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Godrej Consumer Products Limited
Q1FY11 Conference Call Transcript
12.00 noon, Monday, July 26, 2010

Moderator: Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited Q1 FY11 earnings conference call, hosted by Alchemy Share and Stock Brokers Private Limited. As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. If you should need assistance during this conference call please signal an operator by entering * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ajay Thakur of Alchemy Share and Stock Brokers Private Limited. Thank you and over to your Mr. Thakur.

Ajay Thakur: Thank you Rochelle. Good afternoon ladies and gentlemen. On behalf of Alchemy Share and Stock Brokers, I welcome you all to the first quarter earnings conference call of Godrej Consumer Private Limited. To discuss the results we have with us Mr. Adi Godrej, the Chairman, Mr. A. Mahendran, Managing Director, Mr. Vivek Gambhir, Chief Strategy Officer and Mr. P. Ganesh, Executive Vice President (Finance & Commercial) and Company Secretary. Now I would hand over the floor to Mr. Godrej for his initial remarks followed by the Q&A session.

Adi Godrej: Thank you and good afternoon. I welcome all of you to this conference call to discuss our 1st quarter results and performance. As mentioned, joining me today on this call are Mr. A. Mahendran, Managing Director, Vivek Gambhir, Chief Strategy Officer and P. Ganesh, Executive Vice President – Finance & Commercial and Company Secretary.

Driven by our 3x3 strategy we completed the following acquisitions during the quarter. On 28th May 2010 we acquired the balance 51% stake in Godrej Sara Lee Limited, which has now been renamed as Godrej Household Products Limited. On May 17th 2010, we completed the acquisition of PT Megasari in Makmur Group and its distribution company in Indonesia. On June 2nd, 2010, we completed the acquisition of 100% stake in Laboratoria Cuenca, Consell SA, Issue Uruguay, and Issue Brazil collectively referred to as the Issue Group. On June 16th, 2010, we acquired worldwide rights of Tura from the Tura Group. On July 8th, 2010, we acquired 100% stake in Argencos**,** a mid-size Argentine hair care company.

I will now take you through the financial performance and developments in our domestic and international businesses during the quarter. Please note that our consolidated results include financials of subsidiaries from the date of completions of the acquisitions during the quarter. In the next quarter it will be 100% consolidation for the whole quarter. During the quarter, our consolidated net sales increased by 47% to Rs. 643 crore. PAT was up by 67% to Rs. 116 crore. Earnings per share for the quarter stood at Rs. 3.78 up from Rs. 2.71 in Q1 2009-2010. The Board of Directors has declared a first interim dividend of 100% which translates to Rs. 1 per share.

I will now discuss our domestic business which comprises the GCPL and GHPL businesses. Domestic business registered net sales of Rs. 459 crore and PAT of Rs. 106 crore. In the personal wash category we registered strong growth in market share with a 10.4% market share in the current quarter against 9.8% share in quarter one of last year, implying continuing strong growth in our off-takes. Sales have grown significantly over Q4 of last year. We also re-launched Godrej No. 1, strengthening the branding and visibility of the soap. In our hair care category we continue to enjoy a market leadership position in hair color with a market share of 34% against 32.9% in Q4 of last year. Nupur continues to register strong growth. In our home care category, we continue to enjoy market leadership position in the household and insecticides market with a market share of 33.1% against 31.5% in quarter one of last year. Goodknight Advanced Low Smoke Coil has been voted the “Product of the Year 2010” in the insect repellent category, making it the second consecutive year of Goodknight wins. Goodknight Naturals mosquito repellent cream creates new personal application users with strong growth in market share.

I will now discuss our international business in different geographies. We strengthened our international footprint, with operations now in Indonesia, South America and the Nigerian markets. International business registered sales of Rs. 186 crore, a growth of 84% and PBT of Rs. 19 crore. The sales growth in Indian rupees had a negative impact of about 5%, mainly due to a weak pound sterling.

The recent acquisitions have been EPS accretive. In our Asia operations comprising Megasari in Indonesia and GGME in the Middle East, Megasari recorded sales of Rs. 83 crore and EBITDA of Rs. 14 crore. EBITDA, before the payment of technical know-how fees to GCPL, stood at 21% to sales. Megasari continues to enjoy its number two position in the household insecticides market and its leadership positions in the hair care and wipes markets in Indonesia. Since, Megasari is our biggest international acquisition till date, we have supplemented the local team with three key personnel from the Godrej group in areas such as marketing, supply chain and finance. In Africa we registered sales of Rs. 34 crore and an EBITDA of Rs. 6 crore. Rapidol continues to enjoy market leadership position in the ethnic hair color market in South Africa while Kinky continues to strengthen its presence in the dry hair markets. Kinky launched its first store within a store concept, wherein products are sold behind the Kinky branded counter with a trained Kinky Sales Assistant. We have also established a hub in Nairobi to cover the Kenya, Tanzania, Uganda and Rwanda markets.

We entered LATAM in countries like Argentina, Brazil, and Uruguay with two acquisitions, the Issue Group, and Argencos in the hair care category. Both the companies put together enjoy volume market share of 25% in Argentina. Issue Group's sales stood at Rs. 12 crore for less than a month of consolidation. Our UK business, other than the Cuticura brand, showed growth. As you are aware we have had a very high base of Cuticura and hygiene gel sales last year on H1N1, i.e., swine flu concerns in the UK markets. With H1N1 concerns subsiding this year, Cuticura sales have come back to normal levels in the current quarter. UK business sales stood at Rs. 53 crore, and EBITDA at Rs. 7 crore. GCPL successfully completed its equity raising through a QIP of Rs. 531 crore, to be utilized for repaying short-term bridge finance raised for acquiring the balance 51% stake in Godrej Household Products Limited. GCPL also raised debt of about $350 million at attractive rates of LIBOR plus 150 to 175 basis points for its overseas acquisitions. GCPL was recognized as being amongst India's top-50 best places to work for by the Economic Times and the 'Great Place to Work Institute'. GCPL ranked first in the FMCG category and 14th overall. At GCPL we continue our strong commitment to our people through varied and innovative people processes, along with the bright future, brighter living proposition. We look forward to continuing to deliver strong operating financial performance and creating even further value. I once again thank you for joining us on this conference call. We will now be happy to discuss any questions or comments that you may have.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Pritesh Chheda of Emkay Global.

Pritesh Chheda: What was the like-to-like percentage growth for the first three months in LATAM versus the three months last year, so LATAM, Asia which is Megasari, and Africa in terms of percentage? I do not want the absolute number.

Adi Godrej: So in LATAM we had growth of about 24% compared to the corresponding period of the previous year. In Megasari we had a growth of about 20% compared to the corresponding period of the previous year and in Africa we had a growth of 11% compared to the corresponding period of the previous year.

Pritesh Chheda: If you adjust currencies in these three areas? And what is the growth in Sara Lee like-to-like in the quarter?

Adi Godrej: The growth rates which I have given you are in local currency. Generally the Indonesian Rupiah has been firm; I do not have the exact rate for the 45 days. But the Indonesian Rupiah has been firm and the Rand in South Africa has also been firm. The Peso has been a little weak so perhaps the growth in rupees in LATAM might have been a little lower. But unfortunately, I do not have the figures, but we can get them to you.

Pritesh Chheda: Regarding Sara Lee: what was the growth in the last three months?

Adi Godrej: The Godrej Household Products business grew at about 28% in the 1st quarter of this year.

Pritesh Chheda: Would you like to share the outlook on all these four markets?

Adi Godrej: Yes, we expect outlook will be very good. The economies are doing well. We expect strong outlook. Now that we have taken over these acquisitions, of course Godrej Household Products has always been in our fold, so the outlook is very good. But the other acquisitions abroad now will come with our introduction of synergistic benefits. We expect to get considerable synergistic benefits on procurement, product exchanges etc. and we are likely to plough all such benefits into greater advertising and promotions for faster growth. So we expect a strong look ahead. Our estimate, I have mentioned this earlier, so I will re-mention it. We have no reason to change it, when we had the last concall after the Indonesian and Godrej Household Products acquisition, on the international acquisitions we have projected an improvement in our PAT by roughly 60 crore during this financial year based on the consolidation for part of the year, after taking the interest costs of these acquisitions into account. Of course the accretiveness from the Godrej Household Products acquisitions will be in addition and that would be very considerable.

Pritesh Chheda: So this includes up to the Issue and the Argencos?

Adi Godrej: Yes it includes up to the acquisitions made to date.

Pritesh Chheda: Could you tell us, since everything is consolidated at the end of June 2010, what is the debt in the book after considering the QIP?

P. Ganesh: Overseas debt is around $350 million this is in the offshore book. And in the local books we have a bridge finance of about 700 crore in INR, against which we have taken a QIP of about 530 crore, so net debt is in the range of about 170 crore in the local books.

Pritesh Chheda: So this includes full consolidation of all of these. My guess is only which is left, is Argencos.

Adi Godrej: That has also been paid for now, that is included. We have paid for it on July 8th and it is being consolidated from July 8th. So our debt-equity ratio currently stands at roughly 1.2:1, consolidated debt-equity ratio.

Pritesh Chheda: And what are the borrowing costs here?

P. Ganesh: Borrowing costs for the overseas loans, which is the bulk of the borrowing, is between 150-175 basis points over LIBOR and the local debt is bridge finance averaging to a little over 5%. But that again is short-term, so the real long-term cost is about LIBOR plus 150-175 basis points.

Pritesh Chheda: And what is the nature of this other income in both stand-alone and consolidated?

Adi Godrej: The stand-alone other income is dividends paid by Godrej Household Products to Godrej Consumer Products. There was a lot of cash on Godrej Household Products after we took over the 100% shareholding, so in order to utilize that cash for our acquisitions we paid a dividend out of Godrej Household Products to Godrej Consumer Products. That dividend has a pass-through benefit on dividend distribution tax so there is no additional dividend distribution tax. In the consolidated accounts the other income is the payment we received from Sara Lee Corporation for the AmbiPur business being taken over by Proctor and Gamble. That is shown as an exceptional item.

Moderator: Our next question is from the line of Vikash Rungta of Reliance Mutual Fund.

Vikash Rungta: I wanted to understand, in the Analyst Meet for the financial year 2010 results it was stated that for the debt equity the strategy was to be 1:1. Then on the concall, what we understood, subsequent to some further acquisition the strategy has been revised to long-term debt equity 1:1. Just wanted to understand the reason behind the change of strategy?

Adi Godrej: One of the things was that the period for QIP raising of funds was a bit difficult so we decided, our advisors told us that 530 crore would be an ideal number so we decided on that. Also, we are seeing that we are generating tremendous amounts of cash every day, every month and in a very short period of time, because the cash we generate will add to the equity and will help us pay back the debt. So in a very short period of time we will be back to the 1:1. Also the lower QIP issue leads to lower dilution, which we thought would be better in the long-term interests of the shareholders.

Vikash Rungta: You are also looking for further acquisitions to go for your 3x3 strategy. What is the maximum debt equity that we can see over a period of time?

Adi Godrej: We do not expect the debt equity to rise because we will be generating a lot of cash, so we do not expect the debt equity ratio to rise and in the long term, we would like to keep it at 1 or lower. In the short-term, for a few months, it may be a little higher than 1:1.

Vikash Rungta: What is your total planned CAPEX on consolidated basis for FY11 and FY12?

Adi Godrej: We do not need much CAPEX in any of our businesses for organic growth; in fact, we expect CAPEX will be well within the depreciation and internal generation of cash, well below that. So CAPEX for organic growth is very low in our businesses, both Indian and international. Any major CAPEX will only be required for acquisitions. And we do not expect to incur any major CAPEX for acquisition over the next few months.

Moderator: Our next question is from the line of Hemant Patel of Enam.

Hemant Patel: A question on the domestic business and have noticed this last quarter and even this quarter that the top line growth has really not been up to the mark and despite the increase in market shares, could you highlight as to what's really happening on a) the category as a whole for hair and soaps in the domestic markets and b) has there been a volume growth rate in these two categories for the company?

Adi Godrej: Let me explain. During last year, growth in the first two quarters were very high because there were expectations of price rises because of commodity prices. The economy, of course, was also growing from its lower trajectory in the previous year. So we had very high sales growth in the first two quarters of last year. In the second two quarters of the last financial year, domestic sales growth tapered down. This year we expect lower growth in the first two quarters, but much higher growth in the second two quarters. Secondly, the wholesale trade last year, in view of the constant price increases because of commodity prices in FMCG, tended to stock up to very high levels because we thought prices, going forward, would be higher. This year, for precisely the opposite reasons, as there is more competition, especially in the soap category, and because commodity prices are benign, the wholesale trade has been de-stocking. So therefore, our primary sales have grown much less than our consumer off-take. Our market share in soaps grew from about 9.8% in the 1st quarter of last year to 10.4% in this quarter. So our off-take is very healthy but because of the reasons I had stated the primary growth is stunted. We expect primary growth to be very strong in the second two quarters because the base effect last year was low in those quarters and so, for the whole of the year we expect to have a good growth in the domestic soaps business. As far as Godrej Household Products Limited, we have stellar sales growth of 28% in the first quarter of this year, because there were none of the effects of the previous year, plus the off-take growth was also very good; market share also grew considerably. So over the years, we expect domestic growth to even out.

Hemant Patel: Has there been any sort of pricing intervention at least in the 1st quarter of this year and given the fact that palm oil prices and other raw material prices have actually moved up and impacted your gross margins to a certain extent, can we expect some sort of an intervention coming into this coming quarter or the next?

Adi Godrej: No, not likely. We do not expect price increases in the near future. Last year you must realize that the margins in soap were exceptionally high. The year before in 2008-2009 they were exceptionally low. This year the margins are normal. And last year's margins, to my mind, would be exceptionally high and those are not likely to come back. Also competitive pressure in the market in toilet soap has been a little higher this year.

Hemant Patel: And in your presentation, you have mentioned that there has been an impact on off-take due to high food inflation. Is this both in the urban and rural markets or you are seeing it in one pocket in particular?

Adi Godrej: It is mainly in the low-income parts of the urban markets. See, what has happened with high food inflation over the last 4 to 6 months is that low income urban families especially, some in the rural areas also, are spending more of their income on their food requirements. And therefore, the only thing they can cut down is on FMCG purchases. Now soap is a category which is a heavy-purchase item for low-income urban families. Whereas other FMCG items, if you look at things like shampoos or more up-market, even, like household insecticides or hair color, there is not much effect. But on soaps there has been an effect. Once food inflation comes back to normal as we expect during August-September we expect this negative effect on off-take to come down. So, growth in soap, which was a double-digit last year, both because of price and volume, has come down to around 5% in the April-June quarter.

Moderator: Our next question is from the line of Percy Panthaki of HSBC.

Percy Panthaki: My first question is on the FOREX loan. Can you tell us the exchange rate at which the loan was drawn down?

Adi Godrej: The loan has been drawn by our holding companies in Mauritius. So it is dollar denominated, it is in Mauritius in dollars. It will be paid back in dollars from the earnings of the various subsidiaries for the purchase of which we have drawn this loan.

Percy Panthaki: If at the end of the quarter, if the exchange rate fluctuates, what kind of accounting impact will this have, how will you account for it?

Adi Godrej: There is no accounting impact in the consolidated numbers of Godrej Consumer Products. If, ultimately, in the end of the loan, depending on the exchange rate, the assets at which these were purchased would change accordingly in the books in the balance sheet.

There is no mark-to-market accounting issue in Godrej Consumer Products consolidated numbers.

P. Ganesh: Since these loans are on offshore books in dollar-denominated currencies, there will not be any P&L impact in the GCPL standalone book, just to clarify.

Percy Panthaki: But when you translate the balance-sheet item, when you show it in the balance sheet, won't there be a translation gain loss and how would you account for that?

P. Ganesh: Yes, there will be a translation on the balance sheet, which will reflect in the cost of investment, ultimately.

Percy Panthaki: Okay, so no P&L impact?

P. Ganesh: No, P&L impact.

Percy Panthaki: Second question is, are you seeing any change in the competitive landscape in the hair colors in say India, because, I'll just get some quick numbers from the pie charts you have presented and the YoY growth in the hair colors was looking flat. Is that correct and if so, what was the reason?

Adi Godrej: I do not think we should go by one quarter's growth rate. Last year, we had a significant growth in hair color. We expect a strong growth in Q2 in our hair color business also.

Percy Panthaki: Even in the March 2010 quarter, the hair color growth was not very robust?

Adi Godrej: No, I think we should look at the whole year. Last year the growth in hair colors was very good, this year also we expect strong growth during the year. From quarter-to-quarter a lot of factors come into play including the stocks, wholesale tend to keep on that because both our No. 1 soap and our Godrej Expert Power Hair Dye Sachets are big items in the wholesale trade because they are very strongly distributed into rural India. So we see no major change in the competitive landscape. There are two changes in the competitive landscape in our domestic business. In soap we see a stronger competitive intensity, both from ITC and, to a certain extent, from Hindustan Unilever. Hindustan Unilever has lost market share over the last few years. There is a stronger competitive intensity. ITC, perhaps because cigarette profits are good, have been more competitive in the recent past. And in household insecticides, we see a lower competitive intensity from our major competitors. So these are the two areas where there is a change: one is better for us and the other is a little bit worse for us. However, in both these categories, the household insecticides and soap, our consumer off-take, according to AC Nielsen, has been considerably higher in April-June 2010, than it was in April-June 2009.

Percy Panthaki: How much did you say was the soaps YoY de-growth for this quarter?

Adi Godrej: The primary sales de-growth was about 9% but off-take was higher than the off-take in the previous year.

Percy Panthaki: Understood, 9% is value terms or volume terms?

Adi Godrej: About the same, value and volume.

Percy Panthaki: My last question is on the employee cost front. Basically, we have seen the employee cost for your company as being extremely volatile compared to other FMCG peers and I understand there is a variable cost component also, there. Can you throw some more light on the variability and what percentage of the overall employee cost is variable in nature; any kind of details on that?

Adi Godrej: Variability is entirely because of our performance-linked variable remuneration, which is based on EVA improvements. So, last year, when the EVA growth was very high, we had a strong increase in our employee cost. All these performance-linked variable remuneration costs, are debited to the accounts before the profit growth is calculated. This year, because the EVA improvement was much lower the performance-linked variable remuneration provision is considerably lower. That is the only reason for the changes. I'll ask Mr Mahendran who wants to add something on your earlier question.

A Mahendran: On the earlier question on the soaps growth, which you checked and is reporting a 9% de-growth, we also took some conscious decision this quarter in terms of de-stocking some of the stock level at the distributor point. It is a conscious decision we took primarily from a market hygiene point of view, which will not get repeated in quarters 2, 3 and 4; that's another point we need to talk about.

Percy Panthaki: If I am right, was this same thing done in the March quarter as well, and what is the reason that for two quarters consecutively, this was necessary?

A Mahendran: March quarter, yes, slowly we did start that in the March quarter, also slightly and then it just continued to complete in the quarter 1, here. Currently, we have completed that level; today it's a fairly hygienic level of stocks we have. Now, going forward, it should not have any impact.

Adi Godrej: What happened was that soap demand rose dramatically in the first two quarters of last year, which led to dramatic increases in stocking by the trade also. It hit a slowdown in both volume and value growth, especially value growth because there were no price increases, so it is necessary to bring these stocks down for market hygiene. Therefore, the effect on primary sales is much more exaggerated than the effect on demand. Our demand continued to be good as reflected in our market share changes. However, we had to take the primary sales effect in order to create market hygiene. So, from here we expect to have continued good growth.

Moderator: Our next question is from the line of Vivek Maheshwari of CLSA.

Vivek Maheshwari: My first question is on the soaps: you mentioned on a YoY basis the decline was 9%; this was both volume as well as value?

Adi Godrej: That's right**.**

Vivek Maheshwari; Because, from the presentation, if I look at the pie chart and compute 45% of your domestic growth the YoY is down by 12%, so am I missing something here?

Adi Godrej: I don't know how you have interpreted it, but I have given you the exact number.

P. Ganesh: I will take you through the actual numbers off line, but it would be essentially because in the pie chart gives you the absolute percentage, which is why you may be arriving at this data.

Vivek Maheshwari: Second, in the domestic business, as you mentioned that competitive pressures are higher both from ITC and HUL, but you're A&Ps have remained almost flat on a YoY basis at 8.5%, so do you anticipate this will go up in the coming quarters?

Adi Godrej: It could be, depending on the margins and competitive pressures.

A Mahendran: Yes, but let me add, this quarter-on-quarter investment on A&P also depends on what type of marketing initiative we take quarter-to-quarter. For example, in this Q1, there is no major marketing initiative for us, it is directly connected to the innovation as well as the launch of SKUs in the soap as well as hair color, and household insecticides. So the question is, in the future, next 2-3 quarters, yes, definitely at least for quarter 2, our A&P spends will grow.

Vivek Maheshwari: How would the A&Ps be in GHPL?

A. Mahendran: A&Ps we do spend on an average around 8% and of course that would fluctuate within quarter-to quarter depending on the initiative.

Vivek Maheshwari: But is the competitive intensity in general relatively better compared to soaps?

A Mahendran: Yes, you are right as far as the competitive intensity in household insecticides is fairly under control and it is a fairly well-set business, growing fairly healthily in the categories also. And there are four major players in that, Godrej Household Products, Reckitt Benckiser, SC Johnson, and Jyothy Laboratories. So these four players are fairly, I would say, matured level of play happening in the market.

Vivek Maheshwari: Do you see any merit in merging the two companies GHPL and GCPL going forward?

Adi Godrej: We have no plans to merge them at present because the accounting of goodwill could become a problem. If IFRS comes in, we will certainly take a look and then take a decision. There is no plan as of now.

A Mahendran: But at operating level, both the companies are driven as a one business in terms of FMCG since three categories household insecticide, personal wash, and hair color so one managing director, managing both the businesses, so at the team level and at the operating level we are looking at and trying to drive a lot of synergies and operating one company but as Mr. Godrej said, as a legal entity, we are considering as a separate company.

Adi Godrej: We expect not only considerable cost savings in trying in to integrate the operations over two companies as Mr. Mahendran mentioned, but we also expect very strong synergistic advantages between leveraging each others strengths in the two companies, for faster top-line growth, which would lead to even higher bottom-line growth in the future. Whilst we expect some of the savings to accrue in the year 2011 itself, we expect a tremendous benefit in the years 2011-12 from his exercise. So we have set up a major set of internal teams from both Godrej Household Products and Godrej Consumer Products to look at that, helped by a team from McKinsey.

Vivek Maheshwari: You mentioned about the staff cost being volatile depending on how the performance is; that's the case for GCPL; is that the case for GHPL and other international subsidiaries as well?

Adi Godrej: GHPL is on the same system of performance-linked variable remuneration as GCPL and the international subsidiaries do get involved in this methodology soon after we acquire them. So the answer is, yes, but this is a self-fulfilling thing. It is based on EVA improvements so if the profits grow substantially and EVA grows substantially then staff cost based on variable remuneration will go and vice versa.

Moderator: Our next question is from the line of Abneesh Roy of Edelweiss Securities.

Abneesh Roy: My first question is on your hair color business, you mentioned the numbers for soaps, 9% volume decline in primary sales. I wanted to understand for hair color what is the corresponding number?

Adi Godrej: It was up 4%.

Abneesh Roy: You said, even in 1QFY10 there was a very high base, so was high stock seen even in the hair color business in FY10?

Adi Godrej: A little bit, not as much as soap, because in soap, the category growth declined because of no price increases was more. When category growth declines, it ends up with larger stocks in the market because the stocking is based on the high growth of the previous quarter and then it has to come down with the growth in the category is lower. In hair color, there has not been much change in category growths.

Abneesh Roy: In terms of the monsoon, what is the initial feeling you're getting because still there is a big deficit and this year will be crucial, so I wanted to understand that perspective?

Adi Godrej: I think generally the monsoon has shaped up very well in terms of agricultural growth terms. From what we understand, in the last week, the monsoon has picked up almost all over the country. The overall prognosis, from both the reports we get from international metrological and of course the Indian metrological projections, is for a very good monsoon overall. The second half of the monsoon is expected to be much better than the first half of monsoon. We have just completed about half way through the monsoon currently, and of course, the Rabi crops, also agricultural growth is very good so we expect a strong input from good agricultural growth in this financial year.

Abneesh Roy: Regarding staff cost, you have given us a lot of color, but this EVA is calculated on a quarter-on-quarter basis or on a full-year likely basis?

Adi Godrej: It is paid out on an annual basis; it is projected for the year and provided for in each quarter.

Abneesh Roy: And lastly, could you comment on the likely product innovation, likely product synergy in terms of, say, the Argencos cream color being introduced in India on those lines?

Adi Godrej: There are a lot of potential synergies. It's too early for us to comment on all the potential synergies. But I can tell you that the Argentinean Company we have acquired, the Issue Group, is perhaps the world's largest producer of cream hair colors in sachets, which is a technology we could use in Africa and Asia. In Indonesia we are leaders in air care. Now that the AmbiPur brand will go away from our portfolio, we will look to leveraging our Indonesian experience in brands and so there are many, many opportunities. After about three to six months we'll be able to more clearly crystallize all the synergistic benefits between our various businesses across continents.

Abneesh Roy: Coming to AmbiPur, is there a no-compete clause, for the next one year, you cannot compete?

Adi Godrej: No, there is no such clause.

Abneesh Roy: You can start from day one itself?

Adi Godrej: We can start immediately, after we stop handling it and we still continue to handle AmbiPur. As soon as we stop, we have no non-competitive clause.

Moderator: Our next question is from the line of Amnish Aggarwal of Motilal Oswal Securities Limited.

Amnish Aggarwal: I have a question primarily on Godrej Household Products. This year we have reported 28% sales growth and very healthy EBITDA margins, so will it be possible to maintain this kind out sales momentum in Godrej Household Products and secondly, what sort of EBITDA margin should we look for the full year in this company?

A Mahendran: As far as household products are concerned, we expect the growth rates to be healthy for the next three quarters. I think there is a linkage to a good monsoon; when we talk about a good monsoon, particularly household product like mosquito repellent has got a correlation. And as Mr. Godrej was explaining how we are expecting the monsoon to be fairly above average. I don't see any reason why the incidence of our mosquito repellent should go down, there is a direct linkage to that. So we see a fairly good performance and the category growth should be fairly as healthy, as it was in this quarter. Now, apart from that, I want to add that post of these two companies now being operated together, there are a lot of other synergy benefits are going to creep in, in the household products business, primarily from the distribution area. For example, Godrej Consumer Products' strength is fairly good in distribution penetration in the northern region, whereas Godrej Household Products are typically weak in the northern region, we wish to strengthen that, rapidly. Second, the rural penetration of Godrej Consumer Products is fairly high as compared to Godrej Household Products, so that also can be strengthened riding piggy back of the Godrej Consumer Products initiative. So if we look at these two areas as well, as there are certain cost synergies, we expect to be on the same track.

Amnish Aggarwal: As per my calculation, we ended last year with EBITDA margins at about 17.5%. And in this quarter EBITDA margins are around 22%, so along with the very high rate of growth 20-25%, will there be so much of margin expansion also for the full year, or will it even out during the course of the period?

Adi Godrej: That is difficult to project, margin expansion, but margin expansion has been increasing over the last couple of years so we would not like to provide any particular guidance on that front. It will depend on our cost firm out and how the growth rate is. Margins do increase when growth rate is high. And the 28% growth rate in the first quarter helped improve margins a little bit.

Amnish Aggarwal: My last question is regarding the AmbiPur business, which has, as a brand, now gone to P&G, how much of the top-line was contributed by this and for how much time will we continue to handle the sales of AmbiPur?

Adi Godrej: About 3-4% of the top line of Godrej Household Products came from AmbiPur and we don't know exactly how long we will continue to handle AmbiPur. We are under discussion with Procter & Gamble on that. But it won't be very long.

Amnish Aggarwal: But do you already have a plan in place that as soon as AmbiPur goes out your own brand from Megasari comes in?

Adi Godrej: I would not like to comment on that.

Moderator: Our next question is from the line of Shirish Pardeshi of Anand Rathi Financial Services.

Shirish Pardeshi: I have two questions. I joined late so I heard that GHPL has reported a growth of 28%. I'm not sure if you've reported, is there any price increase we have taken in this quarter.

A Mahendran: No price increase at all this quarter.

Adi Godrej: And the number you have quoted is correct.

Shirish Pardeshi: So it is all volume driven?

Adi Godrej: That is right.

Shirish Pardeshi: Would you be able to share what is the growth, which segment has grown, is it the mosquito coil segment or mats have grown faster?

Adi Godrej: All segments have grown well, of course the growth rates differ. Aerosols are growing very well and the liquids are going exceedingly well. So we have grown well in almost all sectors, in all sectors of household insecticide.

Shirish Pardeshi: What are the top two key raw materials for Godrej Household products?

A Mahendran: The top-two key raw materials is if you look at the active ingredients which we use for all the mosquito repellents, is called synthetic pyrethrum – active, that is one of the major raw materials we use. The other one is on the liquid vaporizer, we use the solvent which is a liquid solvent used for all this industry, I would put it as a #2 raw material is cost terms.

Adi Godrej: Also relative to say, the soap business, the packaging material cost in household insecticide is a higher percentage.

Shirish Pardeshi: So would you be able to share how these costs for these two-three key raw materials has moved?

Adi Godrej: Let me explain, except for our soap business, where vegetable oils are a commodity where there are considerable price fluctuations and the percentage of costs of soap manufacture going into vegetable oil is reasonably high, of course, it varies from brand-to-brand. In our other two businesses, hair color and household insecticides commodity costs do not have much of a bearing, they do have some bearing but it is relatively small. The commodity scenario bearing is mainly in soaps. Just as in the overall FMCG categories the commodity cost bearing is much higher in soaps and heavy duty detergents than in other categories.

Shirish Pardeshi: My next question on the soap category, I heard in the beginning that we have a de-growth of 9%. Is that the category has also de-grown at 9%?

Adi Godrej: No, the category has not de-grown. Let me be clear, our primary sales have de-grown by 9%. Our off-take in the quarter has grown in terms of market share from 9.8% in Q1 of 2010 to 10.4% in Q1 of 2011, so our off-takes have considerably grown. Primary sales have declined because of down stocking at the distributor level, wholesaler level, etc., which creates for better market hygiene and that typically takes place when category growth decelerates. So, last year, the category grew at a very high rate in the first quarter, mainly on the back of price increases. This year, the category grew, category off-take according to AC Nielson grew by 5%, so therefore there is a lot of stock correction at the distributor and wholesaler level.

Shirish Pardeshi: We have seen the competitive intensity going up and we have seen in line, now, on slots from ITC, 'Buy Two Get One Free' and how they launched the Vivel Deo also. We have also seen the lucky winner for Lux Soap, they have announced in Punjab. Do these implications have more pressure on our soap share in Punjab?

Adi Godrej: Well, obviously intensity of competitors increasing will have some effect. It's not that we are sitting silent so to answer your question you have to look to the fact that our market share according to AC Nielson was 10.4% in this Q1. Last year in Q1 it was 9.8%. Now if you look at the details of market share I don't want to comment on it, but each competitive market shares are also available, some have grown in market share others have declined in market share. We have grown and we hope to continue that trend despite the market pressure.

Shirish Pardeshi: So you mean to say that in the near future we will not see a heightened activity in terms of A&P spends for us or it would remain flat?

Adi Godrej: I would not like to give guidance on that particular point, but very clearly we look to ensuring that our share of the market is maintained.

Moderator: Our next question is from the line of Nillai Shah of Morgan Stanley.

Nillai Shah: In terms of this technical fee paid out by Megasari where has that been booked?

P. Ganesh: The technical fee paid by Megasari comes into India in GCPL books.

Nillai Shah: And my second question is, in terms of 9% primary off-take, can you put a number on the actual demand off-take that happened? I know your market share has grown.

A. Mahendran: We can give it to you on offline. We don't have it right here.

Adi Godrej: And I might also mention that quarter-on-quarter there was considerable growth in our domestic sales, so first quarter of this year was much higher than the last quarter of the previous year. I think there was a growth of about 11% or so.

Moderator: Our next question is from the line of Manish Jain of Nomura Securities.

Manish Jain: I had one question on this dividend which Godrej Household Products you mentioned has paid out to GCPL, what is that amount?

Adi Godrej: It was about 116 crore. And it has been separately shown in the accounts.

Manish Jain: And what would be the stock change at the dealers' level in terms of number of days if you could quantify that?

Adi Godrej: Well at the highest our stock with dealers was about 21 days. It's come down to about 15 days. But the larger change is with the wholesaler because wholesalers especially in No.1 Soap is a high percentage of our total sales because they are the ones who redistributed mainly to the rural areas. So as they were expecting large soap price increases last year they tend to overstock in order to book such profits. Now that they have seen intense competition and lower overall off-take they tend to under-stock. So our assessment is, we don't have any definite figures like we do for AC Nielson in terms of consumer off-take. Our expectation is they had considerably overstocked relative to normal, in the first quarter of last year and they are very under stocked compared to normal at the end of the first quarter of this year.

Moderator: Our next question is from the line of Anuj Bansal of BOA Merrill Lynch.

Anuj Bansal: I just had one question on the off-shore debt. Is this a six-month US LIBOR?

P. Ganesh: Yes that's right.

Anuj Bansal: So it will be reset every six months?

P. Ganesh: Yes that is right.

Anuj Bansal: And what is the repayment period that has been set for this loan? Are there any terms on that?

P. Ganesh: It has an end-maturity of 5 years.

Anuj Bansal: And any payments in between.

P. Ganesh: Principle repayments start after year one.

Anuj Bansal: And so if you calculate roughly at this point and the interest rate comes out to be around 2.5% overall, is that correct or are there any other hedging or swap costs, etc., associated with that?

P. Ganesh: At the moment there are unhedged.

Anuj Bansal: There is nothing at this moment so it's around 2.5% something like that if we calculate?

Adi Godrej: That is right.

Anuj Bansal: And from the Africa margins, are you seeing any pressure there, because I thought that your sales growth was impressive, but the EBITDA growth or the PBT number that you gave does not seem to have done much there. Anything on that, are you guessing any margins?

Adi Godrej: No generally, we see margins around the same levels, but sometimes mix changes from quarter-to-quarter so it's very difficult to compare the margins from one quarter to the other, and remember our Africa numbers include both our highly profitable hair color business and more moderately profitable dry hair business.

Anuj Bansal: Okay so nothing as a trend right?

Adi Godrej: No.

Moderator: Our next question is from the line of Rajiv Ghosh of Wealth Managers.

Rajiv Ghosh: What is the volume growth in hair color for this first quarter?

Adi Godrej: Well, with hair color it is difficult to talk about volume growth because of the different types of hair colors. You can't compare volume of powders with volume of creams. So we only locate value growth and it was plus 4% during the quarter.

Rajiv Ghosh: And any reason why it has been considerably lower compared to previous three quarters?

Adi Godrej: Again the same issues of stocks in the market as I mentioned earlier, have less effect than in the case of soap, but there is some effect on stocks in the market with both wholesalers and distributors. You must remember that the first quarter of last year was a very high growth quarter for the FMCG sector and for our company, so this correction in stocks is the reason why our primary sales growth was lower than our consumers off-take growth.

Rajiv Ghosh: What kind of value growth can you expect for the category of hair color?

Adi Godrej: We would not like to give any guidance but we expect very strong growth in hair color over the rest of year.

Moderator: Ladies and gentlemen, that was the last question. I hand the conference over to Mr. Ajay Thakur.

Ajay Thakur: I would like thank the management of GCPL for their time and also would request Mr. Adi Godrej to give his concluding remark.

Adi Godrej: Thank you for hosting the conference call, and I would like to thank all of you for participating in this conference call. We are very excited about the annual prospects of Godrej

Consumer Product this year as well as the prospects over the next two years. I might just like to point out that what makes us very optimistic about year 2011-12 and 2012-13, are two major factors. We expect very considerable synergies in the next two years in synergizing and integrating the operations of Godrej Household Products with Godrej Consumer Products. We also expect very strong benefits with the implementation of the goods and services tax from 1st of April, 2011. I would also like to point out that there will be considerable additional consolidation from all our acquisitions over the next quarter onwards, because the next quarter we will have 100% consolidation of all our acquisitions including the 100% shareholding in Godrej Household Products whereas in the April-June quarter there was only partial consolidation from all these acquisitions. Thank you very much. Thank you for your support and we look forward to continued support from all of you.

Moderator: Thank you Mr Godrej, thank you gentlemen on the management team and Mr. Ajay Thakur. Ladies and gentlemen, on behalf of Alchemy Share & Stock Brokers Private Limited, that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.