



Regd. Office: Pirojshanagar, Eastern Express Highway, Vikhroli, Mumbai 400 079

**Godrej Consumer Products Limited
Q1FY12 Conference Call Transcript
12.00 noon, Monday, July 25, 2011**

Moderator Ladies and gentlemen good day and welcome to the Q1 FY12 Results Conference Call of Godrej Consumers Products Limited hosted by Sharekhan Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kaustubh Pawaskar from Sharekhan, thank you and over to you.

Kaustubh Pawaskar: Thanks Marina. Good afternoon everybody on behalf of Sharekhan Institutional Research, I welcome you all to the Q1FY12 Post Results Conference Call of Godrej Consumer Products Limited. For the results, we have with us Mr. Adi Godrej, Chairman of GCPL and the Senior Management Team of the Godrej Consumer Products Limited. It is an opportunity to congratulate Mr. Godrej and his team on posting a good set of numbers in the first quarter. Now I hand over the floor to Mr. Godrej for the initial remarks followed by the Q&A session.

Adi Godrej: Thank you Kaustubh and good afternoon everyone. I welcome all of you to the Godrej Consumer Products Conference Call for Q1FY12. Joining me today at this conference call are Mr. Mahendran, Managing Director; Nisa Godrej – President, Human Capital and Innovation; Vivek Gambhir – Chief Strategy Officer and P Ganesh – Executive Vice President, Finance & Commercial and Company Secretary. We will begin with a brief overview of the financials, following which I shall discuss developments in our domestic and international businesses.

For the quarter ended June 30, 2011 our consolidated net sales stood at Rs. 998 crore and PAT was Rs. 239 crore. The quarter also had several launches and relaunches across businesses which were backed with sizeable marketing investments. We are expecting launches to be key growth drivers going ahead. Earnings per share, non-annualized stood at Rs. 7.4 for the quarter. The Board of Directors' have declared an interim dividend of 100% which translates to Rs. 1 per share. Both our domestic and international businesses have performed well.

Our net sales in the Indian subcontinent increased by 21% to Rs. 641 crore with significant growth across all 3 core categories. We are emphasizing innovation and backing them with investment. PBT was higher by 99% at Rs. 279 crore and PAT increased by 97% to Rs. 211 crore.

During the quarter we will keep Kiwi brand settlement charges of around Rs. 175 crore. Quarter 1 of last year also had a sum of Rs. 40 crore towards settlement charges received for Ambi Pure brand. Our household insecticide category delivered another quarter of robust growth. We realized 40% sales growth growing more than twice the pace of the category growth. We are reaping the benefits of continuous and innovative marketing and promotional investment, delivering sustainable healthy growth. We continue to be extremely positive of the opportunities for this category. We became market leaders in liquid vaporizers format in addition to enjoying market leadership position in coils, mats and aerosol formats of the category.

Our soap business grew by 17% for the quarter, again growing more than twice the pace of the category growth. We grew by 9% in volume terms in the category which has actually degrown in this quarter. We successfully launched Godrej No.1 'Saffron and Milk cream' soap which was backed by a sizeable investment. Initial response has been very encouraging. Media investments on Godrej No.1 'Saffron and Milk cream' have a huge rub off effect on other variants of Godrej No.1 Soap, resulting in a stellar growth. We continue to be the second largest toilet soap player in the country. This is the second consecutive quarter of strong soap sales growth.

The hair color business continues to do well and grew by 19% during the quarter. In terms of volumes while they are not directly comparable due to the different format we roughly grew by 10% plus. We enjoy market leadership position in India and 20 other countries with our comprehensive portfolio of products which encompasses Crèmes, powders and liquid hair color. Expert care a herbal based formulations and Expert Advance a progel formulation are recent launches which have got very positive response. Our sizeable brand investments are reaping us early benefits. We will leverage on distribution reach enjoyed by Expert Original for expanding Expert Care and Advance presence in retail outlets. Nupur Natural Mehndi continues to grow at an exponential pace. Our synergy initiatives in the domestic market are on track. Sales and distribution integration has resulted in a strong sales growth and initiatives on cost savings are on plan. I will now discuss the performance of our international operations which accounted for 36% of our consolidated turnover during the quarter.

We reported revenues of Rs. 360 crore and an expansion of 93% in rupee terms, compared to the first quarter of the last year. The numbers are not comparable, as quarter 1 of the financial year 2011 did not include the full quarter results of Tura, Megasari, Issue and Argencos. Our Asian ex- Indian subcontinent operation, which includes Indonesia and the Middle East have done well during the quarter.

Megasari is the market leader for air care and wipes in the Indonesian market and is the second largest player in the household insecticides segment in that market. Megasari sales for the quarter was Rs. 194 crore and the EBITDA was Rs. 28 crore. Business registered 19% comparable Indonesian Rupiah sales growth.

We launched HIT magic paper a disruptive and innovative paper format mosquito repellent. HIT magic paper burns for three minutes and has a residual efficacy up to 8 hours. The launch was supported by heavy marketing investment. Consumer awareness, which is very vital for the success of this disruptive innovation is addressed through media support. We expect HIT Magic to become a new format for new low cost solution users and coil converts.

In the Middle East, GGME added Rs. 5 crore to the revenue. Our African operation which comprise of Rapidol, Kinky and Tura made steady progress during the quarter and reported revenues of Rs. 43 crore and EBITDA of Rs. 4.4 crore. Rapidol continues to register strong growth.

The announcements of rights to Acquire the Darling group asset, we expect the Kinky business to derive huge synergies on value creation and backward integration.

Our Latin American operation comprising of the business of the Issue Group and Argencos reported sales of Rs. 56 crore and EBITDA of Rs. 1 crore.

Despite the quarter being traditionally the softest quarter for our Latin American business, given the seasonality over the winter months in the southern hemisphere, the business recorded strong comparable sales growth of 22% on the back of distribution expansion in the new product launches.

EBITDA margins were relatively low due to weak seasonality and the investments behind the launch of Issue Ammonia Free Hair colors and growing the markets outside Argentina in countries like Peru, Uruguay, Columbia and Chile.

Our UK business registered a strong growth of 16% with revenues at Rs. 62 crore and EBITDA at Rs. 9 crore. Cuticura, Provoke & Touch of Silver brand grew strongly.

The strong start to the year shows very encouraging signs for the rest of the year. During the quarter, we announced acquisition of rights for 51% stake in Pan African leading hair care company, 'Darling group holding'. Darling group holding through its operating companies in 14 countries of Africa, is the market leader in hair extension product and a pioneer of the category in the region. The acquisition leaps frogs the Godrej group to be a leading player in hair care across Sub-Saharan Africa building on the existing strong market share position that GCPL currently has in hair colors in more than 14 Sub-Saharan African countries through its Inecto brand. The acquisition will be a

strong platform for GCPL home care and personal care products in Sub-Saharan Africa. The acquisition is expected to be EPS accretive from year one.

With our continuous focus on human capital development, we were ranked No. 1 in FMCG companies by the Economic Times and Great Places to work survey 2011. We were also ranked the best employer in the Top 25 Asia-Pacific companies in the study conducted by Aon Hewitt. While the macroeconomic environment continues to be challenging, I believe our performance is a reflection of the robustness of our business model and our ability to efficiently manage risks and challenges. I continue to be confident of the opportunities for GCPL both in India and overseas. We will continue to perceive a prudent but aggressive growth strategy through a blend of organic and inorganic initiatives. We have and will continue to strive to enhance the shareholder value and drive growth. I now conclude my opening remarks and open the floor for questions.

Moderator

The first question is from Pritesh Chedda from Emkay Global.

Pritesh Chedda

My question pertains to the margins in the quarter, especially the gross margins which have reduced both on QOQ and YOY basis and if you could highlight the reason?

Adi Godrej

On comparing quarter-on-quarter, the fourth quarter of the year is always the best quarter for the household insecticide business and the first quarter is usually the best quarter for the soap business. This is because of the seasonality. And in the household insecticide our margins currently are much higher than in soaps because soap margins have been affected by the high vegetable oil prices. This is the main reason for the difference in the quarter-on-quarter margin. If you take year-on-year the main reasons are two-fold, one is soap margins has been affected by vegetable oil prices and secondly our advertising and promotion expense in this year has been much higher than the previous year, which in turn facilitated our very strong volume and value growth in this quarter.

I think the second thing is the team realized that it had generated very large other income through the Kiwi brand compensation. So we have invested some

of this income into A&P for strong growth for the future and I think that will pay us very good dividend in the quarters to come.

Pritesh Chedda

But the slippage on the gross margins is more in the international operations, where soap does not come into picture?

Adi Godrej

There is no slippage in the international operations margin, other than in some of the geographies where we have invested more into advertising and promotion. For example, in Indonesia, the HIT magic paper was very strongly supported, which will give us tremendous dividends in the years to come. The previous year's figures are not complete because in the previous year in the first quarter the consolidation was only for a part of the business. If you look at the profit increase in the international business, it is higher than the sales increase.

Pritesh Chedda

So what would now be the steady state or indicative A&P spend for standalone and for consolidated and if you could tell us also the margins for standalone and consolidated?

Adi Godrej

I think we are quite determined to accelerate our sales growth. So we will invest into A&P, through the year but we also expect the vegetable oil prices easing, margins in soap will improve and in the quarters to come where the ratio of household insecticide to soap sales improves quite considerably, we will see an improvement in the gross margin and the net margin.

Pritesh Chedda

Can the EBITDA margins be held constant versus the last year numbers, if the gross margin expands and the A&P increases?

Adi Godrej

Yes in all probability, but our concentration is not as much on margins as on increase in bottom line. So if for example, with a small sacrifice in margins, we can increase sales very considerably and the bottom line will be higher than otherwise, we would go for such an investment.

Pritesh Chedda

What drove the 40% growth in home insecticides in the domestic market which is two times the category growth and for the quarter?

A Mahendran

I think in the case of the household insecticide, quarter 1 we did well because there was a slight shift in the trend. Typically this quarter is not a seasonal quarter but what we found was that seasonality was slightly better in this quarter, so that resulted in better sales growth for us but if we look over the years, this is a very lean period for insecticides consumption because of summer, but in different parts of the country we did find good traction of household consumption, so overall our brand did well. Apart from that the company got legally and effectively merged 1st of April onwards. So in this quarter, there is good amount of synergies that resulted, especially in distribution. And overall it will be good performance going ahead.

Adi Godrej

I would just like to add that there is a fundamental change taking place in the household insecticides category, that in the past mosquito repellents, which is the main part of the household insecticide category were mainly used as nuisance prevention. Now because of malaria and dengue, health concerns, disease controls are the major additional reasons why lot of consumers are using household insecticides and using more of them per annum. So that is helping the category grow much faster. That is leading to our very strong innovative platforms, which we have introduced over the last two or three years being very successful in not only increasing sales but gaining share. So, I think we have benefitted quite a lot by the change in complexion of the category growth.

A Mahendran

I think we have been very consistent in terms of our advertising and promotion expenditure, investment, unlike competition in this particular segment. That is also helping us. Overall in this quarter, our market share also grew fairly well.

Pritesh Chedda

When will Darling group consolidation begin and what would be the debt repayment for the group this year?

Adi Godrej

Darling consolidation will start in this current quarter. Debt repayment for this year would be around Rs. 400 crore in INR terms.

Moderator

The next question is from Nillai Shah from Morgan Stanley.

- Nillai Shah** My first question is on the international business. Looking at the numbers, I find that the gross profit margin in the international business seems to be up by about 300 basis points and yet the operating profit margin ex Middle East business is down about 200 to 300 basis points. So this is basically a 500 basis point shift in the margins there on, I understand part of it is because of Megasari and the increased investments there on but what is the other reason for that?
- Adi Godrej** I think one of the reasons is, we have invested a lot of our profits into A&P this quarter because we found that all of our international operations have tremendous sales growth potential. We have introduced a revolutionary new mosquito repellent paper format in Indonesia. That was backed up very strongly. We have introduced a new hair color format in Argentina, which was backed up by A&P, so overall considerable amount of investments have been made this quarter. Over the year, we expect the international business to show very good growth both in the top line and the bottom line.
- Nillai Shah** The other expenditure component has also gone up quite significantly. What would be the reason for that? Just top two to three.
- P. Ganesh** That is largely on the account of sales promotion.
- Nillai Shah** The next question is on the household insecticide business. There is 40% growth which you mentioned. Is it for GHPL or is it only for the household insecticide as a category?
- Adi Godrej** We have grown 40% in HI category. Our HI business growing more than twice the pace of the category growth
- Nillai Shah** And the last question is on the ad spends. You did mention that you are looking more at the bottom line growth but ad spends and promotions going forward, what is the call for at least the near term in the next one or two quarters.
- Adi Godrej** Ad spends will continue to be higher than in the previous year and clearly, we will look at how much of our exceptional income should we invest into advertising and promotions for future growth, so that is the call we need to take. Also we will decide as to how much of our savings from the integration

of the Godrej Household Products and Godrej Consumer Products should be invested into further topline growth. But just to answer your question, we are very clear the topline in the household insecticides business grew by 40% over the same figures of the previous year.

- Vivek Gambhir** One other point I wanted to point out was that, this increase in A&P spent is not a result of any undue competitive pressures. The impetus for this increased spend is to actually back new launches and we will also have new launches in the subsequent quarters, so to drive future growth, I think it is prudent to actually invest heavily for any new launches that we do.
- Nillai Shah** Will you require increased investments in distribution, product development etc. also or will this just be confined to ad spends and things like that.
- Adi Godrej** In product development we are investing more. We are coming out with a lot of innovative solutions. In fact, we will save money in sales and distribution as we are integrating the two teams.
- Nillai Shah** No actually referring to the international business?
- Adi Godrej** No, In international business, there won't be savings on sales and distribution.
- Nillai Shah** Will there be any more increase in investments?
- Adi Godrej** No, not necessarily. Sales and distribution won't take much investment. Investments in the international business will mainly be in advertising and promotion.
- Vivek Gambhir** I think for example in a market like Indonesia, there are already plans in place to expand distribution outside the Jakarta area to the other islands. Those are continuous plans. Nothing unusual there.
- Moderator** The next question is from Vikas Rungta from Reliance Mutual Fund.
- Vikas Rungta** What is the gross consolidated debt outstanding on the books as of now?
- P. Ganesh** The gross consolidated debt is \$350 million worth of overseas debt and local debt in the books is about Rs. 200 crore.

- Vikas Rungta** And how much debt do you expect on the Darling acquisition to further add-on?
- P. Ganesh** We have not announced the consideration amount as yet but what I can share with you right now is that the acquisition will be funded by a low cost debt and the debt equity ratio in itself will not go up significantly. It will still be ballpark in the range of slightly above 1:1.
- Vikas Rungta** And what is the current debt maturity profile?
- P. Ganesh** The current debt maturity profile in terms of tenure is four years from now. The loan repayments happen in quarterly installments starting August and with an end maturity of four years from now.
- Adi Godrej** And we are expected to pay back about Rs 400 crore of debt this year.
- P Ganesh** One more point I would like to add over here is, that in terms of near term maturities, we have the first installments falling due in August. So we have taken a cover for this at very attractive rates. While the loan remains open on the long term front, near term maturities are getting covered.
- Vikas Rungta** As stated earlier, the management policy of long term debt-to-equity would remain at 1 going forward?
- P Ganesh** In the short run it could move up a bit but over a medium term we would keep it at around 1:1.
- Moderator** The next question is from Vicky Punjabi from J M Financial.
- Vicky Punjabi** More on the gross margin profile, I think what we saw in the quarter gone by is that, while you had quite a severe gross margin compression in the domestic business, that's about 120 basis points if my calculation is correct. You've actually managed to protect it quite well at the consolidated level, where your gross margin was actually more or less intact at about 51%. Infact, I think there was a slight expansion there. Is there a difference in the gross margin profile between international and India right now or is it because of some difference in the way you report numbers. Like for example, just to clarify there are some

companies that have recently forayed into international and then they have a difference in manufacturing model because of which some costs are captured into other expenditure rather than in COGS. Is something like that relevant for you as well?

Adi Godrej

No I think what has happened in domestic business, the margins were affected because of high vegetable oil prices effecting soap margins. This is so for the category as a whole. If you see our competitors, you will see a similar situation. Whereas in the consolidated number there is not much additional soap. So the margins were better on the consolidated numbers than in the domestic numbers relatively speaking.

Vicky Punjabi

So I mean you had massive gains as far as gross margins are concerned in the international business. I mean considering that you protected it very well at the consolidated level.

Adi Godrej

You see international is not strictly comparable because in the first quarter of last year, the consolidation of the various new acquisitions was only for part of the quarter. That is why the top-line growth is also very high. And a lot of benefits that came with our taking over these companies, over the year and bringing in economies, etc., have benefited us over the year.

Vicky Punjabi

And the other thing is while we have seen this 58% growth in A&P of about 117 crore for the quarter, I guess you mentioned earlier that, this excludes the promotion spends. If one were to add up the sales promotions as well, how much would this 117 become?

Adi Godrej

Some promotion spends are excluded not all, some come in the A&P but it depends on how you calculate. For example, if you give a price off that comes into lower sales, there are certain kinds of promotions which are accounted for in other expenditure. So overall, some promotions do not come into the A&P category. I don't have the exact number right now but it would not be a very large number.

- Vicky Punjabi** Okay so your growth in A&P, if you were to take all of them and bunch them up together, would not be very different from what is there in the reported number?
- Adi Godrej** No.
- Moderator** The next question is from Vivek Maheshwari from CLSA.
- Vivek Maheshwari** In your opening remarks you mentioned about soap industry had seen a degrowth in the quarter, what has been the reason for this and how has been in general the competition in the category?
- Adi Godrej** Soap category volume, there is a slight degrowth, to the best of our knowledge; we don't have the exact figures of our competitors. However, in value terms there has been some growth in the category. We have grown 17% by value and about roughly 9-10% by volume and I think the category volume growth is zero or slightly negative, whereas value growth we think we have grown about twice the category value growth rate.
- Vivek Maheshwari** And that will be mainly led by new innovations as well as the A&Ps etc.
- Adi Godrej** The new innovations, I think Godrej No. 1 is doing very well. Cinthol has also performed well during the quarter. And even in the last quarter, we saw good growth in soap. One of the reasons of course is a low base effect. Last year our soap sales were on the lower side during the corresponding quarters, so now we expect the soap business to grow well during this financial year.
- Vivek Maheshwari** The price increase will be to the extent of around 8-9%, right?
- Adi Godrej** The price increase captured in this quarter, yes.
- Vivek Maheshwari** And what would be the exact price increase in the soap portfolio that you would have taken?
- Adi Godrej** That varies for brand to brand. And we would have taken some price increase even before the quarter 1 of last year also. So price increases in an inflationary situation, more or less is a continuous process.

- Vivek Maheshwari** Sure but my question is more from the category perspective. Do you think that since the palm oil prices are coming down and the pricing power is coming back, etc., the worst is over for at least this cycle and you know things should improve incrementally for the soap business?
- Adi Godrej** It should improve but I might draw your attention, that the soap prices were never taken up to the highest level of the raw material prices. So some of the raw material prices having come down will not lead to much margin improvement unless they come down even further and in fact, I wouldn't be surprised if there are one or two further price increases in the soap industry going forward. And a lot depends on how crude oil performs, because vegetable oil is correlated to crude oil prices because 10% of all vegetable oil consumption goes for biodiesel production.
- Vivek Maheshwari** And similar is the quantum of the price increase for hair color, around the same 9-10%, right?
- Adi Godrej** That's right.
- Vivek Maheshwari** On A&P, in this quarter in the domestic business it was up 120 basis points to 10.5% and consolidated it was 11.7%, do you anticipate for the full year a similar kind of a number or will it go down in the coming quarter?
- Adi Godrej** I think A&P-to-sales ratio might remain around this level. It's very difficult to tell, plus or minus 1% point and basically in the past our A&P-to-sales ratio was a little lower than our competitors. And in order to ensure that our sales growth is accelerated, we are upping our A&P-to-sales ratio slightly.
- Vivek Maheshwari** And just last one thing on the A&P, in the domestic business was it more towards soap or is it possible to give a rough split of this A&P
- Adi Godrej** A lot of was towards the new hair color launch, a considerable amount was invested even in household insecticide and of course some in soap too, so it was spread across our brands.
- Moderator** The next question is from Hemant Patel from Enam.

- Hemant Patel** Just wanted to get some light on the competitive environment in the household insecticide segment in India, how do you see it spanning out in terms of the pricing environment and you seem to have done extremely well in terms of the volume growth rate, so what's the outlook on this in the next 3 months.
- Adi Godrej** We feel that in our household insecticide business the competitive intensity is probably the least of our major categories because the category is growing very well. So, even players who are losing share are showing good top-line growth. In soaps, I think the competitive intensity is more than normal because of the high raw material cost and several players want to increase their market share or hold onto their market shares. In hair color, we feel the competitive intensity is about the average level. So in one major category it is less, in one it's higher and the other is more or less neutral. So I would generally say competitive intensity, is about the same overall as in the past.
- Hemant Patel** And just one more question in terms of the raw material cost, you mentioned that the vegetable oil prices have really hurt you in terms of the margins for soaps. But have you seen any other commodity cost which has been impacting you for instance packing material, transportation, and the rest.
- Adi Godrej** Yes everything has impacted but the major impact has come through vegetable oils but clearly crude oil prices rising have affected fuel and freight cost, packaging cost has been affected because plastic and paper raw materials have gone up. So, clearly there is impact across the board but the main impact has been in the vegetable oils.
- Moderator** The next question is from Manoj Menon from Kotak Institutional Equities.
- Manoj Menon** One on the GHPL growth of 40%, could you just throw some colour on the segment growth within that. A broad understanding in terms of how liquid, mats and coils would have performed within the 40%.
- Adi Godrej** We do not disclose the segment growth figures but I can tell you that all segments have grown well. The slowest growing segment is mats but that has also grown this time. And the fastest growing segment is Aerosol. Fortunately our share is higher in the fast growing segment and relatively lower in the slow

growing segment, although we are leaders in all the major segments in the household insecticide.

Manoj Menon

Assuming that most of the high margin segments within the household insecticides have grown well, I am still finding the gross margin in the standalone which includes GHPL down year-on-year and I would assume that coils which account for probably 30-40% of your sales in GHPL would have lesser margins than the blended margins for GHPL.

Adi Godrej

Yes true but if you look at the company, our gross margins are quite high. And our objective is not to try and increase margins per se but to increase our top-line, so that our bottom-line growth is high. So we are always looking to invest into advertising, promotion, innovation, etc., to see that overall our profit growth is optimized and maximized and not necessarily margin growth. So that is why you would have seen over the last few years, we have been very successful in adding strong growth to our bottom-line, both from organic operations as well as inorganic acquisitions.

Manoj Menon

Is there a case that the promotional spends in the household business in the quarter has been higher than the normal trend in the past?

Adi Godrej

No, I don't think the promotional spends have been higher but there have been cost pressures in all categories as I told you general things like packaging, fuel, freights, etc., which do take its toll and its not feasible to park everything on in terms of price increases immediately.

Manoj Menon

On Kinky could you just help us understand how the quarter has been and where the business is headed?

Adi Godrej

The quarter was not very good for Kinky. But we expect Kinky to do exceptionally well once the Darling acquisition comes into play. Because the Darling acquisition will help the Kinky business tremendously and vice versa because Darling is an integrated operation. So Kinky will save fairly large amounts on backward integration and the Kinky stores which Darling does not have, could operate in the Darling. So what we have done is, the Darling joint venture will operate Kinky. Also it will be owned 100% by GCPL and we have

incentivized our joint venture partners on the performance of Kinky. We will see a key change in Kinky operations once the Darling acquisition is consummated.

Manoj Menon

So that is mostly like the second half of this fiscal.

Adi Godrej

Well even in the second quarter, there would be some consolidation. But probably these synergistic benefits will come from the second half.

Manoj Menon

On Megasari, is there any seasonality in the business because now we have the numbers for the four quarters starting September last year, when I look at these numbers you know 4 quarters has been 180 to 185, 195 and 194 in rupees Crore.

Adi Godrej

Indonesia is a tropical country. So the seasonality is nowhere near as much as in India.

Manoj Menon

What I am just trying to wonder was that a strong growth of close to 20% for the last four quarters year-on-year but I am not really finding any significant sequential growth.

Adi Godrej

Yes but sequential 20% annual growth translates into a very small sequential growth. Clearly everything doesn't move absolutely in precision in mathematical terms from quarter-to-quarter.

Moderator

The next question is from Mayur Gathani from OHM Group.

Mayur Gathani

What kind of market share is based on household insecticide currently?

Adi Godrej

We do not give out the market share figures because they are not for public consumption. We do subscribe to AC Nielsen. However, we find that the market share information is difficult to calibrate, relative to market performance. So it's better not to take it up especially from a quarter-to-quarter basis. But we have mentioned that we have grown about twice as fast as the category has grown.

Mayur Gathani

Usually quarter 1 is not that great for household insecticide segment?

- Adi Godrej** That is right. But the growth we are talking about is compared to the same quarter of the previous year. So the seasonality differences are maintained.
- Mayur Gathani** Okay, you will still see a subdued next year quarter 1 as well. It is not that there is a big move from quarter 4 to quarter 1.
- Adi Godrej** In the household insecticides, quarter 4 is always the best quarter and quarter 1 is the least big quarter. I think our innovations are working very well for us. I think our brand building has helped us tremendously. Our strong emphasis on advertising and promotions has played its part. And the fact that people are concerned about diseases such as Malaria and Dengue, is also playing its part. And I think in such circumstances, people like to trust the strongest brands.
- Mayur Gathani** Okay so probably you have taken way higher lead than competition would have in this segment, in this quarter.
- Adi Godrej** I think we have.
- Moderator** The next question is from Himani Singh from Elara Capital.
- Himani Singh** Why have we seen a significant decline in the margin profile in our Latin American Business?
- Adi Godrej** There is no decline in our margin profile in Latin America. The first quarter is always a very low margin quarter because of the seasonality. Its winter in South America and demands for hair color is lower, yet we have to bear our overheads and other promotional expenditure. So the margins are always lower. So although we didn't run the business throughout the first quarter of the previous year, but looking at the figures we have from that period of erstwhile management, our margins are better in this year than it was in the corresponding period of last year. However, the margins will continue to be very strong from quarter 2 to quarter 4.
- Himani Singh** So there is a seasonal dip in the first quarter, Q2 onwards they are in the season?

- Adi Godrej** Yes we expect the margins to continue to be equal to or better than in the previous year.
- Himani Singh** Now that we have presence across three continents and we are maintaining workforce across these continents, procurement of raw materials around these regions, in this quarter per se we saw an increase in the employee cost as well, other manufacturing expenses as well. Are we seeing a shift in the margin profile for the company, which is closer to a 15% rather than nearing 19%.
- Adi Godrej** You must understand that the international business profit margin includes the cost of interest for the borrowing to acquire these businesses. So the margin will be lower than in domestic operations because of the cost of acquisition.
- Moderator** The next question is from Harish Krishnan from Kotak.
- Harish Krishnan** Just wanted to check in terms of these acquisitions that you have done in this quarter, has there been any cost related to legal or professional fees that have got booked both with relation to the Kiwi termination and Darling group
- Adi Godrej** No, Kiwi termination there is no legal cost and for Darling group there will be some cost on acquisition but all cost on acquisition is capitalized.
- Moderator** The next question is from Ashish Upganlawar from Spark Capital.
- Ashish Upganlawar** Could you tell us the breakup how Rapidol, Kinky, Tura independently performed this quarter because we have Africa figures in total.
- Adi Godrej** I think we have had good growth. And on a comparable basis Rapidol had a 19% growth; Kinky had a 10% growth.
- Ashish Upganlawar** What is the cost of debt we are working as of now with international and the domestic one?
- P. Ganesh** In terms of the bulk of the debt, which is dollar debt we are operating on LIBOR plus average of 175 basis points. So it's a very low cost debt.
- Ashish Upganlawar** Okay and on the currency exposure, we are not hedging?

- P. Ganesh** We have left the long term exposures open but as I mentioned earlier in the cost, near term exposure, we have a repayment coming up in August that is hedged.
- Ashish Uppanlwar** How much is the repayment due?
- P. Ganesh** The August installment is about roughly \$18 million, which is covered already. The policy we are adopting is that since the view in terms of the currency movement, if you look at where the revenues are generated, it's largely INR followed by IDR, these are the two larger streams of revenue flow and outlook versus USD is positive for both currencies. Infact even for the first repayment, we have net gained in terms of currency because of acquisition of both the currencies versus USD. That's the thought process, why the loans are kept unhedged but to protect ourselves from short term fluctuations near term exposures are covered.
- Ashish Uppanlwar** And just wanted to know on the cross pollination synergies that we had talked about on these acquisitions, may be in Nigeria, that you wanted to take your other products household insecticides and others so any updates on those fronts?
- Adi Godrej** There is a lot of work going on cross pollination between our geographies both from international operations into India, cross from international operations to other international operations and vice versa. So that is progressing well and we are very satisfied with the progress.
- Ashish Uppanlwar** So still no timelines on the new product launches anywhere?
- Adi Godrej** No, this is continuously being done. We are looking to launch products. We have already picked up certain technologies from our international operations. They have used a lot of learnings from our operations here. We have put them in touch with our relatively low cost suppliers across the world in many cases. So that's a continuing process. It's not a step by step process.
- Moderator** The next question is from Varun Lochab from Religare Capital.

- Varun Lochab** First question is on the domestic household insecticide business, what are the price hikes that have been taken in last 3-4 months and on a Y-on-Y basis, in this growth how much will be the impact of price hikes?
- A Mahendran** I think the price hike in the household insecticide is fairly marginal. Roughly it will be about 3%.
- Varun Lochab** And when was this taken?
- Adi Godrej** Different price increase have been taken at different point in time. Not all price increase even across a category are taken together.
- Varun Lochab** And my second question was on the other income. Last couple of quarters we have seen a step up in the other income. This is the non-operational other income. So if you could just throw some light on that what's contributing to that?
- P. Ganesh** Yes if you look at the stand alone, we have reported a other income of 25 crore, bulk of this is on account of dividend income received from Sri Lanka operations. But Kiwi compensation of 175 crore has been received to the extent of 156 crore in India and about 19 crore in Sri Lanka. The amount received in Sri Lanka has been repatriated as dividend and that's reflected in the other income.
- Varun Lochab** But even in consolidated, that number is bit high.
- P. Ganesh** Yes in terms of consolidation, in addition to interest income, we have a Forex gain of about 3 crore on intercompany loans and the other point is, in terms of the overseas loan of about \$350 million which we have, we have taken a interest rate swap, therefore we have hedged ourselves against the interest rate risk. The way it operates, I will very briefly explain is that we have opted for a floating rate, which we have swapped for a fixed rate. So to an extent of about 7 crore, it will come in both income as well as interest expense. So you would have seen that even interest expense for this quarter versus comparable has gone up significantly. It's because of the interest rate swap coming in more of an accounting entry.

- Moderator** The next question is from Ashit Desai from BMK Securities.
- Ashit Desai** One question on ad spends again. You talked about higher ad spends this year because of couple of new launches. But besides this do you feel, that the earlier managements mainly of your international acquisitions had under invested in their brands and you are now investing in lines with the competition in these markets.
- Adi Godrej** We can't say they are under invested. But once we have taken over the business and we brought in our best practices on innovation, advertising and marketing, we feel there are great opportunities to invest in advertising and promotion for growth and since we have also been able to manage considerable savings on things like raw materials, etc., in some of these geographies, investing some of these savings to increase advertising, promotion, and innovation we find, will pay us very good long term dividends. So you might see some of this activity continuing.
- Ashit Desai** For example in Indonesia, how would your ad spends look up compared to the competitor?
- Adi Godrej** It's very difficult to tell because the competitors are of different sizes, they are in different categories. So it's a difficult question to comment on right now but generally I think our bottom-line margins, our EBITDA margins are better than some of our competitors.
- Ashit Desai** Would you be able to give any split of your advertising and promotion spends this quarter, compared to last year?
- Adi Godrej** No
- Ashit Desai** Have any of them seen a significant increase, if you could just put some light on it.
- Adi Godrej** No, I think advertising is the main one which has seen the increase.
- Moderator** The next question is from Bhavik Mehta from Girik Capital.

- Bhavik Mehta** My question is on the cross pollination of products. What categories of products you are planning to cross pollen between international market and India. Like from India to international market?
- Adi Godrej** It's mainly in household insecticides and hair color.
- Bhavik Mehta** And post the Darling Group acquisition, do you plan to expand other than the 14 countries that it is present in?
- Adi Godrej** They are already selling in more. They are manufacturing in 14 countries but they sell across the sub-Saharan African continents. So it may not be through manufacturing in other countries but we do export.
- Bhavik Mehta** And Kinky line, would you plan to expand it outside South Africa?
- Adi Godrej** That joint management will decide but Darling brand is so strong that there may not be much need to do so.
- Moderator** Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Kaustubh Pawaskar for closing comments.
- Kaustubh Pawaskar:** Thank you for taking time for this conference call and all the best for the quarters ahead. Now I would request Mr. Adi Godrej to give his closing remarks.
- Adi Godrej:** Thank you Kaustubh. I think Godrej Consumer Products both in terms of organic growth and inorganic growth is on an excellent platform for future growth, where a very dedicated and passionate team who is driving very strong value creation and I would like to thank everybody on the call for joining us today and for your continuous support to Godrej Consumer Products.
- Moderator** Thank you very much. On behalf of Sharekhan Limited that concludes this conference call.