distributor stock we are holding. What you have seen across the board is roughly 60% on the gross margin line and about 40% on the net contribution line.



Percy Panthaki

Does this include rationalization or realignment of remuneration of distributors?

Vivek Gambhir

No, it does not.

Percy Panthaki

The Darling business has grown by 35% to 40% this quarter. What is happening on the ground because a year back we were saying that the sentiment is weak and we were reporting about high single digit or low double digit numbers? The turnaround has been so sharp in the category which is like a staple category in Africa. What is happening in this category and what is the future expected growth rates?

Omar Momin

Two clusters have outperformed in this quarter - Nigeria and Southern Africa which is South Africa plus Mozambique. There has been a very good season in that sense in these two countries. There are two factors – firstly, we had a very low base last year in terms of the organic business itself in Nigeria. Secondly, we have elections in February in Nigeria which will be concluded soon. There will be some amount of up stocking by the trade on that account. In Southern Africa, because of the weakness of the Rand, the domestic players have gained due to their competitive position and therefore we have gained significant market share in the last quarter in Southern Africa.

Percy Panthaki

Growth in Indonesia excluding foods business is extremely strong in light of the overall economic environment and consumption environment as well as the margin expansion has been pretty strong. What is happening and what is the prognosis of the geography?

Vivek Gambhir

Indonesia's growth has been consistently strong over the last few quarters. The team is cautious and closely monitoring the economic situation but so far the team feels quite confident that they will be able to sustain this level of performance.

Percy Panthaki

What has driven this margin expansion?



Sameer Shah

There are a few drivers. If you look at the overall value growth of 27%, half of it has come behind price increases and we are also leveraging this scale. And third, there has been rationalization of A&P spends.

Moderator

The next question is from the line of Suruchi Jain from Morningstar.

Suruchi Jain

What is the learning about the African market with the large acquisition of Darling? Could you explain the process behind committing more money to the same geography by acquiring Frika?

Omar Momin

The margin profile has been consistently in the 15% to 18% range with some volatility over the last few years. Over the last few years, we have seen the depreciation of emerging market currencies across the world and that means that there was a lag between price increases and margin erosion. What you have seen in the last quarter results is, margins are back on track and we are very bullish both in terms of growth potential as well as profitability of these businesses for the next few year.

Vivek Gambhir

We remain excited in terms of the game changing potential the African business provides us and part of our strategy is while we will focus on near term improvement to keep on improving margins we do see significant opportunities to try and find ways to continue to scale up our business both organically and through accretive acquisitions inorganically where it makes sense to be able to scale up our portfolio in that geography.

Suruchi Jain

Was Frika acquired for the brand or was it for a distribution reach in a region where we did not have presence?

Vivek Gambhir

It is a combination of both. From a distribution perspective, this asset is complimentary in terms of its presence in the Eastern Cape area where Darling is relatively weak. Second is from a brand perspective, Frika plays a more premium part of the hair extensions portfolio. Darling is much more of a mass brand. That way, both from a branding and a geographic perspective, the complementarity of this asset is very high. Also, Frika will be



very synergistic with Darling. From a manufacturing perspective there are some synergies there as well.

Suruchi Jain

How would you see the hair extensions business adjacent to the hair color business in India? Is there some learning that we are hoping to gain from the hair extensions business?

Vivek Gambhir

No, these are very separate businesses. Down the road, there could be a nascent niche opportunity in artificial hair in India and we have launched hair extensions through our B:Blunt brand but they are still very small and very nascent. In Africa it actually is a complementary business. Women who have natural hair will color their hair while woman whose hair does not grow very long in will actually use hair extensions. There is some relation but they are very distinct segments.

Suruchi Jain

Are you looking to introduce hair color in Indonesia and Africa?

Vivek Gambhir

We already have hair color in Africa. In Africa we have a brand called Inecto with ~80% share of the ethnic hair color market. We also have a Caucasian brand called Renew in South Africa with over 15% share in that market. Both of them are big market segments. In Indonesia, we are evaluating, no decision has been taken as yet but certainly that market is interesting as far as hair coloring is concerned.

Suruchi Jain

Which brands are having counterfeit trouble in the UK and as the business has not been doing too well, what is the decision behind staying in the UK and not exiting?

Vivek Gambhir

We would not like to comment specifically on the brand which has been having these issues. In UK, the FMCG market has been going through some pressures. What has been interesting for us is that if you look at our own brand portfolio i.e. - Cuticura, Provoke, Touch of Silver and Soft & Gentle over the last nine months have seen fairly healthy growth. In fact, double digit growth in a market that has been flat but some of our distributed brands have been going through some near term pressures but this acquisition has worked very well for us. It has been accretive and this is an important asset for us in our portfolio.



Sameer Shah

We should not just be looking at last couple of quarters performance. In FY14, the UK business growth was in teens in constant currency terms with strong expansion in margins.

Moderator

The next question is from the line of Prasad Deshmukh from Bank of America Merrill Lynch.

Prasad Deshmukh

How much is the contribution to revenue from new launches made in the last 12 months?

Sameer Shah

If you look at our innovation as a percentage of sales, it continues to remain in early double digits and this is defined as products which have been launched in a span of last three year including the current year. That is the way innovation growth rate is defined.

Prasad Deshmukh

How has growth been in modern trade channel?

Vivek Gambhir

Modern trade growth has been 28% against reported average for the industry at 6% growth.

Prasad Deshmukh

Some consumer companies are reporting very sharp growth in modern trade. Is it due to base effects or is there something happening there?

Vivek Gambhir

Both base effect and you are seeing a slight pickup in premium and because modern trade salient of premium tends to be higher and third of all modern trade is a good place for us to start showcasing our innovations which tends to be slightly higher priced. It is a combination of product specific launches for modern trade, more premium orientation and lower base is leading to this kind of growth rates. The pickup has been more sharp in urban and some of them get reflected in modern trade growth as well.



Prasad Deshmukh

When you said consumer demand, are you seeing some early signs of recovery other than pick up in modern trade? Are there any other parameters which indicate early signs of recovery?

Vivek Gambhir

No, but if you look at the Nielsen reported data and Nielsen reported volume growth, overall reported volume growth for Q1 was about (-3.3%) for Q2 was (-1.6%) and Q3 was around 1% in home and personal care - the segment that we participate in. One can probably quibble a little bit about the numbers but from a directions perspective, you are seeing a pick as far as volume growth is concerned.

Prasad Deshmukh

Any update on the insecticides business in Africa?

Vivek Gambhir

Still it is a very cautious launch. The initial data in Nigeria was encouraging but we are taking a step back to look at the right product portfolio for the African business getting registrations in order. Over the next 12 months, it will be much more experimentation and pilots just to learn the African market in terms of traction. My guess is, you will see more traction happening not next year but the following year after that where you will see more and more contribution from insecticides.

Moderator

The next question is from the line of Kunal Bhatia from Dalal & Broacha.

Kunal Bhatia

We want to increase our distribution reach and increase penetration as well, could you give us the broad sense on your distribution and how has that been growing over the last two to three years? What do you see going forward in India and the International businesses?

Vivek Gambhir

In India on an average, we have been expanding our direct reach by about 10% to 15% every year and we fully intend to continue doing that. But along with expanding reach, a huge area of focus for us has been to improve the quality of our distribution and improve productivity and we have been doing that by first of all having a common system that all our distributors view we have equipped our sales force with handheld devices to get more accurate information and we have been investing in sophisticated business



intelligence solutions to be able to extract the data and convert that into meaningful information.

We have started that journey in India; it is continuing very well; we are rolling that now into Indonesia, parts of South Africa and Africa. That will continue over the next two or three years. And if you look at our villages, we directly reach about 55,000 villages in India right now. There we are thinking a little bit harder about the balance between adding more villages versus actually more value from existing village because the reality in rural India is that a very small subset of villages actually contribute disproportionately to rural growth. In fact 10% of states in India contribute to almost 70% of FMCG consumption. We are focusing on deeper outreach, deeper distribution in a fewer villages as opposed to just adding more villages.

Kunal Bhatia

Now that we are hopeful of GST coming, what benefit do you see for our company?

Adi Godrej

Once GST comes in there will be tremendous benefit for the general Indian economy and of course it will benefit our company very much. The Constitutional Amendment Bill is to be introduced during the forthcoming budget session of parliament and it is by and large expected that it may come into force from 1st April, 2016. It is generally expected that the GDP growth of the country will increase by around 2% points once GST is in place. It has tremendous advantages. Evasion of indirect taxes will almost disappear and it will add tremendously to the distribution efficiencies in the country. In the case of our Company, we will directly benefit because of savings in freight and distribution costs by about Rs. 20 crore to Rs. 30 crore per annum but indirectly benefit tremendously because of the growth of the economy and because of greater efficiency in operations in the country. So overall it is a very good macroeconomic development for the country.

Moderator

The next question is from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra

On Africa growth, you said there were a couple of factors like low base in Nigeria and in South Africa. How do we look at this going ahead because the rate of growth has been more like low to mid double digits? Does that remain the normal situation and will this quarter's performance sustain? Is there an inorganic part in this 36% growth?



Sameer Shah

There is inorganic component which is around 3% to 4% if you strip out the Darling Ghana business which got integrated in Q3FY15. This is a quarterly performance, at this point in time we will have to wait and watch. The medium-to long-term fundamentals look very strong both in terms of continuing this growth momentum as well as maintaining /expanding margins.

Arnab Mitra

Despite the very high sales growth, your margins Y-o-Y have remained flat in the Africa business. I know you are doing a couple of initiatives on lowering labor cost. Why margins actually did not expand on a Y-o-Y basis despite very high sales growth?

Sameer Shah

We are having upfront investments on talent, systems, sales or infrastructure. All of this is adding in terms of cost and that is why the margins are more or less flat.

P. Ganesh

But having said that the margins are still at a good level at around 18%.

Arnab Mitra

The crème launch in India has gone very well. Is the market share gain going to happen through this product itself through distribution expansion or is there scope to take up price increase here because pricing has not moved much in this category. How do you look at growth from here on having already done a good job in the last two years?

Vivek Gambhir

There are opportunities from a distribution expansion perspective which will capitalize. At this stage, we have not taken a call on any price increase in this because there is still enough growth to be had through expanding distribution and penetration of crème. Beyond that there could be other innovations that we could look at launching next year to continue the growth momentum in this category.

Arnab Mitra

What is happening in the soaps market with the market leader having taken some price cuts or grammage increases? How do you see overall pricing scenario in this category for you and for the overall industry there?



Sameer Shah

Most of the players have been quite aggressive since last couple of quarters and as what happens in every cycle. Some players adopt the route of sales promotion or temporary price reduction or lower MRPs and some players take the route of consumer offers. It depends on brand-to-brand as to what works well and what does not work well. In fact, we have been focusing more on consumer offers to begin with right from the first quarter of FY15 and we will continue to be competitive on ground in the market.

Vivek Gambhir

The other thing is from our perspective, if you recall, our performance in soaps was not good in the early part of the year and some of it was driven by our own execution challenges. We fixed those challenges and inspite of increased competition and because of the way we fixed our execution issues we will continue to see a greater benefits because our first couple of quarters this year were relatively weaker.

Adi Godrej

Our soap business will enjoy tremendous advantages from the commodity cycle and some of it we may have to pass on to remain competitive but we will continue to remain competitive.

Moderator

The next question is from the line of Puneet Jain from Goldman Sachs.

Puneet Jain

Why have gross margins of international business contracted on a Y-o-Y basis while the gross margins for India business expanded significantly?

Sameer Shah

The international business gross margins are down by around 300 basis points. This is on account of two reasons. If you look at the geography mix, Darling as a business has relatively lower gross margins; relatively lower A&SP spends and marginally higher employee costs and that is why the Darling margins are very close to the blended business margins. If you look at the overall international business revenue growth rate in Africa, of which Darling is a big component, has 36% growth as compared to other businesses like Indonesia which has close 19%. Higher salience of Africa business and in turn Darling business has resulted in drop in gross margins and the second impact is coming on account of lag between increase in input cost and price increases in select geographies which hopefully will be bridged in coming quarters.



Adi Godrej

But the net margins have increased.

Puneet Jain

Is the growth in home care and personal wash largely volume-led?

Sameer Shah

In home care or household insecticides more than 3/4th of the growth was volume led, the rest of the growth was mix plus price led growth and even in case of soaps we did enjoy mid-to high-single digit price/mixed lead growth.

Vivek Gambhir

In India the volume growth is a little over 8%.

Moderator

The next question is from the line of Rahul Baijal from Bharti AXA Life Insurance.

Rahul Baijal

How does your African business get impacted if the Euro keeps depreciating further? Is the billing in Euros or US\$?

Oman Momin

The African business is impacted by the movement of the respective African currencies to the US\$. All our purchases are US\$ denominated, the depreciation of the African currency hurts our margins in the interim and vice versa.

Moderator

The next question is from the line of Chitrangda Kapur Arora from Reliance Securities.

Chitrangda Kapur Arora

You mentioned that there has been a rationalization in the advertisements spends. What do you mean by rationalization of advertising spend, is it for Q3 or is it going forward?

Vivek Gambhir

You know there is no rationalization and advertising spends. Let me convey the philosophy of our advertising spends. It is quite misleading to look at advertising spends; number one on aggregate. Number two, on a Q-o-Q basis because generally advertising campaigns are looked at over multiple quarters. The best way to look at ad spend would



be more on a Y-o-Y comparison and look for data across multiple quarters because there are many factors that go into advertising spend. It is competitive intensity but more importantly it is the kind of innovation that we do. In certain quarters when we are launching a new product, the advertising spends actually goes up to support that product.

If you look at our advertising spend, you will see a ~37% increase in ad spend over the last two years. Last quarter while advertising spends came down; we were leveraging the investment that we had made in all of the subsequent quarters. Even if we try and double click on advertising spends and look at India spends versus international spends; in India spend we had almost a 100 basis points increased sequentially on ad spends. The key for us is to continue keeping advertising spend between 10% to 12% but that variation will keep on happening Q-o-Q depending on our innovations but we will make sure that we invest competitively behind supporting our brands.

Chitrangda Kapur Arora

There has been a new winter soap launched in North India. Has the advertisement spend pertaining to those launches come in Q3 or it is going to come further in the fourth quarter?

Vivek Gambhir

It is a very small launch. It is only in Punjab, it is a test markets for the time being. The investments would be extremely small. There is some which came in Q3, there will be some in Q4 but they are non-material.

Chitrangda Kapur Arora

Did you mention that you would not be giving the benefit of gross margins to customers?

Vivek Gambhir

It is going to be a combination because the extent of benefits that we pass is depended on competitors but even if we have to pass a certain percentage of benefit to the consumers, it would still lead to a certain amount flowing into profit with profit growth being ahead of sales growth.

Moderator

The next question is from the line of Jubil Jain from Phillip Capital.

Jubil Jain

What is the percentage of palm oil as compared to the total RM cost for soaps?



Sameer Shah

It is very volatile. It is very difficult to give that number as it depends on which commodity cycle you are in.

Adi Godrej

And it varies from brand to brand of soap.

Jubil Jain

What would have been an approximate percentage or approximate range?

Sameer Shah

You can scan through our annual report which would give you what was the share of palm oil in the overall cost basket.

Jubil Jain

What was the price cut taken in case of soaps for this quarter?

Sameer Shah

We have not seen any price cut this quarter. We have been very competitive on ground. We have had consumer offers which have worked so far very well for us.

Jubil Jain

Any visibility on the palm oil cost for the next quarter? Will it be increasing Q-o-Q or will it be going down?

Adi Godrej

It is very difficult to predict as these are international commodities and even the best of experts can find themselves in the wrong side of the prediction.

Jubil Jain

Could you give some visibility for January?

Vivek Gambhir

The amount of money we will have to spend on buying palm in Q4 will be lower than what we spent in Q3. The direction is positive but it depends on the amount of covers you have, how much you are buying locally and internationally. There are far too many variables to be able to give you an exact sense of what is the outlay for palm in Q4.



P. Ganesh

These prices also change on a daily basis.

Adi Godrej

What we consume in next month is probably bought two to three months earlier.

Moderator

The next question is from the line of Ashish Mehta from Bharti AXA Life.

Ashish Mehta

How much is the 300 basis points component in gross margin in the domestic market and how much is coming from price and how much is coming from benign raw materials?

Sameer Shah

It is very difficult to decode that but there are few drivers to it, one is lower input cost and within that lower palm oil prices. The second is the favorable category mix which we have got. We have clocked 16% growth in HI and 10% to 11% in hair colors and soaps respectively which is favorable from gross margin's point of view and the third is high cost saving initiatives also coming in the gross margin line item.

Ashish Mehta

Is there any room for further improvement in the gross margins going forward?

Sameer Shah

It is difficult to predict that because there are too many moving parts like category mix, how the commodity cycle shapes up over a period of time. But direction wise margin should expand; however, it is difficult to quantify it at this stage.

Ashish Mehta

You had a cut A&P spend this quarter in the international business to leverage the earlier increase in the portfolio; we have also acquired Frika business. Do we see an increase in the A&P spends in the international business going forward?

Sameer Shah

One thing to remember is the absolute rupee crore spends on consolidated and international are slightly deceptive because of currency depreciation of 8% to 10%. We should be looking at advertisements spends just in constant currency terms because what we are reading right now is rupee crore which has an 8% to 10% currency depreciation



impact. Also it is a quarter of very strong growth in Africa and in turn Darling business. So the overall A&P spends in international and perhaps in consolidated is little lower than otherwise what it should have been.

Ashish Mehta

Would it be in line on a constant currency basis?

Sameer Shah

Yes, it would be little more on a Y-o-Y basis.

Moderator

The next question is from the line of Prashant Kutty from Emkay Global.

Prashant Kutty

How has the working capital cycle especially for the nine months period been and because we have been talking about improvement as far as our working capital cycle is concerned on the inventory side as well as on the debtor side?

P. Ganesh

Working capital reduction is an ongoing exercise we keep looking at. Opportunity for optimizing our working capital blocked in the business and as on date on a consolidated basis we are operating at a little under three weeks.

Prashant Kutty

Is it largely with regard to the international business?

P. Ganesh

It is predominantly international business because all the domestic business for most part of the year we operate on a negative working capital.

Prashant Kutty

How would it be for the debtor cycle?

P. Ganesh

Debtors again as far as the India business is concerned is predominantly cash-and-carry except for modern trade which is not a very big part of our India business. Whereas when we look at the international business we have a higher salience of modern retail in a good part of our international business and that is where the debtors are much higher. Also



what we need to bear in mind is that with modern retail, you do not have too much of negotiation opportunity. It is only the non-modern retail part where you have the opportunity and therefore while the opportunity is limited that is the area where we keep looking for reductions.

Prashant Kutty

With regard to the margin levers going forward on the Africa and the Indonesia business, what are the levers from here on as far as both these markets are concerned?

Sameer Shah

Leveraging the scale because at this stage we are investing behind different initiatives whether it will be distribution or new product launches to ensure that we get a sizeable sales growth and hence the scale to leverage it. Premiumization could be another driver which could result in margin expansion in both these geographies.

Moderator

The next question is from the line of Sundar S from Spark Capital.

Sundar S

How do you see the domestic household insecticides category growth going forward? After you now we see that every other player has launched the fast card version. Where do you think is the innovative pipeline going forward and what has led to this present growth momentum and how do you expect it to grow in the next 12 months?

Vivek Gambhir

As we all very well know this is a seasonal business and sometimes with the delay in monsoon there was a lower infestation of mosquitoes which is what happened in Q2. Q3 was favorable and we returned back to a robust growth environment. If we look at the last five years on average, the category growth rates tends to be in the high-single to low-double digits and we have been growing significantly ahead of the category through both distribution expansion and having a consistent track record of innovations.

That is going to be the intent for us to continue to look for ways to significantly outperform whatever the market growth might be. With regards to Fast Card, our performance speaks for itself. It has been very strong and as any new launch, there is always bound to be competition but that is good for the industry. Penetration rates are still quite low in rural India and this is a very serious problem for the country as a whole. We welcome the efforts of all the players to continue to invest and creating good products to release the country of this menace.



Sundar S

Would you like to comment on the product pipeline in this particular category?

Vivek Gambhir

It is confidential at this stage. Clearly a lot of work is going on across all our categories to look for innovation that will excite our consumers. But, as and when we are ready to launch, we will make the product announcement.

Sundar S

How did you see this rural and urban growth because we have heard that rural continues to perform exceedingly well despite macroeconomic signs showing that the income levels are deteriorating and urban pickup has not happened to the level what have been expected? What has been our experience this quarter and what do you think is the way for the next three months?

Adi Godrej

Our growth in the rural areas has been higher than in the urban areas and we feel that will continue for two reasons. One is penetration of FMCG products in rural India is much lower than in urban India. Lot of the potential growth in India is from increased penetrations. Secondly, it is incorrect to feel that rural incomes are not growing. For example this year my understanding is that whilst the monsoon was poorer than the previous year and grain and pulses output was slightly lower than in the previous year fruit and vegetable output because of the very high prices last year have been much higher than in the previous year. Rural incomes have been ahead of the previous year. We believe that rural demand in FMCG will continue to grow faster than urban at least for the next two to three years.

Sundar S

Would like to talk about penetration and distribution numbers?

Adi Godrej

No, it is not a question of distribution. By penetration I mean the percentage of the population using particular FMCG products. There are only three FMCG products which are completely penetrated that means every family in India uses that. Soaps, toilet soaps, detergents and match sticks. Everything else is under penetrated and under penetration in rural India is much more than in urban India. Therefore one of the great growth potentials of FMCG in India is by increasing the penetration.



Sundar S

Can you just throw some light on the Latin American operations; it has been quite volatile and constant currency growth of 25% this time. What are the drivers of growth in this particular market?

Vivek Gambhir

The Latin American business has performed quite well through a mixture of couple of things. One is just much more focus on the main brands there. Second was through innovation and better marketing, we have continued to gain share and outperform the market.

Sundar S

Any specific cross-pollination that you would like to point out here?

Vivek Gambhir

Nothing in particular at this stage.

Moderator

Participants, that was our last question. I now hand the floor back to Mr. Rakshit Ranjan for closing comments.

Rakshit Ranjan

On behalf of Ambit Capital I thank the senior management team of Godrej Consumer and all the participants on the call. I would like to hand the call back to Mr. Godrej for any closing remarks.

Adi Godrej:

Thank you Rakshit. Thank you for hosting this call. With that we would like to bring this call to a close. Thank you all for being on the conference call and if you need any further clarifications we will be very happy to provide them.

Moderator:

Thank you, sir. Ladies and gentlemen, with that we conclude this conference. Thank you for joining us and you may now disconnect your lines.

Disclaimer - The following transcript has been edited for language and grammar, it however may not be a verbatim representation of the call.

