

Investor and Analyst Q1 FY15 Conference Call

July 30, 2014

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Moderator:

Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited 1QFY15 earnings conference call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rakshit Ranjan of Ambit Capital. Thank you and over to you sir.

Rakshit Ranjan:

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

Adi Godrej:

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

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

Quarter one of fiscal year 2014-15 has been a particularly challenging one. We witnessed the fourth consecutive quarter of a significant slowdown in growth in the household and personal care sector. GCPL continued to outperform in the India market, by growing at nearly 2x of the household and personal care sector growth this quarter. However, the overall market slowdown and high inflation in costs have affected both our top line and bottom line growth in India.

At 17% constant currency sales growth, our international business performance was very strong, despite the macro economic challenges in our international geographies.

Our consolidated EBITDA growth of 6% was impacted by tougher operating conditions across the key emerging markets that we are present in. The India business EBITDA growth was flat on account of relatively lower sales growth and higher trade marketing investments. The EBITDA growth in our international business was very healthy at 15%, despite significant input cost challenges.

EBITDA growth in our international businesses was ahead of our sales growth. Both Indonesia and Africa business recorded margin expansions. This was driven by



calibrated price increases, cost saving projects and a mix improvement. Margins in Latin America and UK saw some decline due to higher brand investments.

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

One of our most important imperatives is to sustain leading positions in the three core categories that we participate in, in India – personal wash, home care and hair care. Our focus is on growing ahead of the market, driving consumption and penetration and strengthening our portfolio. If we look at our India business, we have significantly outperformed the reported category growth rates, across categories.

Our household insecticides business had a healthy quarter, growing by 9% on a significantly higher base of 24% in the first quarter of financial year 2014. This was well ahead of the category growth, which was impacted by the delayed monsoon. Our growth was also impacted by product capacity shortages for Good knight Fast Card, which has now been addressed.

We continue to strengthen our market share across all formats of electrics, coils and aerosols. We believe that our focus on product innovation and continuous brand investments will further help drive growth. Our recent innovations in the category, Good knight Xpress liquid vaporizer and Good knight Fast Card are driving further gains. We believe that the gradual pickup in the monsoon, with above average rainfalls in July, should boost overall category growth rates in the second quarter.

The soaps category had a challenging quarter, again reporting degrowth. In comparison, our value growth was 2%. In volume terms, we had a mid-single digit figure degrowth. Our Godrej No.1 growth rates were also impacted by the slowdown being more severe at the mass end of the category. Our new variant, Lavender and Milk Cream, continues to do well. We also entered the germ protection segment with the launch of 'Cinthol Confidence'. As a result of the recent duty reduction on palm oil, we now expect to pass on some benefit to our consumers, which should stimulate demand.

In the hair colorant category, we continue to be market leaders. We grew by 14% during the quarter, far ahead of the category, despite a high base. We are also driving several initiatives to increase penetration as well as consumption in the category.

We continue to premiumise our portfolio. We recently launched two new Godrej Expert Rich Crème Hair Color shades (Cinnamon Red and Honey Brown) at a 15% plus premium to base shades. Expert Rich Crème continues to grow market share, despite increasing competition. Our new media campaign 'Best ever hair colour' for Expert Crème continues to drive consumer recruitment and gain more traction for the product. We continue to make good progress on aer, our air freshener brand. Our innovation to move to a gel format has further enhanced user experience and has received very good feedback from consumers.



We also launched a new portfolio of Protekt handwashes, sanitisers, and anti-mosquito spray in Modern Trade. We believe that the handwash and sanitiser categories have a lot more room to grow, given the changing consumer sophistication and increased awareness on hygiene levels. The product is receiving a good response in Modern Trade.

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

Our biggest international business, Megasari in Indonesia, grew at 21% in constant currency terms. The growth was much healthier at 25% if we strip out the impact of the foods distribution business. Megasari continues to strengthen its position as the market leader for urban household insecticides and air care in the Indonesian market. We exited June with historically high market shares in the air freshener category. The EBITDA margin of 15%, before payment of the technical and business support fee, was higher by 120 basis points on a year-over-year basis, owing to price hikes taken over the year. We expect that margins will continue to improve sequentially.

Our African operations, which comprise Rapidol, Kinky, Tura and Darling, had a strong quarter and grew by 12% in constant currency terms. The EBITDA margin was at 14%, and moved up 100 basis points on a year-over-year basis. The hair extension category clocked a constant currency sales growth that was higher than that of the overall Africa business.

Our Latin American operations, which comprise Argentina and Chile, continued to show improvements during the quarter. Revenues grew 26% in constant currency terms. The EBITDA margin was 4%, down by 210 basis points on a year-over-year basis, due to higher brand investments. We continue to strengthen our market positioning in both Argentina and Chile and achieved the highest ever volume shares in both countries during the quarter. In Argentina, we have begun the implementation of Project Iceberg, to make the business more efficient. We believe that this project will substantially improve the profitability of the business over the next 12-24 months.

Our Europe business recorded constant currency growth of 21%, despite the high base of the Soft & Gentle business. EBITDA margins for the business were around 9%, marginally down due to upfront brand investments.

Our third strategic pillar is to accelerate the pace of innovation and strengthen our brand portfolio. Over the last few quarters, we have seen many innovations and new launches across categories and across geographies. We launched new formats in Aer air fresheners, new shades and packs in Godrej Expert Rich Crème hair colour, Good knight Fast Card and Good knight Xpress, new Godrej No. 1 and Cinthol variants and a new range of Protekt handwashes, sanitisers, and anti mosquito spray in India. We also launched new products for Stella air fresheners in Indonesia and refreshed the Soft & Gentle range in the UK. The initial response to these launches has been encouraging and we are beginning to see strong traction in sales from them.



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

One of our other key imperatives is to create a future ready sales organization for the India business. We continue to implement Project Daksh to improve the productivity of our sales force and to enhance go-to-market efficiencies in our urban markets. We recently completed the rollout of hand held terminals to all of our direct sales representatives in India. We are also adding an additional layer in the sales team – Pilot Sales Representatives (PSRs) – to drive greater focus in the sub 1 lakh population urban markets. We are also undertaking new initiatives like urban chemist product display units and have launched a high focus rural visibility programme for some of our key brands. We continue to grow in rural ahead of our urban growth.

Our fifth pillar is to build 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. In addition to this, we have set up a strategic sourcing team to leverage scale and reduce our procurement costs. We also launched an initiative to improve our supply chain planning and execution capabilities by using an advanced technology solution.

As we had discussed last quarter, we have launched a new cost transformation programme, 'Project Pi', which is aimed at implementing a future ready cost structure for the India business. We have identified several new opportunities as part of this programme and expect to see positive impact over next few quarters.

Finally, we continue to execute different initiatives to foster an agile and high performance culture in the organisation. GCPL was ranked the number 1 FMCG company to work for in India by the Great Place to Work Institute. GCPL has featured in the list of best companies to work for, for 11 years in a row. Our overall rank too improved to number 7 from number 11 last year. Earlier, GCPL was recognized among the 17 Best Employers in India in 2013 by Aon Hewitt. GCPL is one of the only two FMCG companies on the list. Our rankings in these HR surveys reinforce our commitment to creating an outstanding workplace that attracts and retains talented employees and delivers superior value to our consumers.

I will now cover the highlights of our financial performance this quarter. For the quarter ended June 30, 2014, our consolidated constant currency net sales growth was 12%.

We did see some squeeze in our gross margins during the quarter, but margins overall have improved sequentially. While our India business witnessed a gross margin improvement, international business margins were impacted by significant currency depreciation and higher input cost inflation. We expect margins to improve sequentially.

Our EBITDA margins were around 12.8%, which were nominally down by 50 basis points on account of lower India business margins. The India business saw an impact of ~90 basis points on account of a lower sales base and higher trade marketing investments.



Earnings per share (non-annualised) stood at INR 4.21 for the quarter. The Board of Directors has declared a final dividend of 100%, which translates to INR 1 per share.

Our sales in India grew by 6%, which was 2x of the India home and personal care category growth. Our EBITDA growth was flat due to a lower sales base and higher trade marketing investments. EBITDA margins stood at 15% and were lower by 90 basis points on a yearover- year basis.

Our international operations, which accounted for little less than half of our consolidated turnover during the quarter, recorded a constant currency growth of 17%. The EBITDA margins stood at around 10.5%.

We feel optimistic that the worst is over. We are beginning to see improved consumer sentiment on the ground and are hopeful that this will start translating into better consumer demand in the quarters ahead. Growth in the second half of this year should be better than the first half. Consequently, our intent is to deliver a stronger performance overall this year, compared to the previous year.

Our teams are working hard on new market activation programmes and several exciting innovations, to prepare for an upturn in market sentiment and growth. Our market position is very strong in our core categories and our product portfolio is well differentiated. So, as the market environment improves, we believe that we are in a much stronger position to capitalize on the growth opportunities ahead. At the same time, we continue to prudently manage our business, transform our cost structure and drive more operational efficiencies to strengthen our company.

I am confident that with our clear strategic focus, innovations, superior execution and top notch team, we will continue to deliver industry leading results.

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

Continue: - Q&A...



Questions and Answers:

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The question is from Abneesh Roy of Edelweiss.

Abneesh Roy:

Indonesia sales have been a bit volatile; this quarter has been quite good. How sustainable is it and in HI, how have we done in Indonesia and 120bps improvements in margins looks good. Could you explain the power inflation and some salary inflation? How have we managed 120bps improvement and going ahead will this margin improvement sustain or not?

Adi Godrej:

As you know Indonesia has just had a presidential election and as in the case of India, the political situation was being watched very strongly and as you know Joko Widodo has been declared President-elect. So we expect the general situation in Indonesia from a political and economic point of view to improve as it has in India.

Vivek Gambhir:

The political stability in Indonesia should lead to stability in the economic environment as well, so we expect that to have a positive on our business as well. Across the board, if you look at our share position, in all the categories our shares have done quite well. The business in Indonesia is getting on to a better wicket as far as our sales are concerned. While margins have improved sequentially, they have done that on the basis of some selective price increases and cost reduction programmes. But that is one area we are still watchful for, but we are hopeful that the margins will continue to show improvement on a sequential basis.

Abneesh Roy:

Could you share some more details on growth in the HI category? Are there any headwinds in terms of cost, power or salary which is still possible based on current understanding?

Sameer Shah:

All the three categories whether it be air fresheners, household insecticides as well as baby care is doing pretty well in Indonesia and we expect the good momentum to continue during the course of the year. As of now in terms of margins, the pressure what we are seeing is more on the gross margins which is also related to the IDR depreciation to US dollar, but we have taken price increases and are also keeping a very tight control over SG&A expenses to ensure that EBITDA growth is in line with sales growth.



Abneesh Roy:

A lot of the countries in Africa are facing law and order issues. Specific to our company, what is the impact and are we taking our plans based on that. There has been a 100bps improvement in margins, could you discuss the sustainability?

Omar Momin:

In terms of the political trouble or the law and order situation that you are referring to, the main impact of this in the portfolio of countries we are operating is really in Nigeria and again more restricted to the north of Nigeria. So from an East and Southern Africa perspective, the political and business climate is quite stable and healthy. We are seeing the impact of the trouble in North Nigeria to a limited extent on our business because most of our business is focused in the south as well as in the east. As far as margins go, I think we are recovering from the currency impact that we had last year. Where we are right now is a stable sustainable margin position.

Abneesh Roy:

We have done 2% growth in the soaps business in India. The market leader has said that 5-6 brands out there in soaps have seen double-digit growth. I wanted to understand although Nielsen numbers might indicate industry seeing a big decline, what is your sense. Is the market leader aiming for the market share increase in the current slowdown scenario, so the growth numbers for us that could be lower in the coming quarters also vis-à-vis the industry leader?

Adi Godrej:

The market leader seems to have done well. But many of the small players have not done well. We think A. C. Nielsen figures may not be absolutely accurate, but we are doing much better than A. C. Nielsen figures. Despite that, we are taking very strong steps to improve our performance in the soaps portfolio.

Vivek Gambhir:

If you look at the category dynamics, the part of the segment which seems to have hurt most recently has been the sub-popular segment and we have seen a little bit more recovery in the premium and the popular part of the category but sub-popular really is the one which has been hurt. In terms of our portfolio, Cinthol has actually done very well. But we have definitely faced challenges in Godrej No. 1 and in our business what we found was that April and May were very soft months, but June was actually much better. While it is only one month data, at least the June results seem to give us some confidence that perhaps the worst is over.

What we have been doing is we have been launching a set of tactical initiatives. We are rolling out some very compelling consumer promotional programmes. We are also intensifying our distribution efforts because No. 1 had faced some distribution



challenges particularly in some rural markets and then we have also launched a new variant in Cinthol, Cinthol Confidence Plus, which will be our foray into germ protection and germ protection is about 25% of the soap market and No. 1 clearly is the largest grade one soap in the country with very high quality. We are working on some campaigns to reinforce the quality of messaging around No. 1. In combination of all of these actions, while we have definitely faced challenges in No. 1 over the last quarter, we are feeling confident that perhaps you will see better performance from us going forward.

Moderator:

The next question from Percy Panthaki of IIFL.

Percy Panthaki:

You mentioned two projects, one Project Iceberg in Argentina and one for the Indian salesforce. I missed the name of that project. Can you elaborate a little more on these two projects and also related to this, the Rs. 250 crore cost-saving plans in the next 2-3 years? Now that it has been 4-5 months since that was announced, can you give us a little bit more granularity on that Rs. 250 crore number?

Vivek Gambhir:

On Project Iceberg, as we all know, the Argentinian business has been facing extremely high cost pressure. A lot of it is driven by the significant inflation in the market. As a result of it, the profit margins of the business has trended to about 9-10% kind of range. What Project Iceberg is doing is a restructuring exercise basically looking at the manufacturing footprint and also our sales structure and looking for ways to streamline and rationalise that structure. Our objective over the next 12-24 months is to be able to move our profit margins from high single digit to about 14%. This is a fairly quick breakeven project and if I look at the results of the first three months, they seem to be trending in the right direction.

With regards to Project PI, it is too early to tell because the analytics has just been over and the implementation has been rolled out, but we are looking at end-to-end what we call costs delivered to a consumer and there are opportunities we are finding in manufacturing, in distribution, in logistics and we are hopeful and quite confident that you will see about Rs. 200 crore improvement as far as cost savings are concerned, but some of it will happen in Q3 and Q4 of this year but a lot of that will reflect in the next fiscal year.

Percy Panthaki:

Mr. Godrej also mentioned a project to improve the sales productivity. What was the name of that project?

Sameer Shah:



There is no name to the project. The project which we talked about was adding one more layer which we are calling as PSRs which is pilot sales representatives in the sub one lakh population towns.

Percy Panthaki:

What will be the benefit of this?

Sameer Shah:

The objective is to reach out directly to the stores rather than through the super-stockist, sub-stockist route.

Adi Godrej:

There will be greater attention to the fast-growing smaller urban area sales platform.

Percy Panthaki:

Hair colours have delivered 14% growth, household insecticides because of delayed monsoon delivered 9%. HI over the last 2-3 years we have been doing over 20% growth rates. Do you think the base effect has become an issue and the sustainable growth rate could trend lower towards the low to mid-teens or are you feeling confident towards high teens to 20% on HI and similarly in hair colours now your Crème has also become a substantial portion of your portfolio and also there is a 20% growth rate a challenge or do you think you will be able to achieve that over the next 2-3 years?

Adi Godrej:

No, we do not think the growth rates in any way have slowed down except for particular reasons as you mentioned in household insecticide. We have leadership positions in both these categories. They are both under-penetrated categories. The number of non-users in both these categories is quite high relative to other categories such as soaps or detergents. We expect strong growth to follow. Now there are two reasons why growths could be affected. One is the general GDP growth slowdown has affected all FMCG categories to a certain extent. But in household insecticides, the poor performance of the North East monsoon and the South in earlier months and the South West monsoon in the month of June have affected the household insecticide sales because when it does not rain, the mosquito infestation comes down quite a lot in these months. Now that the monsoon has revived in July, we expect it to catch up. The growth rates could be as high as they have been 20% plus in the past. Once there is normal weather pattern and once the GDP growth recovers as we expect it to do in the second half of this financial year.

Vivek Gambhir:



If you go back and analyse our performance over the last 5-10 years, you will find is that historically on insecticides we have grown at somewhere between 2–2.3 times the category growth rate. If you look at soaps, we have grown at about 1.5 times the category growth rate and hair colours we have grown at about 1.8-2 times the category growth rate. Last year, our growth rates were even higher than what the category growth rates were and even in the last quarter, our growth rates have been on a weighted average basis more than 2 times what the category growth rates were. What is the challenge we have faced is much more driven by the context of a slowing sector growth but our growth rates actually have expanded. We have actually gained share across the board and improved the competitive positioning. A lot would depend on what happens to the sector and the category growth rates. But as far as our competitors are concerned and our ability to gain share is concerned that is actually even getting strengthened over time.

Percy Panthaki:

So just to sort of simplify this much further, supposing if the economic growth revises, can these multipliers which you mentioned 1.8, 1.2 etc., are you still comfortable that these multipliers will continue for the next three years?

Vivek Gambhir:

It is absolutely yes and for example in insecticides, what we have found now in particular is that there are massive opportunities to look beyond mosquitoes. Our foray into cockroaches with Hit Anti Roach Gel is only the first step. With things like Dengue, we are finding that the fear of mosquitoes is no longer an evening phenomenon. Usage and consumption from a data usage perspective will significantly increase. Rural penetration in this sector has been around 29% which is very low. Fast Card which is a very attractive product at a disruptive price will significantly improve rural penetration. If we add all of these things together, we feel very confident that we will be able to sustain a 2x category growth rate in this category for the foreseeable future.

Moderator:

The next question is from Aditya Soman of Goldman Sachs.

Aditya Soman:

In the home insecticide business you have launched Fast Card and some of the newer products. Have you seen any cannibalization from existing products towards consumers using Fast Cards which could result in a slower sales growth because of a lower price point?

Adi Godrej:

Whenever we launch a new variant in any product category, there is always some cannibalization. But overall it adds tremendously to the growth of the category. We have



been short supplied in Fast Card. We have added production capacity to meet the high demand for this category and we expect it to add considerably to overall household insecticides growth. But there is bound to be some cannibalization but fortunately for us, this cannibalization if at all will mainly be in coils, which is the least profitable of our category. We do not expect any cannibalization in liquid vaporizers and aerosols which is a high profitability variant.

Vivek Gambhir:

This is too early to tell and we have to wait for at least 6 months more to get definite data. But our experience with Indonesia suggests that the product creates new usage occasion while there could be a certain amount of cannibalization. New usage should drive overall growth up and also improve the profit pool.

Aditya Soman:

In terms of products that you can cross-pollinate from other geographies into India or vice versa, we have heard launching of insecticides in Nigeria and launching of the hair colour business from Argentina. Is there any other product that you have lined up over the next year?

Adi Godrej:

Fast Card is a major product that we have brought in from our Indonesian operation where it has done very well. We are looking at many other such opportunities both ways from international operations to India and Indian operations internationally.

Aditya Soman:

Is there any specific that you can give us over the next year?

Adi Godrej:

Once we take those steps, we will certainly announce them. It would be competitively damaging if we announce it before.

Moderator:

The next question is from Prakash Kapadia of iAlpha Enterprises.

Prakash Kapadia:

What is the sense on rural demand? Last year in Q1, we had seen a 20% plus growth. Can you give some sense with respect to this given there has been weak monsoons or lower spends on NREGA MSP? On the domestic business, gross margins have improved. So if you could give us some colour, what is the increase in other expenditure? You did mention in your opening remarks about some trade margins if you could just add some colour on that?



Adi Godrej:

Last year because of an excellent monsoon, rural demand growth was considerably higher in the corresponding months. Even in the present year, rural demand growth is higher than urban demand growth. Now we are yet to see how the monsoon pans out and how the agricultural production ends. Fortunately, rains have recovered almost throughout the country during July. So hopefully it would not be a very bad agricultural season, but we do expect rural demand to grow faster than urban demand. As far as margin is concerned, one of the good things this year is that in the budget, the Government announced a reduction of import duty on many of the raw materials we import for our soap business to zero and that will benefit our soap category very considerably.

P Ganesh:

Coming to your question which was with respect to other expenditure going up, it is largely on the back of higher sales promotion spends, higher processing charges on third party manufacturing and some bit of excise on the higher production levels led by increased inventory and also increase in freight cost.

Sameer Shah:

There was also a one-time excise hit which we had in other expenditure which was around 30 basis points as a percentage to sales.

Moderator:

The next question is from Hardik Shah of Birla Sun Life Insurance.

Hardik Shah:

What is the debt as of Q1?

P Ganesh:

The gross debt was about Rs. 2,100 crore and net debt was about Rs.1,600 crore at the end of Q1.

Hardik Shah:

Is this on a consolidated basis?

P Ganesh:

Yes. It is on consolidated basis and most of it is in our international businesses. On the domestic business, the total gross debt is just about Rs.300 crore.

Hardik Shah:

What would be the repayments during the year FY15?

P Ganesh:

In terms of repayment, it averages about US \$50-60 million per year.

Hardik Shah:

Is it because of the industry slowdown, there has been down-trading in the soap category because of which there is de-growth. Are people using unorganized sector products?

Adi Godrej:

No. I do not think it is down-trading issue. Generally as you know consumer sentiment has been weak. GDP growth has been weak and as a result people are spending less on FMCG products broadly and therefore there is a slowdown in FMCG growth. One can always use a little less of any product while you use it. If you are rubbing soap when you bathe, two or three times you can rub a little less. If you put toothpaste on a toothbrush, you could put a little less of it. This is a tendency one sees when consumer sentiment is poor and people are concerned about the economic situation. It generally recovers soon after the economic growth recovers and there are very good signs that the GDP growth will recover soon in India especially since we have seen strong announcements on the introduction of the goods and services tax which as most of you know is likely to add 2% points to India's GDP growth and other things being equal.

Hardik Shah:

Is the overall industry expected to benefit from this announcement with respect to the reduction in the import duties?

Adi Godrej:

Yes.

Hardik Shah:

What is the capex amount?

Sameer Shah:

The capex will be the routine maintenance capex. We do not expect major capex during the course of the year across our businesses other than the one which could be funding our inorganic growth.

Adi Godrej:



Capex is not very big in our business. In fact in India, we generally finance our capex requirements through increase in negative working capital. Our main requirement for funds is for acquisitions.

Hardik Shah:

What is the type of working capital days that you operate at?

P Ganesh:

Our India business, we continue to operate at negative working capital for most of the year. On a consolidated basis, we typically operate at between 2-3 weeks of working capital.

Moderator:

The next question is from Hiten Doshi of Enam Asset Management.

Hiten Doshi:

Some time back you had mentioned that you have a vision of taking the Company 10 times in 10 years. The last couple of quarters of course have not been suggesting that we are on the same path of 25-28% compounded growth. We know that when you say something, we take it exceedingly seriously because the governance standards in your group are the highest and the best in the country. Basically any sort of a vision that you share is very well thought of. Would this environment over the last couple of quarters sort of give you the same confidence that you are on the same long-term track?

Adi Godrej:

Well, we enunciated this 10x10 policy three years ago. As you rightly put it, the idea was from then in the following 10 years we would grow 10x which is the compounded annual growth rate of 26%. This was to be achieved both through organic growth and inorganic growth. Now in the first couple of years of that period, we grew a little ahead of that i.e we grew at over 30%. In the last 12 months or so, our growth rate has been below that rate. We expect that with the new government, new policies announced and as some of the points which we discussed, for example import duty reduction on soaps, the likelihood of GST being implemented soon, we expect that we should get back on this part of growth by the second half of this financial year. But we are very clear our 10x10 policy continues and we expect to be able to achieve it in the period for which the policy was enunciated.

Hiten Doshi:

There are couple of pieces in the Darling acquisition which still have to come your ways. Every year you are sort of making some payments and acquiring some pieces. How much do you think in terms of topline is still outside your fold which you will acquire in



the future? Will you acquire a business that should at the current run rate add 100 million, 150 million, 120 million, etc., of turnover? It may come in the next three years for that matter?

Omar Momin:

Of the Darling business that we today have in the joint venture, we already consolidate about 65% of the overall business. We are looking at about 35% that will come into the joint venture over the next 2-3 years.

Hiten Doshi:

How much would that be in value terms annually?

Omar Momin:

In value terms that should be about \$50-\$60 million.

Hiten Doshi:

Have you now slowed down on the acquisition track or are you ready to look at acquisitions? While India looks very exciting, today only half of our business comes from India and the other half comes from emerging markets with a little bit from the West in UK. If you want to make it a pure India growth play, would you be more focused on acquisitions within India or you would still continue with the emerging market strategy?

Adi Godrej:

Our acquisition policy is clear. It is in three geographies; Asia, Africa and South America. We are clear. India is part of Asia. So we are looking at Indian acquisitions too. Due to valuations and less businesses in place, the opportunities are fewer in India but we are very much in play to look at acquisitions in India too. We will continue to look at acquisitions in the developing world as we have in the past.

Hiten Doshi:

Is there slowdown on that right now?

Adi Godrej:

Not at all.

Hiten Doshi:

If you get an opportunity, you will move forward?

Adi Godrej:



We are again very clear that unless it is of both strategic importance and accretive in the middle to long term, we will not look at acquisition. We will look at only if they are strategic and accretive.

Moderator:

The next question is from Hardik Shah of Birla Sun Life Insurance.

Hardik Shah:

With respect to Kinky and Rapidol, over the last couple of quarters, there has been some restructuring which has been done. As of now, how much more of this restructuring is expected to bring it on the path of growth?

Vivek Gambhir

The Rapidol business in South Africa has done quite well. But Rapidol's export business has seen some challenges. On Kinky we will probably see improved performance to the course of the year. The business is going through some challenges, but it is improving every quarter. So later on this year you should see better performance from Kinky.

Hardik Shah:

Have you achieved breakeven over here?

Vivek Gambhir:

In Kinky we have not yet achieved breakeven. Rapidol is a very profitable business. Kinky should be able to breakeven later on this year.

Sameer Shah:

What we have to remember in Kinky is that it is a store model. Typically it takes a longer time to breakeven in a store model business compared to routine FMCG.

Hardik Shah:

But I believe that it has been more than what you had originally envisaged?

Vivek Gambhir:

Yes. I think the economic environment has made it more challenging.

Hardik Shah:



There is a differential in margins between the domestic business and the international business. Is there any plan where you want the international businesses also to reach Indian margins?

Vivek Gambhir:

If we look at our portfolio, 80% of our portfolio would be Indonesia, Africa and India. Over time all three of these geographies should have the same kind of a margin profile. Honestly, over time Africa could even have higher margins but we are in the investment mode right now. The good news is 80% of our portfolio will roughly have similar margins. UK and Latin America have lower margins. I do not expect those margins to reach India levels. But we see opportunities through Iceberg in Argentina to get our margins from 9-10% to about 14-15%. That by itself will drive overall margins up. The good news is that the bulk of our portfolio will have very similar margins over time.

Moderator:

The next question is a follow up from Abneesh Roy of Edelweiss.

Abneesh Roy:

In hair color, in Crème we have done quite well in the last many quarters. The competition had launched me-too products. How much has been the impact from those? Has Marico managed to get some success? The MNC player, etc., how much really have they done with me-too products?

Vivek Gambhir:

I would not like to comment on competitors here. It is sufficient to say that we are quite happy with the kind of traction we are seeing with Expert Crème. We have also launched two new variants at Rs 35 which are actually doing quite well. Generally, we are happy with the progress we made on the Crème strategy.

Abneesh Roy:

In HI category, how has the Express Liquid done as it was launched during the period when the macro and sentiments were quite challenging? We have also launched the anti-mosquito spray under 'Protekt'; I was a bit surprised why the Protekt brand is being used in a HI category?

Vivek Gambhir:

It is too early to say about how 'Express' has performed. The seeding of the machines has literally started over the last 2-3 months and typically in this category which has driven a lot in terms of how new machines gets seeded in the market, it will take 12-18 months before we know how successful the strategy is. But because it is the fastest LV in the world, the product is of excellent quality, we will hopefully see a big success



coming out of it but just given our past experience with Advanced and Active Plus, this is too early to tell as to how well the product will do.

Nisa Godrej:

On the Protekt front, the Protekt brand platform has been built around the idea that the health and wellness market in India is huge and it is growing very rapidly. Protekt is a premium product in that category and we see it going across categories and health and wellness also includes mosquito products. That being said, we also have personal protection in Good Knight and in categories like soap or hair or even in insecticides, we feel that we can have **play** products under different brands with different positioning. So that is the idea behind the Protekt mosquito spray.

Abneesh Roy:

My next question is with respect to distribution. Some of the players are targeting chemist distribution in the urban areas. Our products may or may not be too much suitable to the chemist, so what is the plan with respect to this? How are our shares in chemist distribution versus the national market share? In terms of direct distribution, what is the plan in rural areas? If you could share more insights from a longer term perspective where we want to take that number?

Adi Godrej:

I would just like to point out that one of the products in the FMCG categories that chemists sell a lot of is household insecticides. Godrej Hi Care or Godrej Sara Lee earlier always had excellent chemist distribution which when we merged the two businesses, we leveraged very strongly to improve our chemist distribution across other categories too.

Vivek Gambhir:

This is where Crème is also helping us quite a bit because Crème as a product is being increasingly carried by chemists. What we have been doing is now focusing a lot of our time on the channel improving the point of sales displays and while right now the initial focus of 'Protekt' for the first six months as a modern trade, I think over time the next channels that we will see the uptick would be the chemist channel from Protekt as well. Overall this is a big opportunity that it will play itself out over the next 12-24 months.

Adi Godrej:

Generally, among FMCG companies, our chemist coverage would be one of the better ones.

Vivek Gambhir:



In terms of rural, we are directly reaching about 50,000 villages and incrementally we have been adding about 20% more villages every year. That is the current plan as far as we are looking at things.

Moderator:

The next question is from Gagan Thareja of Comgest India.

Gagan Thareja:

Regarding Africa, you indicated that apart from Latin America and Europe, your margins outside India could be comparable to your margins in India. Over what timescale do you see this happening in Africa? And secondly, I presume it would depend upon you achieving certain scale or certain supply chain and manufacturing-related targets if you could elaborate on these?

Vivek Gambhir:

Our internal objective is to get Africa to India-level margins in two years. I think clearly we are in the investment mode right now and in a lot of areas we are investing and hiring talent ahead of the market and you are right. Business as it scales up, you will see scale benefits as well and so we are conscious that this is a longer-term play for us and so accordingly we are making the right investments in people, systems and processes;. But at least the internal objective is to get Africa to India-level margins in two years.

Gagan Thareja:

I think there was an exclusive call relating to Africa where Mr. Momin indicated that the Darling business is still wholesale-led business and Godrej is taking some steps to sort of bring in retail channel here and also trying to do something about automating or localizing the manufacturing. Could you elaborate with respect to this?

Omar Momin:

I think our main emphasis on going direct to retailers as well as salons so far has been in Nigeria. In East Africa, our coverage is very strong in terms of both numeric as well as weighted distribution. For Nigeria what we have done over the last two quarters is actually set up go-to-market programs and end of this quarter we are already covering about 6,000 salons directly. So we will continue to ramp up to build on that model going forward.

Gagan Thareja:

You had also indicated that half of the sales are very fresh and driven and half could be more sustainable and basic in nature and therefore it is important to time the market. Therefore would you want to do something about shifting or be able to get the product



done more quickly here because the sourcing is right now based in the Far East. Are there any developments on that front?

Omar Momin:

In the Darling business, all our manufacturing is absolutely localised in each of the countries or regions we operate in and that is one of the advantages that we enjoy in terms of the fastest way to market. That is already in place and this is an advantage.

Gagan Thareja:

Could you elaborate your strategy on household insecticides in Africa? What scale do you see yourself reaching in HI category in Africa in the next 2-3 years?

Vivek Gambhir:

At this stage all we could say is that the opportunity is significant, but we are trying to learn the business in Nigeria. There could be a couple of other launches we will try this year. I do not want to put a specific number but suffice it to say while it is difficult to get an exact estimate of the market size, the opportunity of the market itself probably is in the hundreds of millions of dollars. But the main thing for us is to spend the next few years in doing some selective launches, learning what products worked well in the market and then figure out what our aspiration needs to be. But this is definitely in the longer term going to be an important area for us as far as Africa is concerned.

Gagan Thareja:

Would it be safe to presume that, it would not be big enough to move the needles over a 3-year time span?

Vivek Gambhir:

In the next 3 years, I do not expect it would move the needle. In 5 years this is definitely going to be a fairly large opportunity for us.

Moderator:

The next question is from Varun Lochab of CIMB.

Varun Lochab:

With respect to the soaps business in India, you mentioned that you would be looking to pass on some benefit of the custom duty reduction to get some kind of growth back. Are you looking at some sort of price cuts and if yes, would that be largely in 'Godrej No. 1' alone because if I look at the competition, they have been actually raising prices given the input cost inflation. Given the current dynamics, would taking a price cut be the right thing?



Vivek Gambhir:

No, we are looking at consumer offers.

Varun Lochab:

So would it be more of promotions?

Vivek Gambhir:

Absolutely, that we will have to just watch the evolving situation as far as palm oil prices are concerned. We are open to taking calibrated price increases if the situation changes over the course of the future quarters. But for the time being, our thinking has been to roll out some consumer offers to help stimulate consumer demand.

Varun Lochab:

Would that be more at the mass end?

Vivek Gambhir:

It is more in the sub-popular end because that is where the biggest volume declines have been in the category. The focus of these would be more for 'Godrej No. 1'.

Varun Lochab:

On HI growth, last 2-3 years we saw the benefit of distribution integration between GHPL and GCPL. Do you think that some sort of slowdown is because of that impact wearing off? The big distribution synergy that you earlier had or is it just the market slowdown because of the season?

Vivek Gambhir:

HI for so many years has always been a seasonal category. If you look at our performance last year, Q3 was very slow whereas Q1, Q2, and Q4 were extremely strong. As Mr. Godrej was saying, just given penetration rates in this category, consumption rates in this category and you compare this to markets like Indonesia, China, Thailand and Malaysia there is still a huge amount of headroom for growth both in the mosquito protection part of the market along with other pests and also the market moving from evening usage to the all-day usage. So I do not think there should be too many concerns about the category rate slowing down over time. It is seasonal. Fluctuations have always happened in this business for so many years.

Varun Lochab:

With respect to the international acquisitions, it has been some time that you have seen all of these acquisitions coming into the fold and running those businesses. Indonesia has been star performer, but Africa and LatAm have been patchy in terms of delivering



numbers. Apart from Kinky, are there any other parts within say the Darling or in the LatAm business where you think it is probably more of a structural issue rather than just the near-term growth headwinds which we are facing in those countries?

Vivek Gambhir:

If you look at the history of our acquisitions whether with Keyline in the UK, Rapidol in Godrej South Africa, Darling in Africa and Indonesia which again would be almost 85-90% of the acquisitions we have made outside India. If we compare the performance of these acquisitions versus our initial investment case, they have been ahead of our investment case. The only acquisitions where we faced some challenges are two, one is Kinky which is less than one percent of our overall sales and second is in Argentina where the situation has been more driven by economic turmoil. But if you look at the brand health matrix around brand equity and share, the acquisition has done very well. But clearly on a pure financial basis if you compare Kinky and Argentina, those have been probably behind our initial investment case, but for the bulk of our acquisitions, our performance has been ahead of our investment case.

Varun Lochab:

Would it be true for Darling as well?

Vivek Gambhir:

Absolutely, Darling on a consolidated basis while there may be some fluctuations by geography; on a collective basis, Darling's performance has been ahead of our investment case.

Moderator:

Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to Mr. Rakshit Ranjan.

Rakshit Ranjan:

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

Adi Godrej:

Well, thank you very much. While this has been a quarter where our growth has been below our long term expectation, we think this is an exception and now with the new government in place, new macroeconomic policies expected, we expect our performance to improve over the following three quarters of this financial year.

Moderator:



Thank you. Ladies and gentlemen, on behalf of Ambit Capital Private Limited that concludes this conference.

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

