Investor and Analyst Conference Call - Q1 FY13

Aug 07, 2012

Kaustubh Pawaskar - Moderator

Good afternoon, everybody. On behalf of Sharekhan, I welcome you all to the Q1 FY13 post results conference call of Godrej Consumer Products Limited. To discuss the results, we have with us the Company's Chairman, Mr. Adi Godrej, and the senior management team of Godrej Consumer Product Limited. I take this opportunity to congratulate Mr. Godrej and his team for posting good set of numbers on Q1. Now I will hand over the floor to Mr. Godrej for the initial remarks followed by Q&A session.

Adi Godrej

Thank you Kaustubh and good afternoon everyone. I welcome all of you to the Godrej Consumer Products Limited conference call to discuss the results for the first quarter of financial year 2012-13.

Joining me today on this call are Mr. Mahendran, Managing Director, Ms. Nisaba Godrej, Director and President, Human Capital & Innovation of the Godrej Group, Vivek Gambhir, Chief Strategy Officer of the Godrej Group, Shashank Sinha, President, International operations, P. Ganesh, Executive Vice President - Finance, Commercial and Company Secretary and Sameer Shah, Associate Vice President, Finance and Investor relations.

I will start with my remarks on our performance for the first quarter fiscal year 2012-13. We will 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 open the phone lines for any questions you may have.

One of our most important imperatives is to sustain leading positions in the three core categories that we participate in - home care, hair care and personal wash in India. Across these categories, our focus is on growing ahead of the market, driving consumption & penetration and strengthening our portfolio. If we look at our domestic business, across categories, this has been yet another quarter of very strong sales growth and market share gains for most of the categories that we participate in. Also, this strong growth has come on the back of a base quarter, which had also registered healthy sales growth.

Our household insecticides category delivered yet another quarter of robust performance with a 27% sales growth. This growth is far ahead of the category growth, which was around 8%. We are reaping the benefits of strong marketing and promotional initiatives. We continue to gain market share and enjoy leadership positions across all formats of electrics, coils and Aerosols. Our focus on innovation and the synergies in distribution from the GCPL-GHPL merger are enabling us to make continued gains in this category. We are very optimistic of continuing the growth momentum going ahead.

Our soaps business had its best ever quarter, with growth of 42% for the quarter. Volume growth of 24% was very strong compared to the category, which grew by around 5%. This is the sixth consecutive quarter of strong volume growth. We continue to be the second largest toilet soap player in the country. The success of our new launches and re-launches, along with our intensifying marketing and promotion focus, has contributed to this strong growth momentum. Gross margins have expanded sequentially and year over year with full impact of price increase and efficient vegetable oil buying. With the recent fall in vegetables oil prices, partially offset by the depreciation of the rupee to the US dollar, we expect margins to expand along with maintaining our focus on gaining volume market share.

We continue to enjoy market leadership position in the hair colour category. We grew by 5% during the quarter, which is below our expectations. The growth was on a base quarter which had the launch of Expert care and advanced powder hair color. We have seen good traction in quarter one with sequential growth at around 8%. We believe that we have a differentiated strategy and sound plan in place that will yield better results over the next few quarters. Our Expert advanced powder hair colors have begun to register good market response. Our launches are very innovative and of superior quality - and like many innovations, it takes a certain amount of time to build traction in the market. We had a new media ad campaign burst; consumer offers and distribution expansion initiatives during the quarter. We are confident that the results from these initiatives will show up in the coming quarters.

The second pillar of our strategy is to drive growth in our international business, guided by our 3x3 strategy, of being in three core categories and in emerging geographies in Asia, Africa and Latin America.

Our biggest international business, Megasari in Indonesia continues to grow at a strong pace of 40%, aided by the success of new launches and distribution expansion. Local currency growth was around 25%. Megasari is the market leader for urban household insecticides, air care and wipes in the Indonesian market. EBITDA margin of 18% (before payment of technical & business support fee) expanded year-over-year by 140 basis points, driven by a favorable category sales mix change, new products performance and prudent cost management. HIT Magic, which is a disruptive innovative paper format mosquito repellent, continues to gain good traction replacing coils in the market. Mitu - Kid’s range of products was successfully launched during the quarter.

Our African operations, which comprise Rapidol, Kinky, Tura and Darling, made steady progress during the quarter. Revenues stood at Rs 236 crore and EBITDA margin at 19%. The integration of the Darling businesses is proceeding smoothly. On the supply chain front, the Mozambique production unit has been made the manufacturing hub for South Africa and Mozambique. This will result in superior margins arising from manufacturing and sourcing efficiencies and with Mozambique enjoying free trade zone status, will result in lower indirect taxes and corporate income tax.

Nigeria also received pioneer tax status, thus now enjoying zero corporate income tax for a period of five years. We expect our weighted average consolidated corporate income tax rate to go down by around 150 - 200 basis points.

Rapidol and Tura continue to grow strongly, behind expansion in distribution reach and entering newer geographies. Kinky will synergize on go to market and backward integration facilities of Darling South Africa operations and we will see the impact of the same from next quarter. We expect stronger sales growths and steady state operating margins from this region going ahead. The Darling phase two acquisition plan is also on track.

Our Latin American operations, which comprise Argentina and Chile, made steady progress during the quarter. Revenues stood at Rs 108 crore and EBITDA margin (excluding one-time exceptional's like severance cost and stamp duty charges) at 3% during what typically is the weakest season for hair colors. The integration of the Chile business is going on quite smoothly. We had several launches during the course of the quarter supported with upfront higher brand investments. We also continue to invest in growing our business in the neighboring countries of Argentina. We are also working on several automation and cost reduction initiatives to strengthen margins in Argentina. One of the initiatives has been the integration of sales and field force, to achieve go-to-market synergies and reduce manpower cost. For this, we had to absorb one time severance cost of Rs 5 crore. This has also freed up some of the warehousing space, and the property will be sold in the coming quarter. Going ahead, we are optimistic of strong sales momentum and higher margins in the coming quarters.

Our Europe business registered revenue growth of 17%, with EBITDA margin of around 13%. Owned brands like Cuticura and Touch of silver continue to grow well.

Our third strategic pillar is to accelerate the pace of innovation and to strengthen our brand portfolio. In this quarter, we launched Aer air fresheners in India. We have entered in both home and car fragrances. For cars, we have Aer twist and Aer clicks and for home we have Aer spray. We will be leveraging on our past experience in this category and with learning from Indonesian business, we are optimistic about driving stronger than category growth, which is around 20%+. We also continued with our new varianting strategy in Godrej No.1 with launch of Godrej No.1 Rosewater and Almond soap, which is registering strong growth. Internationally, we extended Mitu range of kid's products in Indonesia and launched several hair care products in Latin America.

We will continue to step up our innovation intensity across categories both in domestic and international markets. These new launches will be backed with adequate marketing investments. We believe that we have a robust innovation pipeline across categories and this will continue to support strong sales growth.

One of our other key imperatives is creating a future ready sales organization for the domestic business. We have been able to leverage our scale, expand urban coverage and tap rural potential especially for the household insecticide category. We have also adopted best in class sales processes and practices.

Our fifth pillar is to create a global best-in-class supply chain. We have taken strong steps in this area by establishing centers of excellence in TPM, lean, six sigma and low cost automation. We have also set up a strategic sourcing team to leverage scale and reduce our procurement costs. Our strong gross margins performance, especially in our Indian subcontinent business, is well supported by ongoing cost savings initiatives.

Our final imperative relates to fostering an agile and professional entrepreneurial culture. In the domestic business, to harness the benefits of scale and scope from the GCPL-GHPL merger, we continue to streamline our operations and make our organization structure more effective. I am pleased to inform you that we have been recently rated as the number one FMCG company to work for by Great Places to Work.

I will now cover the highlights of our financial performance this quarter. For the quarter ended June 30, 2012, our consolidated net sales stood at Rs. 1,389 crore, with a growth of 39%. Our constant currency, organic sales growth also was very robust at around 20-21%. EBITDA margins, without one time exceptional items, stood at 15%, with year over year expansion of around 30 basis points. EBITDA grew by 42% over quarter one of last year. EBITDA margins are normally lowest in quarter one due to seasonality effect, where, in Indian sub-continent we have highest saliency of soaps and lowest saliency of household insecticides, and internationally, this is the weakest quarter for the Latin American business. The coming quarters will have a more favorable category and geography mix, especially from a gross margins perspective. With likely lower commodity cost as well, we thus expect improvements in EBITDA margins.

Earnings per share non-annualized stood at Rs. 3.83 for the quarter. The Board of Directors has declared a first interim dividend of 100%, which translates to Re. 1.0 per share.

Net sales in the Indian sub-continent increased by 23% to Rs.788 crore, with significant growth across the core categories. EBITDA margins stood at 16.2%, with a growth of 22%.

Our international operations, which accounted for 43% of our consolidated turnover during the quarter, reported revenues of Rs. 603 crore, an organic growth of 31%. EBITDA margins stood at 13.6%.

As you can see, our operating performance has been very strong on all parameters. While the environment continues to be challenging, the GCPL team has worked very hard to deliver these excellent results. I believe that our strong operating performance is a reflection of a robust business model, a great team and our ability to manage risks and challenges effectively. I am very confident of the opportunities ahead for GCPL, both in India and overseas in the coming quarters and expect to carry the strong sales and profitability growth momentum in the coming quarters. As always, we will strive to enhance shareholder value and drive growth.

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

Continue: - Q&A…

Questions and Answers:

Moderator

The first question is from the Pritesh Chedda of Emkay Global

Pritesh Chedda

First on the subsidiary businesses and the profitability in that business in this quarter, the presentation talks about Latin American business being seasonally weak and hence the margins are lower there, but that explanation alone does not give full explanation to a lower profitability in the subs business on QoQ basis, if you could throw some light on that?

Adi Godrej

I think generally our international business has done very well in the quarter, if you take the overall international business. In Latin America, this quarter is a very weak quarter seasonally. Even the previous year the other quarters had much better profit and overall annually we expect to do better than in the previous year.

Pritesh Chedda

My question is on QoQ basis between Q4 of the just gone by year and between Q1 of this year, Latin America which is about Rs 100 Crore business in a Rs 600 Crore overall subs business the, does not go ahead to explain the deviations I am just wondering if there is any other business or geography where the profitability number or the EBITDA number must be lower?

Adi Godrej

In the FMCG business comparing quarter-on-quarter is not really a good way of doing it, because of seasonality in different geographies, different products etc. This might work in IT but quarter-on-quarter comparisons in FMCG do not work, if you look at any company, it changes with a seasonality and product mix, so it is much better to compare year-on-year numbers

Pritesh Chedda

My second question for this tax holiday, I just wanted to understand one Nigeria business as a percentage of our total international business if you could give highlight there and what would be the eventual tax liability for us on the consolidated level and if you could also give us at the subsidiary levels separately?

P Ganesh

This will have the impact of reducing the consolidated tax percentage by about 150 to 200-basis-point.

Pritesh Chedda

This is versus last year's tax payout that we had?

Adi Godrej

I think we should look at least 150 to 200-basis-points other things being equal. The tax percentage could vary depending on which geographies the profit comes from, the salience of geographical profit, because tax rates are different; however, the Nigeria exemption will reduce overall tax rate by about 150 to 200-basis-points other thing being equal.

P Ganesh

So just to add to that if we look at last year we had consolidated tax percentage of about 23% had this been there other things being equal this would be around to 21%.

Pritesh Chedda

In the domestic Home Insecticide business, we have been seeing the strong market share expansions for the last six to eight quarters since the numbers have been reported, I just wanted to get an outlook one on the growth there considering if there are any changes to the growth this category can undergo and second the views on market share expansion vis-à-vis how the market is shaping up?

A Mahendran

As far as the category growth for the current year, we do not see any downtrend. The category growth will be around at 8% level and of course you know that we are ahead of the category growth consistently form last 3-4 years. We will maintain the growth rate ahead of the category growth for the current year as well.

Moderator

Our next question is from Aashish Upganlawar from Spark Capital

Aashish Upganlawar

I wanted to your comments on how you are seeing the domestic demand scenario panning out given the head winds that have cropped up especially the monsoon and specifically to GCPL businesses how it would affect or not affect?

Adi Godrej

Well, thank you for the question because this is a question often asked especially in view of the weak monsoon this year. So generally in a situation like we are facing this year with a weak monsoon, agricultural output in volume comes down as would be obvious. However, there are considerable price increases that take place and in many cases despite the poor monsoon the value of agricultural income rises. We have seen this happen in 2009, we have seen this happen in earlier years. This year also we feel that the value of agricultural output will rise and therefore rural incomes will do reasonably well and we have not seen any slowdown in offtake in rural areas. Where it might hurt a little is among the very low income urban population, which I would say might be about 10% of the urban population because there the higher prices of agricultural commodities would affect their consumption pattern, so overall I do not expect much effect on FMCG demand as a result of the poor monsoon.

Aashish Upganlawar

Also wanted your comments on raw material outlook for GCPL, palm oil and others because as we know that HI is resilient to and inflationary rather because of pricing power?

Adi Godrej

Our HI and Hair color businesses are not exposed to commodity fluctuation. They usually consume packaging materials, chemicals, etc.; the only commodity we are exposed to is vegetable oils for soap and to a certain extent crude oil in terms of packaging, freight, etc. So basically it is difficult to say, crude oil everybody says is likely to be weak, not very firm as it was in the last six months and vegetable oils also there is a mixed report because there has been a failure of the soya bean crop in the US which could make vegetable oil firmer however, the palm oil output in Malaysia and Indonesia is very high. So we do not expect much impact from raw material. Current cost of vegetable oils is slightly lower than they were about a year ago.

Aashish Upganlawar

This would be against the dollar impact probably?

Adi Godrej

This is including the dollar impact.

Aashish Upganlawar

How much the gross margins can improve this year compared to last year?

Adi Godrej

That would be very difficult to tell because commodity prices fluctuate all the time and we do not like to make forward statements.

Aashish Upganlawar

Sir, finally on if you could give a like-to-like growth for Africa business and if it can be bifurcated between Darling and others?

Sameer Shah

The like-to-like growth for Africa business ex Darling was close to around 12%-odd

Aashish Upganlawar

Volume growth would be?

Sameer Shah

That would be difficult, to give because it is across geographies and across different categories.

Moderator

Our next question is from Vivek Maheshwari of CLSA

Vivek Maheshwari

First thing is on the hair color the growth rates have been fairly moderate I mean you have mentioned that you would be looking to grow faster but it has been for a while that we are seeing sluggish growth in these category so anything specific that you want to target there?

Adi Godrej

As I explained, our growth in this quarter was low because of the base quarter. This is a quarter in which we re-launched our entire expert power hair color range and therefore some of the sales in the corresponding quarter of the previous year would have gone to fill in the pipeline.

Vivek Maheshwari

Secondly, on the soaps business the volume growth I mean has been consistently very high double-digit, is there change in the growth profile, is it that you are gaining share? Would it be possible to comment on the market share that you have during first quarter?

Adi Godrej

We are clearly growing much faster over several quarters than the category so obviously we are gaining share.

Vivek Maheshwari

But is it because the industry growth rate that you typically refer to is the AC Nielsen number, because if I look around all the companies claim to be growing faster than the market?

Adi Godrej

I do not agree to your statement. We do take the AC Nielsen figures but you may be referring to the two or three listed companies who might be growing faster than the market; however, there are many small players who are de-growing or growing much less than the market.

Vivek Maheshwari

Because your presentation also mentions that you are gaining shares from small regional players so is it because of the commodity prices which have hurt these smaller players and the organized industries are growing at their expense?

Adi Godrej

That could be one of the reasons. However, competitiveness by very small players is also difficult, so clearly over a period of time, small players tend to lose share generally in almost all categories.

Vivek Maheshwari

But the fact that the commodity prices have been kind of easing off, why is it that these small players are not becoming active again? Is it because the rupee depreciation has improved?

Adi Godrej

The commodity prices are not really easing off. If you look at the commodity prices they are much higher than they were three years ago etc., so commodity prices in the soap category as a percentage of total cost has gone up a little bit and that does make small players uncompetitive. Also we are gaining share we feel because we are the best quality soaps in the market. All our soaps are grade I. Godrej No.1 is the largest selling grade I soaps in the market and we feel that the consumers are recognizing our superior quality relative to our competition.

Vivek Maheshwari

There is a big increase in the minority interest and I would imagine the Darling second phase is still not complete. So what is the reason for a big increase in minority here?

P Ganesh

The increase in minority is on account of the fact that the tax benefits which we have got on account of the Nigeria tax reversal. Half of it does not belong to us, so it goes out through the minority interest.

Vivek Maheshwari

So this reversal was pertaining to fiscal 2012, right?

P Ganesh

We got the tax benefit with effect from September 2011 so the tax, which has been provided last year, has been reversed. At 100% it is about Rs. 16 Crore so roughly about Rs. 8 Crore is minority interest.

Vivek Maheshwari

The second thing is the interest expense has been fluctuating quite a bit here and there, so anything specific to read over there?

P Ganesh

The fluctuation was largely on account of local working capital related interest in different geographies.

Moderator

Our next question is from Prasad Deshmukh of DSP Merill Lynch

Prasad Deshmukh

A couple of questions on the soaps business. How much of the market is actually is made of small players whom you are saying are losing market share as such?

Adi Godrej

I think cumulatively they can account for around 20% of the market.

Prasad Deshmukh

So if one has to estimate the demand growth for in terms of say volume for players like Godrej, is the loss of market share already over or it is like a continuing trend and this can keep happening for say next one year or two years?

Adi Godrej

I think that depends. In some years we have taken market share from the larger players. Some years we have taken it from the smaller players. It is very difficult to estimate. We do not exactly know who we are taking market shares from. We may be losing some market share to some other brand etc, so it is an overall interaction. Overall we continue to gain share over the years.

Prasad Deshmukh

Again second question on soaps what is our in-house view on palm oil prices going ahead. What are you expecting, where the palm oil prices will move from here especially given that across the board we are seeing weather becoming a problem more and more?

Adi Godrej

We are not sure how they will move, but I do not think we can be clear that they will either move upwards or downwards particularly, so the factors that could make them go up and the factors that will make them go down are more or less balanced**.**

Prasad Deshmukh

So basically the in-house view is it will be more or less stable?

Adi Godrej

That is right

Prasad Deshmukh

Lastly on household insecticides do you see any demand impact mainly because of the monsoon delay?

Adi Godrej

When the monsoon is delayed in the summer in North India, the demand for household insecticides does go down, so when there is a delay there is a lower demand in some areas. This year we saw some of that effect.

Moderator

The next question is from Prakash Kapadia of alpha Enterprises

Prakash Kapadia

If I look at the domestic side of the business and if I take the category salience of Home Care contributing 39% of last year's overall sales of Rs. 641 Crore, I get to around Rs. 250 Crore sales from Home Care and this year if I look at we reported it Rs. 788 Crore and taking a 36% contribution we are at Rs. 283 Crore, so the overall sales growth is 13%, the presentation we have shows 27% growth in HI, so is it certain formats or certain categories which are growing faster and how does this overall sales figure match?

Sameer Shah

In the base which is Q1 FY12 we also had household and body care categories, the brands like Brylcreem, Kiwi and Ambipur to some extent of contract manufacturing so that is also in the base. If you take out that base of HBC category from Rs. 250 odd cr. which is roughly around 30 to 40 odd cr. then you will get 27% growth in home insecticide category.

Prakash Kapadia

On the international business if I look at the Africa sales, Darling has USD $200 million of sales, just by taking pro-rata sales our Q1 sales should have been higher, is there are some seasonality or again is there something which I am not relating to because we have done around a USD $26 million sales for Africa business this quarter?

Sameer Shah

USD $200 million was Darling's calendar year 2010 revenue, we have done Darling acquisition in different phases and we will be doing acquisition in different phases, phase 1 is very roughly around 45% of the overall revenue, it is what is getting consolidated.

Prakash Kapadia

Okay so the percentage is not yet 51% as of date?

Adi Godrej

The consolidation is 51% of the part of the business, which is already bought. The second phase will be done soon and the third phase will be after a year.

Shashank Sinha

Probably helps to clarify this country by country, its 51% in each country operations, but we are doing it in three phases, the three countries first and another set of countries in phase II and phase III, so I think as we consolidate the country operation it will be 51% in that country operation, but we are not doing that all at one go.

Prakash Kapadia

Lastly, if you could give some sense on the air freshener market, do we have separate dealership for the OEM and how does the channel in terms of the car market work because here you will require a lot of handholding with the car dealer, so what is your game plan if you could share some insights?

A Mahendran

As far as Air care category is concerned, we have been in that business for the last 10 years, the brand name we had earlier was Ambipur which has been now handed over to P&G, so our connection to the traditional outlets exist, our relationship there as well as the car market which are fairly isolated in different pockets in India and we have built direct trade relations to the car market retailer also, so we will be focusing on that directly as we have launched the air care products.

Adi Godrej

The Godrej group has done it before and will continue to.

Nisaba Godrej

We also maintained a strong relationship with the car dealership and what we found was as we moved out, competitors did not take our place. Infect the dealership has been very eagerly awaiting this launch. I think that is a very strong advantage for us.

Prakash Kapadia

Currently that the car market would be largely catered through imported brands?

Nisaba Godrej

While you have brands like Ambipur and Airwick which are from the multinational, we have other cheaper Chinese products and other products coming in, but their performance is very questionable and their pricing is also very variable on that, so I think from a consumer perspective these branded products are definitely preferable.

Moderator

The next question is from Jiten Doshi of Enam Asset Management

Jiten Doshi

Sir, GCPL is one of the few FMCG companies that has a debt level which is roughly about 0.5 to 0.6, what is your tolerance level in terms of your debt equity and when do you think you would really then go in for equity dilution?

Adi Godrej

Well, the reason our debt equity ratio is higher than some of the other companies, is because we have invested a lot in acquisitions over the last few years, when before we started our major acquisition run, our debt equity ratio will also very low almost zero, so very clearly our debt is entirely for acquisition, all our acquisitions have been extremely accretive as you can see as a result of this debt, we have increased the size of the company, we have increased the performance of the company and increased the earnings per share of the company which has reflected itself in the valuation of the company. Our desire will be to keep the debt equity ratio under control. We feel up to 1:1 debt equity ratio is workable we would not like it to go higher than that, but currently we are at around 0.5:1 level and we do not see it going up much in the near future.

Jiten Doshi

If you see a very large acquisition probably a couple of USD 100 million it will not deter you from diluting again as well as restoring the debt?

Adi Godrej

It depends on the strategic and accretive importance of that acquisition.

Jiten Doshi

Assuming it is there you would not be shy of raising equity and debt both?

Adi Godrej

If it is clearly accretive and whether we will need to raise further equity or not it would be separately looked at.

Jiten Doshi

What do you think are the long-term margins that you are looking at in the business, let say in the next three-year after you complete your Darling acquisition, integrate everything, where do you think your EBITDA margins can go to in the next two to three years?

Adi Godrej

That would depend upon our future acquisitions, as you acquire the average margins does come down a little because the cost of acquisition has to be taken into account, so it entirely depends on how our margins will be here.

Jiten Doshi

So, is there a program that you would want to expand your margins every year by about 100 to 150 basis point?

Adi Godrej

Yes I expect other things being equal our margins would expand.

Vivek Gambhir

I think the idea is to keep our margins between 15% to 18% EBITDA margins, there will be fluctuations based on frankly our innovation, we have a fairly aggressive plan to launch new products over the next two or three years, where it will gain scale benefits and efficiency benefits which will drive margin improvement, I think we will plough certain amount into marketing, but I think the idea is for us to show consistent improvement in margins between 15% to 18%.

Jiten Doshi

On the return on networth, would you benchmark any rate below which we think we should not be operating?

Adi Godrej

The metrics we use is EVA, so we are always looking to increase our EVA, most of our employees have a variable remuneration based on EVA improvements, so that is the major metric, so the idea is that the return on all investments should be higher than the cost of capital.

Moderator

The next question is from Raunak Sharma of Ratnabali Capital Markets.

Raunak Sharma

My question is not pertaining to the quarterly results per se, Godrej is known for its innovative products, is there any new product apart from Aer that the company is working on, anything new that we could expect in the coming year or so?

Adi Godrej

We are working on several innovative products, for obvious competitive reasons we cannot talk about these products, but you will see further launches of innovative products over the next few months.

Vivek Gambhir

In the last quarter itself I think apart from Aer, we launched a new variance in Godrej No.1 soap, we extended the Mitu baby care in Indonesia and also new hair care products in Argentina, so I think across India and internationally innovation is a big area of focus and our pipelines actually quite strong over the next two or three years.

Raunak Sharma

Also on the hair color front, earlier Godrej had Brylcreem in its portfolio, is the company looking at any other hair gel in the hair care segment because that segment is not really growing as expected?

Adi Godrej

We would not like to talk about future innovation specifically at this stage. I think generally our innovations will be focused on hair care, personal wash and home care, but I can mention here that on Thursday we will be announcing a major re-launch of our Cinthol brand. It will be a major re-launch, very innovative and we think it can add a lot of value to the brand

Raunak Sharma

My final question is, if there has been some news regarding Godrej planning to acquire in Insecticide Company in Israel would the management like to share some light on it?

Adi Godrej

We do not comment on speculative reports

Moderator

Our next question is from Suruchi Jain of Morningstar

Suruchi Jain

The industry growth rate for the hair care category?

Sameer Shah

They are roughly around 17% to 18%

Suruchi Jain

Do you think it is mainly because of people preferring some premium products?

Adi Godrej

I think our growth was low because of the base effect as I mentioned we have relaunched our entire expert range in the same quarter of the previous year. We expect to increase our growth rate for the year as a whole, in line with category growth.

Suruchi Jain

Second question is an accounting question, basically in terms of brand amortization for Good Knight brand you reduced that amortization from results what is the reason for this choice of accounting treatment that you have, in terms of will this treatment have to change once the IFRS rule comes into play?

P. Ganesh

On the amortization of Good Knight and HIT, these were two brands which were not there on the balance sheet, which were introduced pursuant to the merger of GHPL into GCPL. Since it was an introduced brand it would be only logical that the depreciation also goes up from the balance sheet rather than from the P&L because both of these are self-grown brands and coming to question on IFRS, once IFRS comes in this amortization through the balance sheet will not be required in fact the brand will be put to impairment

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Moderator

The next question is from Sanjana Jogani of HDFC Securities

Sanjana Jogani

Could you please tell me the employee cost as a percentage of sales has increased to 9.3% from 8% in the earlier corresponding quarter, any reasons for that?

P Ganesh

The employee cost has gone up versus the corresponding quarter last year, because subsequently we have had acquisitions both in Darling as well as in Chile, which was not there last year. Besides there was also the normal increments

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Moderator

The next question is from Sachin Kasera of Lucky Securities

Sachin Kasera

Just one question on the African business I believe you mention that the growth there was 12% excluding Darling and is that in constant currency or that includes any translation gains because of the currency depreciation?

Sameer Shah

This is constant currency like-to-like comparable growth

Moderator

The next question is from Sunder S of Spark Capital

Sunder S

My question is on the Cinthol variant soaps, have we launched smaller package in this quarter, a Rs.7 package in the market or it is just being test launched or a lower version, I am not sure of the price point, but have we launched a low version on the market?

Adi Godrej

I do not think so, but we will come back to you on that

Sunder S

Next on the A&P spend as to any guidance on that number that we are looking at?

Adi Godrej

We think our A&P spend will keep increasing, of course our A&P spends increased quite a lot compared to the corresponding quarter last year; however, our sales also grew by about 39% so it is quite natural that A&P also grows

Sunder S

Perfectly understand, but anything going forward that we can look here?

Adi Godrej

We expect A&P will depend upon new launches, re-launches, etc; it will depend upon the need for A&P

Sunder S

Any ballpark number that we are looking here?

Adi Godrej

No, we do not give guidance.

Sunder S

If you can share the split between advertisements and promotions?

Sameer Shah

The one, which is mentioned in purely advertisement so, the promotions do not get clubbed in advertisement cost over there.

Sunder S

I know this question been repeating quarter-on-quarter but just to reconfirm as to any updates on the insecticides venture into Africa?

Adi Godrej

We are working on it. We will keep you informed as and when we launch them in different geographies, but as you will realize organic growth and launches need time to plan.

Sunder S

Sir, we have heard from the management that, being the process involved with every government that is taking time perfectly understandable but there is any specific time line that we are looking here?

Adi Godrej

Not really.

Sunder S

Final one is, the air care launch in India under the brand name Aer why was the launch not under the same name as Stella, which we have in Megasari?

Adi Godrej

Because we felt this brand name would be more relevant to India. Stella is relevant to Indonesia which is the brand there, we have transferred a lot of technology from geography to geography, but using strong local brands and we felt this brand would have a better cache in the Indian market.

Sunder S

Anything on the launch of HIT Magic Paper in India are we looking at it?

Adi Godrej

We would look at expanding it into other geographies, but we have to go through the registration processes also.

Moderator

The next question is from the line of Abhijeet Kundu of Antique Stock Broking

Abhijeet Kundu

I have two questions one was on your soap volume growth. You have gained market share from smaller players wherein the same time how much as the distribution integration between Godrej Consumer and GHPL played out and is there anything further scope for that to play out and have you increased your direct coverage of retail outlets? How much have that increased and how much has that really helped the volume growth in soaps?

A Mahendran

As far as the integration of these two companies at the distribution level, that process is going on and certainly that has helped the volume growth of both soap as well as household insecticide because we had certain regional strengths of both the companies, for example Godrej Household Product had strength in south and Godrej Consumer Products had strength in the north so those things are going on but if you ask me for the current year and for the couple of years the integration benefit will continue to be given to these categories, it will continue, but we will not be able to put a figure on that.

Abhijeet Kundu

Any increase in the direct distribution?

P. Ganesh

Yes there is growth on direct distribution also. Distribution penetration we are increasing year-on-year.

Adi Godrej

Direct distribution is continuously growing and we are gaining a lot of additional distribution because of the merger of the two sales forces so we are leveraging the advantage of one sales force to the benefit of the other.

Vivek Gambhir

I think your question is whether the benefits from the merger will continue, the answer is absolutely yes. I think we are going to see outgoing benefits from the merger over the next couple of years.

Abhijeet Kundu

In case of household insecticides what has been the volume growth?

Sameer Shah

They have roughly been around 22-23%.

Abhijeet Kundu

In case of Darling when would phase II acquisition start off? Acquisition plans are around track, but in the sense when would it be effective?

Adi Godrej

Later this year.

Moderator

Our next question is from Amit Anwani of KC Securities

Amit Anwani

My question pertains to the adverse forex impact which the company had during Q1, which resulted in a net loss of Rs. 11 Crore on foreign exchange. I just want to ask whether the company has done any assessment what it could be for the remaining of the fiscal year favorably or adversely could there be the impact on the profitability due to forex.

Adi Godrej

That will depend on how the rupee moves to the dollar and if the rupee appreciates then we could be writing in some forex gain. If the rupee further depreciates then there could be some negatives from that; however, currently most of our raw material or lot of our raw materials has been covered. So I do not expect too much of an effect from forex over the next few quarters, but it entirely depends. Even if you look at the previous year some quarters where we have written off there have been some quarters where we have written in.

P Ganesh

There are two quarters where we had a forex gain and two quarters where there was a loss.

Amit Anwani

Sir, do we follow any hedging policies since lot of raw material is imported like vegetable, oils and we cater to the international geographies, etc?

Adi Godrej

We do cover forex forward where we feel it is desirable to do, but you must remember that the disadvantage of hedging is that the forward premiums are quite high.

Amit Anwani

Sir, one more thing, you have mentioned in your presentation about the notification on amortization of forex impact, if you could elaborate more on this for our better understanding?

P Ganesh

These are on the intercompany loans, which have been given by the holding companies to the operating subsidiary companies, but the mark-to-market forex impact would be amortized over the tenure of the loan. So we have an amount of about Rs. 10 Crore, which is unamortized and which stays in the balance sheet. Going forward if the currencies were to appreciate versus USD it will get reversed and if that does not happen, it would over a period of time over the tenure of the loan get amortized to the P&L.

Moderator

Our next question is from Nikhil Vora from IDFC Securities

Nikhil Vora

Just one question, generally the environment for soaps has been extremely conducive for us virtually we have done a brilliant showing till now, but do you sense that may be over a year or so, we will need to get our act together with the premium end of the soap and thereby rejuvenate Cinthol, may be in that space the competitive elements have actually not been of high order.

Adi Godrej

You missed it, but I mentioned just a few minutes ago, on thursday we have a major relaunch of Cinthol range, not just soap, but also deodorants and talcs etc.

Moderator

Next question is a follow up question from Aashish Upganlawar of Spark Capital

Aashish Upganlawar

Sir, I just wanted to know about the working capital, how many days it is right now?

P. Ganesh

Working capital at the consolidated level continuous at a similar level as we have seen in March, in terms of working capital days it is down by about 2 to 3 days and in terms of absolute amount it is at same level like March.

Aashish Upganlawar

Just a ballpark quarterly run rate on operating cash flow generation what would it be ?

P Ganesh

We do not have too much of capital expenditure the profit generated, is more or less in line with the cash flows, so typically pre dividend the net profit plus depreciation would equate the cash flow because there is very little incremental working capital, in fact in ongoing quarters if at all we have only positive numbers on working capital in terms of cash flows.

Moderator

The next question is from Latika Chopra of JP Morgan

Latika Chopra

Good afternoon everyone. My question is on the Indonesian business what sort of volume growth have you seen there? How does that compare against the category growth rates? Also if you could provide some color on the revenue share of Indonesian business at this point between household insecticides, hair care business and baby care business and second question is what the current debt levels on company's books are?

Sameer Shah

It is difficult to add all the three different categories on volumes front, but very roughly out of 25% constant currency like-to-like growth close to around 80% plus would be volumes lead in terms of share of all the three categories in Indonesia which is home insecticides, air cares and baby products this will contribute nearly more than 75%-80% to the overall portfolio.

Latika Chopra

How about market share trends for household insecticides, I am assuming you are going faster than the markets, so you are gaining share?

Shashank Sinha

That is true. The markets are growing at a high single digit and we are growing at 17%-18% by volume about growth, so we have been gaining market share both in air fresheners and in household insecticides

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Moderator

Next question is from Jiten Doshi of Enam Asset Management

Jiten Doshi

Sir, just a follow up question from my side, what would be the capital outlay for the balance acquisition of the Darling Group in 2013 and 14?

Vivek Gambhir

We do not disclose this information on the request of the sellers.

Jiten Doshi

When would this entire transaction be completed?

Vivek Gambhir

Over the next two years.

Jiten Doshi

Would this outflow be pretty substantial in the sense that as much as you have paid out in the beginning?

Adi Godrej

It will certainly be substantial; however, the first part of the acquisition, the first phase was the largest phase, the second phase would be smaller than the first phase and the third phase would be around the same level of second phase.

Jiten Doshi

So, how would we be financing this?

Adi Godrej

We would be borrowing the funds.

Jiten Doshi

Okay, so your overall borrowing would sort of be higher than for the next two years what it was on March 2012?

Adi Godrej

Not necessarily because we are generating a lot of cash internally also in the period.

Jiten Doshi

Okay, so you would use that cash to probably acquire the balance stake.

Moderator

Next question is from Mr. Kaustubh Pawaskar of Sharekhan Securities

Kaustubh Pawaskar

Sir I have two questions, one on your UK business the growth was predominantly growth from the foreign currency, favorable impact of foreign currency that is 17% growth, so are we seeing any moderation in terms of volume uptake in your UK business?

Shashank Sinha

I think as we know the UK economy per se has negative low single digit growth, so if you look at all indicators, GDP growth but also market growth, most categories have been decreasing marginally, so I think there is really, in that economy not any volume growth, a lot of it is basically linked to mixed improvement and this has been sequential. I think a couple of things and we have presented this in the past, we have been able to grow our own brands significantly faster than some of the traded brands, so I think the mix has improved both towards our own brands and I think we are continuing to increase the rate of innovation so that we not only kind of decrease our shelf space but in the niches in which we operate we also continue to increase our market share, but I think it is a contrast with other markets in which we operate is that an overall macro conditions in the UK are actually kind of negative and we operate in that environment.

P. Ganesh

To add to what Shashank had just mentioned, UK has also been having its wettest summer in a decade and so that has also partially impacted the sales of sun care brand.

Kaustubh Pawaskar

So considering these macro conditions in UK should we expect similar kind of trend to continue in the next two to three quarters and then we can say that improvement will start?

Shashank Sinha

I think the seasonality aspect as Ganesh mentioned is probably limited to this part of the year, because UK tends to have either or good summer or bad summer, this is probably looking like a bad summer with a lot of rainfall. As we come into the second half in the third quarter of the year which is more Christmas linked period generally that tends to be highest season, so I do not think we will see these kind of seasonality conditions, but overall I think we are much more focused on driving our own innovations much harder and I think some of that related to Cuticura, hand sanitizer and some of the other initiatives that we are taking have been received extremely well by the trade, so we do expect to sustain our value growth over the next couple of quarters.

Kaustubh Pawaskar

My second question is on the consolidated debt on book I just wanted to know what the number is and how we are planning to repay the debt in the coming quarters.

P. Ganesh

The consolidated net debt on the books is about Rs. 1,500 cr. as of June 30 and most of it would be serviced through internal accruals.

Kaustubh Pawaskar

Is it going to happen in this particular financial year or it is going to be in FY’14?

P. Ganesh

These are all long-term loans with end immaturities of roughly 4 to 5 years from now, so it gets paid up in quarterly intervals.

Kaustubh Pawaskar

Okay, but the quarterly repayment schedule remains USD 20 million per quarter?

P. Ganesh

Annual repayment for this fiscal will be $60 million.

Kaustubh Pawaskar

I would like to thanks Mr. Godrej and senior management team of Godrej Consumer Products Limited for sparing time for this conference call. I will hand over the floor to Mr. Godrej for the closing comments.

Adi Godrej

Thank you Kaustubh. Thank you for hosting this conference call. I would like to thank all our investors and analysts for having joined this conference call. We appreciate your time and if you have any further questions we will be very happy to answer that.

Moderator

Thank you very much gentlemen of the management. On behalf of Sharekhan that concludes this conference call. Thank you for joining us.