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Godrej Consumer Products Limited
H1 & Q2FY11 Conference Call Transcript
2.30 p.m., Monday, November 1, 2010

Moderator: Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited Q2 and H1 FY11 earnings conference call hosted by Anand Rathi Shares and Stockbrokers. As a reminder, for the duration of this conference, all participants lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Shirish Pardeshi from Anand Rathi.

Shirish Pardeshi: Melissa. On behalf of Anand Rathi Research, I welcome you all for this second quarter earnings conference call hosted by us for Godrej Consumer. I am very happy to announce that Godrej Consumer is being represented by Mr. Adi Godrej, Chairman of Godrej Industries. We also have Mr. A. Mahendran, Managing Director joined on the conference call. We are very happy that this time we have Mr. Vivek Gambhir, the Chief Strategy Officer who is also present on the call and of course Mr. P. Ganesh, who is the Executive Vice-President Finance and Commercial and Company Secretary also present. From Anand Rathi we have also Aniruddha Joshi joined on the call. Now I will hand over to Mr. Adi Godrej for the opening remarks.

Adi Godrej: Thank you Shirish and good afternoon every one. I welcome all of you to the Godrej Consumer Product Q2 FY '11 conference call. I will begin this call by taking you through the numbers for the quarter after which I will discuss the developments in our domestic and international businesses. For the quarter ended September 30, 2010 our consolidated net sales stood at 953 crore and PAT at 131 crore. Earnings per share for the quarter on a non-annualized basis stood at Rs. 4.06, the Board of Directors have declared a second interim dividend of 100% which translates to Re. 1 per share. Coming to the business overview for the quarter, our domestic operation which of course includes the subcontinent operation has performed well. Domestic business net sales increase on comparable basis was 13% after considering Godrej Household Products sales at 100% in the base too. On reported basis that is with 49% base for Godrej Household Products, domestic business Net Sales increased by 32% to Rs. 619 crore, EBITDA was up 43% at Rs. 136 crore and we reported an EBITDA margin of 22%. PBT was higher by 42% at Rs. 138 crore and PAT increased by 38%. Our home care business which has expanded with the merger of Godrej Household Products Limited was an outstanding performer during the quarter where we realized 38% sales growth in our household insecticide category on comparable basis in the quarter. We have also undertaken several marketing and promotional initiatives in this business. I may add that increased health consciousness driven by cases of malaria and dengue in several parts of the country has also contributed to this growth. Our market share in household insecticide expanded to 36.2% in Q2 FY '11 from 32.7% in Q2 FY '10. The Hit brand is currently enjoying life time high market share. Our Good Knight brand was voted the #1 brand in the household care category and 12th in the 100 most trusted brands in a survey by Brand Equity Magazine. This reinforces our leadership position in this category. Our soap business had a high base effect in the quarter. We continue to be the second largest toilet soap player in the country with a market share of 10.4% for Q2 FY ‘11. Promotions like Cinthol buy and win offer have contributed well to enhance consumer interest and consequent growth. Our hair color business continues to perform well. We registered an increase in our market share for the quarter at 29.9% compared with 29.7% in Q1 FY '11. We continue to maintain the market leadership position in India with a portfolio encompassing crème powders and liquid hair colors. Nupur continues to grow at high rates. Nielsen has started reporting more regional hair color brands with correct base effect with above change. GCPL’s absolute value off take has remained about the same as reported in the past with change in percentage market share. Other category mainly comprising of disposal baby diapers, talcum powders, deodorants spray etc., continue to grow well. Our recently launched range of Godrej Protekt products consisting of hand sanitizer, hand washing wipes continue to make inroads in the market. These products are steadily gaining acceptance and are poised to grow into a significant sub segment of our personal care portfolio.

I will now discuss the performance of our international operations which now accounts for 35% of our consolidated turnover. We reported revenues of 337 crore and expansion of 205% in rupee terms compared to the second quarter last year. The numbers are not comparable as the Q2 financial year 2010 numbers does not include the results of Tura, Megasari, Issue and Argencos all of which were acquired earlier this year. Our Asian, outside of India operations which include Indonesia and the Middle East have done well during the quarter. Megasari is the market leader of hair care and wipes in the Indonesia market and is the second largest player in household insecticides. Megasari sales for the quarter were Rs. 182 crore and the EBITDA was Rs. 30 crore, Middle East added Rs. 4 crore to revenue. Our African operations which comprise of Rapidol, Kinky and Tura made steady progress during the quarter and reported revenues of

Rs. 44 crore and EBITDA at Rs. 6 crore. Rapidol continues to enjoy market leadership position in the ethnic hair color market in South Africa and many other African countries. We have initiated steps for the merger of Rapidol and Kinky in line with our One Africa' strategy. Our Latin American operations comprising of the business of the Issue Group and Argencos reported sales of Rs. 59 crore and an EBITDA of Rs. 4 crore. We completed the acquisition of 100% of Argencos on July 8, 2010 and efforts are under way to fully realize the synergies of the combined operations to improve profitability. In the U.K we delivered revenues of Rs. 48 crore, growth appears muted mainly because of last year's high base. You would recall that H1N1 epidemic last year resulted in substantially higher sales volumes last year for our hand sanitizer. A weakening British pound also muted performance.

It gives me great pleasure to share the progress on all these businesses as we see steady progress been made with our 3x3 strategy which envisages a presence in three continents, Asia, Africa and South America through three core categories home care, personal wash and hair care. We are excited by our presence in these high potential markets and are proud of our emergence as an emerging market MNC. We successfully completed a QIP issue last quarter and have used those funds to finance our acquisition as well as repay the bridge loan which is why there is some moderation in interest expenses during the quarter compared to first quarter of this financial year. I will end with some corporate developments; we were awarded the NDTV Profit Business Leadership Award 2010 in the consumer products vertical. This forum recognizes business which are cultivating leaders and creating value for emerging India. I would like to add that we are certainly striving to create enduring value for all our stake holders. With that I shall conclude my opening remarks and open the floor for questions.

Moderator Thank you. The first question is from the line of Grishma Shah from Envision Capital..

Grishma shah: I just wanted to understand what is included in our stand alone numbers. Is there any change vis-à-vis last year or the business remains the same?

Adi Godrej: Standalone numbers includes the numbers of Godrej Consumer Products.

Grishma shah: That is comparable year-on-year, right?

Adi Godrej: Yes.

Grishma shah: why have the employee cost gone down on a year-on-year basis?

Adi Godrej: Because we have a very strong performance linked variable remuneration scheme, which is based on EVA improvements, as you know last year growth in EVA was very high from the previous year, so the performance linked variable remuneration provision was high. This year the growth over the previous year is smaller so the performance linked variable remuneration will be lower. So the provision made for that is much lower than in the previous year.

Grishma shah: Okay and also a slight increase in the interest in the financial charges, you think that would moderate going ahead considering the QIP?

Adi Godrej: Yes.

Moderator: Thank you the next question is from the line of Pritesh Chheda from Emkay Global.

Pritesh Chheda: Some of our erstwhile growth areas have been ailing in growth in terms of domestic operations consisting of soap and hair color, where hair color has only grown and Keyline, Rapidol, Kinky put together has not grown, if I include Tura then probably African business has grown. if you could spend some more time in terms of the direction in these business areas and the strategy going forward and the growth in the quarter also is largely to do with consolidation so, would you spend more time on the erstwhile categories?

Adi Godrej: First on toilet soap, you are right, the toilet soap business has not grown, last year was a very high base, last year growth in toilet soap was very high driven by price increases based on cost increases, where the wholesale trade and other parts of the trades stocked up at high levels expecting price increases. We have been reducing the stock in the market so the consumer offtake has consistently over the last couple of quarters been higher than our primary sales. We now feel that process is over. In Q3 and Q4 of last year, our soap base was lower so we expect strong growth in our soap business in Q3 and Q4 and for the year as a whole we expect a good growth rate in the soap business. The other point has been that the soap category as a whole has had very low growth rate this year as a result of the high food inflation, which has affected the wallet of the low-income Indians who had to spend a higher share of their wallet on food and therefore have cut down expenditure on other necessities such as soap. With food inflation now coming down we expect that to reverse too, so we have already seen this quarter, the October-December quarter start with good growth in soap sales, we expect that will continue for the rest of the financial year. Coming to your question on Africa, the South African economy is not growing, so our growth in South Africa has been good but lower than in the past. I think the growth in South Africa was around 8% this quarter, which is much higher than the GDP growth in South Africa, which is at a negative level currently but we hope that will turn around too. Rapidol continues to grow very well. Our Nigerian business has been acquired for the long term because Nigeria has the largest population in Africa. We are putting very strong new management from India in Nigeria. We expect Nigeria to start contributing strongly to our operations from the next financial year onwards.

Pritesh Chheda: And lastly the Keyline in UK?

Adi Godrej: Keyline, we had a very high base, last year our sales growth was very high and sales base was very high because of the H1N1 virus We are leaders in hand sanitizers in Britain so there was exceptionally high growth and a high base last year so relative to that obviously the performance is muted but you must also remember that the UK economy is not doing exceedingly well. Generally retail sales in the UK are down and we feel Keyline has done well compared to the general UK scenario.

Pritesh Chheda: Keeping a two-year, three-year perspective if you could tell us on the international business side, the Latin America, Africa and the rest of Asia excluding India, what should be a sustainable growth rate on a like-to-like basis that these businesses should grow?

Adi Godrej: We do not make to any forward looking statements but let me mention that any profit growth in the international business or consolidated business is really like-to-like because while the profits of the new acquisitions are taken into account, the cost of the new acquisition is also taken into account so we have increased the earnings per share for our shareholders by around 35%, I am talking of earnings per share, the profits have increased 41% but since we have the QIP issue we diluted a little bit so earnings per share has increased by around 35%, which is totally on a like-to-like basis because it is earning per share. Now in terms of our international business overall on our acquisitions between international as well as the 61% in Godrej Household Products have performed much better than our expectations at the time of acquisition. Two of the acquisition, I would say Nigeria and to a certain extent South America, one of the South American acquisition had performed below expectations; however, our biggest acquisition, Megasari the Indonesian acquisition has performed much better than expectation. Overall Godrej Household Products also performed much better than expectation. So overall our consolidated numbers have been much better than our expectations at the time of acquisition around the May-June period this year.

Pritesh Chheda: With regard to Megasari numbers is this the indicative EBITDA what the business earns or there are some variations from quarter to quarter?

Adi Godrej: It can vary from quarter-to-quarter but this is the general expectation but overall for Megasari both growth rates and margins have been better than our expectation at the time of acquisition on which we had based our valuations.

Pritesh Chheda: And so is the Latin American business because there the margin is just 8%?

Adi Godrej: No Latin America has been a little lower than expectations because there have been some investments into growth after we took over.

Pritesh Chheda: Okay what is the most steady state margin in LatAm for a longer term historical month?

Adi Godrej: I do not think we have the numbers, we have just taken it over about three or four months ago so we will look at the business in great detail and then decide how much we need to invest, for example our Brazilian operation is small and we need to invest into it so we would not be able to predict the steady state EBITDA margin it is very accretive and the margins will keep increasing but it is difficult to predict what they will be in the future.

P. Ganesh: Well the contribution margins are quite steady, it is a function of how much we would be investing in it. So in terms of looking at our growth in geographies we might decide to invest more and therefore in terms of net margin you will see lower growth.

Adi Godrej: When Ganesh is talking of investment he is talking mainly of investments into advertising and promotion.

Pritesh Chheda: Last couple of data points, what would be the debt at the year-end that you look at after repayment through the equity funding and through the cash generation in the business and what is the blended cost of that?

P. Ganesh: Most of the debt is the offshore dollar loan the cost of which is between 150 to 175 basis points above LIBOR. We have about Rs 200 odd crore in the GCPL books, which again is short term and therefore low cost, eventually as I mentioned most of the debts gets in the offshore and that is the cost in terms of 150-175 points over LIBOR, LIBOR itself is quite low at under 0.5% currently.

Pritesh Chheda: Okay, what could be the year end debt that you have targeted?

P. Ganesh: As far as the overseas debt is concerned these are long term, they would continue through the current year whereas to the extent we generate surplus cash, debt in the local books is what would come down in the near term.

Pritesh Chheda: That is just 200 crore?

P. Ganesh: Yes.

Pritesh Chheda: Lastly, the home insecticide business you shared, grew by about 38% in the quarter, is that right on a like-to-like basis?

P. Ganesh: That is right.

Pritesh Chheda: What was the market growth for that in India?

Adi Godrej: The market growth is roughly about 12%. Our growth is because we have also initiated two, three new innovative initiatives in the market, one is the Good Knight Natural which is a lotion product and then we are also focusing on another new initiative called no-smoke coil and a third one is a fairly aggressive sales plan and we have done well in the Hit and the aerosol category, so the insecticide category comprises of three or four formats, coil and aerosol and mats and lotions and liquid vaporizers, so across **formats** we have done well, so we are much ahead of the market growth.

Adi Godrej: Our market share and also in insecticide have expanded from 32.7% in Q2 of financial year 2010 to 36.2% in Q2 of FY 2011.

Pritesh Chheda: And this 12% mostly should be volume growth or the market growth?

P. Ganesh: Yes, it is volume growth, because there is no price rise.

Pritesh Chheda: Can you even tell us what the hair color market growth is?

Adi Godrej: Hair color market growth is around 15%.

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

Nillai Shah: On the Indonesian business could you share with us the growth out there on topline?

Adi Godrej: Around 20%.

Nillai Shah: Around 20% and how much of this would be currency driven?

Adi Godrej: No, no the growth is calculated in rupee growth, it is the Indonesian rupees.

Nillai Shah: Okay, you gave me the same-currency growth?

P. Ganesh: Yes its same currency growth.

Nillai Shah: When you translate it how much has flown in through because of currency?

Adi Godrej: The Rupee to Indonesian Rupiah has been pretty steady.

Nillai Shah: In terms of hair color volume growth it can be about 12% for the quarter.

Adi Godrej: No, little low, sorry it is 12%.

Nillai Shah: 12% okay. Could you also share with us the African organic growth rate, organic excluding Tura?

Adi Godrej: I mentioned it was about 8% for the combined South African businesses.

Nillai Shah: This includes Tura .

Adi Godrej: No, Tura is Nigeria.

Nillai Shah: In the last quarter conference call you had mentioned that a large part of the pipeline correction, which you are undertaking was over and still this quarter we have a 10% down

Adi Godrej: No I mentioned it will continue into Q2. Lot of this was over in Q1 and of course we were hit by two things in Q2, one is that the category as a whole grew at a very small pace because of food inflation as I mentioned in my initial talk and secondly, we have taken steps to cut down the stocks in the market which had a cumulative high level. I had mentioned a little earlier in response to another question that we expect Q3 and Q4 growth in the soap category for us to be quite high. We have begun Q3 with a good growth rate.

Nillai Shah: Right and the last question for Ganesh, the sequential depreciation has gone up quite sharply. What is reason for that?

P. Ganesh: No that is bound to because the consolidation for our new acquisition is over a longer period in Q2 compared to Q1. So in Q1 the consolidation was only for between 1.5 months and a few days in certain cases so obviously in the Q2 the consolidation is for the full quarter so depreciation consolidation would be higher in Q2 than Q1 because of the full consolidation instead of partial consolidation.

Nillai Shah: Actually it almost doubled.

P. Ganesh: Because of period of consolidation has almost doubled.

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

Abneesh Roy: The first question is on the household insecticide. We grew at three times the market rate. I wanted to understand if there was any favorable impact from one of the competitor taking away the promotional spends in that. So is the 350bps expansion in market share really sustainable?

Adi Godrej: Before I ask Mr. Mahendran to answer your question I would like to just point out that the category growth rate quoted by us is based on A.C. Nielsen figures and our own growth is based on our own sales figures. I think the category has grown a little bit higher than what you see Nielsen is mentioning but Mr. Mahendran will be able to give you a good answer on both the points.

A. Mahendran: On the competition point, which you raised, yes it is a fact that the competition is trying to sober down and they were pretty overheated in the last full year in terms of discount to say they were passing on and that had definitely helped us because we were very consistent in terms of our advertising and promotional costs basically promotional cost, so that has helped but the main driver for our growth is innovation and new formats growing much better such as the lotion we launched Good Knight Natural and coil again we have upgraded to no-smoke coil which is also giving us a fairly good growth. That is the real reason for that apart from the competitive slow down.

Abneesh Roy: For the market share, the current one is largely sustainable?

A. Mahendran: Yes.

Abneesh Roy: Sir coming to hair color at the top end we have P&G upping the ante actually entering the market and at the lower end we have Emami, so from a medium to long term perspective where do we see especially in the low end competition impacting us?

Adi Godrej: We are doing very well at the lower end. New competition keeps coming in from time to time. I do not think that is a major concern. As far as Procter & Gamble entering the field it may be positive for us because Procter & Gamble will compete very strongly with L'Oreal who is one of our big competitors and we do not think the Procter&Gamble offering which is at the very high end competes with us at all, so generally we feel the competitive situation in hair color continues to remain strong but we expect to maintain and grow our shares.

Abneesh Roy: Sir have you stopped distributing Ambipure or is it is still on?

A. Mahendran: We have stopped the distribution and Procter & Gamble have taken over Ambipure in India.

Abneesh Roy: So you have still not decided on what you would like to do in that because you have the products in the other countries.

A. Mahendran: Yes, good question, we are planning, we are contemplating to enter that air care category and we will do that maybe in the next six months.

Abneesh Roy: So there is no clause actually?

Adi Godrej: There is no Non-Compete clause. We will get into the category as soon as our plans are finalized. We are just fine tuning our plans to ensure that we are very successful in that category.

Abneesh Roy: Sir my last question is on the standalone business. Could you comment on ad spends especially segment wise for hair color for soap and for the HI business. Are you investing in soaps also and overall growth what is the expectations for ad spends?

Adi Godrej: No we are investing very considerably in ad spends. The standalone numbers do not include the ad spend figures for our household insecticide business, that comes in the consolidated numbers and we are continuing to advertise all our categories and we will continue to do so. We expect a very strong focus on our soap business in the third and fourth quarter in terms of advertising.

Moderator: The next question is from the line of Amnish Agarwal from Motilal Oswal Securities Limited..

Amnish Agarwal: I have a few questions and the first question is on the marginal seasonality in Godrej Household Care products where we had seen EBITDA margins close to 22% in Q1 but in Q2 while our sales are up by 38% margins our margins are roughly around 18%, so is there a margin seasonality in the business or have we done some aggressive sales promotion or advertising to propel this growth?

A. Mahendran: Broadly, this margin seasonality is not there in household insecticide, the last so many years we are running it and we have been generally very consistent in terms of our margin policy and as far as this quarter is concerned yes of course we do have lot of initiative in advertising and promotions and we continue to do that in the next quarter also.

Adi Godrej: There is no margin seasonality except to the extent that in some quarters we spend more on A&P than in other quarters.

Amnish Agarwal: Okay, because as per my estimate in Q1 our EBITDA margins are close to 22%, which are 18% in this quarter.

Adi Godrej: I don't know if you have taken any exceptional items into account

Amnish Agarwal: Okay so you think around 18% is a sustainable kind of margin?

Adi Godrej: I think it is better.

P. Ganesh: Domestic is about 22%.

Amnish Agarwal: My second question is regarding the balance sheet, in which we have given that debtors are around 516 crore, so I would just want you to know that some of the acquisitions, which we have done for example big acquisition like Megasari, due to the consolidation now of Godrej Home Care, are the debtors level very, very different because now we have 510 crore in debtors whereas till last year it was around say 120 to 150 crore.

P. Ganesh: Yes, basically if you look at our overseas acquisitions whether it is Indonesia, whether it is South Africa for the matter Latin America and also the UK of course the salience of modern trade is significantly higher than what we see in India and therefore while in India by and large cash and carry is still predominant we have a high amount of credit in these geographies.

Amnish Agarwal: Okay so you think that the current proportion of your debtors will sustain even in the coming periods?

P. Ganesh: Of course on the new acquisition there would be some opportunities for reducing working capital but by and large this is the reason why the working capital is high on a consolidated level.

Amnish Agarwal: And if we look at our tax rate in the first quarter it was around 24%, which has come down to about **20.5%** in the current quarter, so is there some one-off items or 20.5**%** will be something which we will be sustaining forward?

P. Ganesh: There were some tax credits taken in this quarter, but by and large if we look at on a full-year basis domestic would average about 20% and on a consolidated basis we should be at 22-23%.

Moderator: The next question is from the line of Mr. Pritesh Chheda form Emkay Global.

Pritesh Chheda: One clarification, we started reporting other operational income in this quarter there is some reorganization of the same quarter last year number, so what is the nature of this other operational income now.

P. Ganesh: Other operating income predominately includes royalty income, which comes from our South Africa and Indonesia subsidiaries.

Pritesh Chheda: Through the domestic subsidiary as well because that is the number in domestic, that is the standalone number.

P. Ganesh: Yes, that is right.

Pritesh Chheda: Okay and the dividend income in any case reported as a part of other income.

P. Ganesh: Yes, that is right. The dividend amount is removed in consolidation.

Moderator: The next question is the follow up from the line of Mr. Abneesh Roy form Edelweiss.

Abneesh Roy: Sir, the first full quarter in which the impact of all the acquisitions were there and recently in an interview you said that in the 12-month timeframe you will again start looking at domestic and international acquisitions, could you tell us which geographies and if anything that is being discussed currently?

Adi Godrej: No we are looking at acquisition opportunity and I mentioned that where acquisition opportunity falls within our 3x3 strategy and is accretive we would look at it. In addition of course we are always open to the right accretive and strategic acquisitions in India, so we keep looking at acquisition opportunities. I had mentioned earlier that because we had already concluded five acquisitions in the early part of this year obviously we would be quite selective in looking at further acquisitions. We are looking at some acquisitions which are of considerable interest. As and when we are able to conclude any we will certainly announce them.

Abneesh Roy: Sir any particular reason why in LatAm the performance has been lower than expectation while in Megasari it is above expectation apart from the GDP related and any one-off effects.

Adi Godrej: After we took over these companies we look at the strategic positioning. In some cases we feel spending additionally on advertising and promotion in LatAm particularly our small Brazilian subsidiary we see it can have a large future, so we look at how much we need to invest in advertising and promotion in a subsidiary, since the Indonesian acquisition was a very strong one and it continues to do very well it has performed better than our expectation. The Nigerian and Latin American acquisitions performed a little below our expectation. Our overall international acquisitions including Indonesia performed better than our expectation and of course if you include the 51% in the erstwhile Godrej Sara Lee, then the overall acquisitions have performed much better than our expectation at the time of acquisition. Therefore you have seen that we are in an extraordinary increase of 35% increase in our consolidated earnings per share. This takes into account additional equity capital we had to raise.

Abneesh Roy: To understand correctly lower than expectation for LatAm and Nigeria, is it more on earnings front rather than on the sales front?

Adi Godrej: Earnings front.

Abneesh Roy: Sir lastly on the soaps domestic business you said second half you expect recovery and October is over so could you give us a sense in terms of numbers where do you see the sales for soap?

Adi Godrej: We would not like to quote any number, but I can tell you the start to this quarter has been excellent in terms of growth.

Abneesh Roy: And that is for the entire industry or is it for you?

Adi Godrej: I think it is for us but industry will also grow at a better rate because the food inflation seems to be getting behind us, so we expect better industry growth rates and we think we will grow faster than the industry over the second half.

Abneesh Roy: And any sense on the price increase we have taken, we want to take because all the other players have taken?

Adi Godrej: We have taken some and we will continue to take some. The input cost in terms of industrial vegetable oils are up and we will continue to take price increase, so price increases can be in two forms increase in price or reduction in weight at the same price.

Abneesh Roy: Till now it has been in weight, right?

Adi Godrej: No it has been both.

Moderator: The next question is from the line of Mr. Anshul Mishra form ING Mutual Fund.
Anshul Mishra: My question was regarding the soaps category, if you can give us numbers on what was the volume growth for the category and what was it for you and also the sales growth for the category and for you for this quarter year-on-year?

Adi Godrej: There was no price differential, so volume and value were exactly the same and as I mentioned going forward we see good growth in the soap category.

Anshul Mishra: What was it for the Q2 if you can please give some number to it for the category as well as for you?

Adi Godrej: Category of volume growth was 2% and value growth 3%.

Anshul Mishra: Okay and for you.

P. Ganesh: We had degrowth of 10%.

Anshul Mishra: Okay and also on the household insecticide front is there a kind of seasonality among the four quarters that you see and what would it be?

A. Mahendran: Yes as far as the household insecticides are concerned, there is a seasonality mainly in this quarter, the beginning of the year, that is April, May, June generally and second quarter would be high and third quarter slightly less and the fourth quarter will be high again.

Adi Godrej: Second half is usually much higher than the first half and the best quarter is the fourth quarter, the January-March quarter.

Moderator: The next question is from the line of Mr. Devinder Singhal from Kotak Mahindra..

Devinder Singhal: My question is on the hair color business, could you give the volume and sales growth for both the categories, the Godrej Expert as well as Nupur?

Adi Godrej: We have given overall hair colour growth we will not be able to provide figures for each of the brand.

Devinder Singhal: If you could just give overall growth?

Adi Godrej: Overall growth has been 20% by value and 12% by volume.

Devinder Singhal: One more question on overall international debt is what we have and the costing to that?

P. Ganesh: The international debt is about 350 million plus in dollar terms and the cost of that is between 150 and 175 bps over LIBOR, LIBOR currently is under 0.5%.

Moderator: The next question is from the line of Ajay Thakkur from Alchemy.

Ajay Thakkur: I just wanted to know about the advertising spend profile for the international business and also if you can share the advertising profile for the Godrej Household insecticide business?

Adi Godrej: I do not think we have breakup right now, but we may be able to provide them later, but we have the consolidated advertising numbers as well as the standalone advertising numbers, but we do not have the breakup between international and Godrej Household currently.

Ajay Thakkur: Referring to Megasari the staff issue is already being placed on the boards over there, have they taken the control and secondly if you can throw some light on the integration process and what kind of integration procedures are we taking on so that we get better coordination among the whole of the international business?

Adi Godrej: Three of our persons have moved to Indonesia, three people from India, the erstwhile owner who is a great entrepreneur continues to advise us in Indonesia and some of the earlier senior management continue, so it is a mixed team of people from Godrej in India and the local team and I think I had mentioned earlier that the business is growing very well, margins are growing well and we are very pleased with the performance of the business, the business performance has been better than our expectations at the time of acquisition.

Ajay Thakkur: Referring to the studies that you have taken up for the integration of Godrej household insecticides and Godrej Consumer, just wanted to know if you can throw some light on that.

Adi Godrej: We are working very strongly on the integration of the two businesses, we formed an internal team, a very large internal team, we broke it up into several individual teams, we were advised by McKenzie on the integration, we call it Project Neo, it will take forward the various integration opportunities both in terms of cost reduction as well as leveraging the advantages of each of the businesses for the growth of the other, so we have a two-pronged attack, cut costs and increase sales and that is moving forward very well, we have also announced that we would look to a legal merger of the two businesses, we expect to put that through before the end of this financial year and it will be effective April 1, 2010. We are very pleased with the progress of this initiative, some of the benefits of this initiative have already been captured in Q2, but most of the initiatives will be captured in Q3 and Q4 and in the financial year 2012.

Moderator: The next question is a follow up from the line of Pritesh Chheda from Emkay Global.

Pritesh Chheda: Just a couple of clarifications, other operational income you said is to do with royalty and to do with the African business paying to the standalone company, my guess is considering the figure it cannot be regular and fair, it has to be one time?

P. Ganesh: This is an ongoing one. It is a technical knowhow fee from the two companies, earlier it was from Rapidol, now Megasari has been added to it.

Pritesh Chheda: So It will be ongoing and could you just spend some more time on the nature, is it to do with some of the brands that have been cross sold in different markets, is it to do with that or something else there?

A. Mahendran: Let me clarify that, as far as the household insecticide is concerned, we have a very large R&D base in India and we will continue to provide the technical services to Indonesia on that category, so this is going to be ongoing revenue in terms of technical aspects, it is the same with our hair colour business, the technical knowhow from India is provided to Rapidol for which a technical fee is paid. Rapidol in addition also pays a fee for use of brand, because the brand belongs to GCPL in India which bought it from UK holding company of Rapidol at the time of acquisition.

Pritesh Chheda: So the figure cannot vary from quarter to quarter, it has to be same?

Adi Godrej: It is all on a percentage of sales.

Pritesh Chheda: Second on the material price inflation front, in which segments are we facing cost pressure and you could tell us the extent of cost price?

Adi Godrej: Cost pressure we are facing in any significant manner is from vegetable oil, which go into our soap business; in most other commodities we are not facing any pressure. Of course as of now we are not facing any pressure on that front, but crude oil if it does go up could lead to fuel and freight increases, but as of now they have been pretty benign. So the only cost inflation we are facing is in vegetable oil which affects our soap business.

Pritesh Chheda: Quarter to quarter if you could tell us in index term what it is and what price increase have been taken from?

Adi Godrej: It is impossible to give such figures because we take cover in advance so the actual input in the quarter may have nothing to do with replacement cost.

Pritesh Chheda: If you adjust the cover then what is the price increase?

Adi Godrej: I do not have those figures.

Pritesh Chheda: What is the basket of material typically in home care, the home insecticides business?

A. Mahendran: The active ingredient which is the chemical which we use in the household insecticides that would be one of the major thing, that is manufactured by a large company globally called Sumitomo Corporation.

Pritesh Chheda: But is it an off-shoot or derivative of crude?

A. Mahendran: It is a derivative of chrysanthemum . Its a herb.

Pritesh Chheda: Any price fluctuation that it goes through if you just check the history for last four to five years?

A. Mahendran: Last 25 years not much.

Adi Godrej: Other than vegetable oil none of our ingredients are subject to commodity led price fluctuations, there may be price changes, but not commodity related.

Pritesh Chheda: Not substantial as it is in case of vegetable oil and all?

Adi Godrej: Not related to any particular commodities.

Moderator: The next question is a follow up from the line of Amnish Agarwal from Motilal Oswal Securities Limited.

Amnish Agarwal: A question on our other operating income while I agree that in the standalone operation other operating income has increased because we have started getting royalty from Megasari, but if you look at the consolidated numbers, the other operating income for the quarter is up from 2.3 crore to close to 12 crore so can you take us through what has led to this increase and how should we look forward towards this number in future?

P. Ganesh: While we look at the standalone that the income which comes in consolidation that goes away, what is included in the other operating income at the consolidated level is a mix of the VAT benefits which one of the companies in Argentina has and it also includes third-party manufacturing income.

Amnish Agarwal: So it includes third party manufacturing and some what was the second element Sir?

Unknown Speaker: One of our companies in Argentina is entitled to VAT benefit.

Adi Godrej: Because of locational benefits.

P. Ganesh: It is something similar to the fiscal benefit that we have in India.

Amnish Agarwal: This number will remain like this or will it fluctuate in any significant manner?

P. Ganesh: To the extent of third party manufacturing there could be some fluctuation but the VAT benefits would continue.

Amnish Agarwal: How much was the VAT benefit in this?

P. Ganesh: I do not have the break up with me right now I can get back to you.

Shirish Pardeshi: I have two questions, earlier we were not looking at merging any of the entities but now we are looking at merging the Godrej Consumer with Godrej Household (GHPL) and we are also looking at merger of South African entity, so is there any change in the thinking or are we also looking at raising the goodwill in the balance sheet and we will be getting some amortization tax benefit?

Adi Godrej: It is always good to merge operations when you own 100% of the operations, because it leads to efficiency. In the past we were concerned about the accounting implications of such mergers when we have found good solutions to the accounting implications we have decided to go ahead with the merger.

Shirish Pardeshi: Amount of goodwill rate upon the two mergers?

Adi Godrej: I would not be able to comment on the details because these will be implemented depending upon what accounting standards will be found, but we have found ways where it does not negatively affect us in the accounting procedure, whether it is in Indian GAAP or IFRS.

P. Ganesh: And just to add there are no tax benefits associated with this

Shirish Pardeshi: Now I guess in Q2 most of the businesses are fairly consolidated, can you just roughly indicate the revenue breakup in four major segments, soaps and hair colors, personal products and household insecticides.

Adi Godrej: We do not have the information right away, but we will try and get it to you.

P. Ganesh: It is given in the performance update which has been sent out.

Moderator: As we have no further questions I would like to hand the floor back to Mr. Pardeshi for closing comments.

Shirish Pardeshi: Thanks Melissa on behalf of Anand Rathi Research I really appreciate Mr. Adi Godrej and the senior management team on the call. We would look forward to such an interaction on a continuing basis. I would now hand over to Mr. Adi Godrej for the closing remarks.

Adi Godrej: Thank you Shirish, we thank you for hosting this conference call, we have seen an excellent quarter this year for Godrej Consumer Products and we expect the benefits both from our acquisitions as well as our synergistic work on integrating Godrej Household products with Godrej Consumer Products and international businesses with our domestic businesses, we expect to derive tremendous benefit from these initiatives going forward and as mentioned earlier in the discussion we expect many of the synergistic benefits to role out in Q3, Q4 and in financial year 2012. We are very optimistic about creating stakeholder value in Godrej Consumer Products thank you. Thank you.

Moderator: Thank you gentlemen of the management. Thank you Mr. Pardeshi. Ladies and gentlemen on behalf of Anand Rathi Shares & Stock Brokers Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.