

Investor and Analyst Q2 FY14 Conference Call

Nov 12, 2013

								
								

Operator

Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited 2QFY14 post-results conference call hosted by Ambit Capital. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shariq Merchant of Ambit Capital. Thank you and over to you, sir.

Shariq Merchant:

Good afternoon everybody. I would like to welcome you all to the 2QFY2014 results conference call of Godrej Consumer Products hosted by Ambit Capital. With us we have the senior management team of GCPL comprising Mr. Adi Godrej, Chairman; Mr. Vivek Gambhir, Managing Director; Ms. Nisaba Godrej, Executive Director - Innovation; Mr. Shashank Sinha, President - International Operations; Mr. Omar Momin, Executive Vice President - Strategy and Business Development; Mr. P. Ganesh, Executive Vice President - Finance & Commercial and Company Secretary; and Mr. Sameer Shah, Associate Vice President - Finance and Investor Relations. I would now like to hand over the call to Mr. Adi Godrej who will take you through the highlights of GCPL's performance. Over to you, sir.

Adi Godrej:

Thank you Shariq. Thank you and good afternoon. I would like to add my welcome to the Godrej Consumer Products Conference Call to discuss the performance of the second quarter of the financial year 2013-2014. As mentioned, many of our senior people have joined me on this conference call. In a challenging environment we have delivered a robust operating performance, with healthy sales growth as well as strong profit growth. With 23% consolidated sales growth, we continue to sustain strong sales momentum in both our India business and our international operations. Our focus on sustaining and extending leadership in core categories has enabled us to grow significantly ahead of the market. Our branded business in India grew 17% in the quarter, with growth ahead of the category growth rates in all of our three core categories. While it is difficult to give a precise estimate of volume growth, given the nature of our categories, we believe that about three-fourths of our growth in the quarter was volume growth. At 31% constant currency growth, our international portfolio also grew well in the quarter. Our EBITDA growth of 20% was broadly in line with our sales growth. If we exclude the impact of the arrangement of distributing the divested foods business in Indonesia, our EBITDA growth was in line with our top-line growth of 23%. Our India business delivered strong profit growth of 20%. International business EBITDA growth was healthy too and increased by 21%.

								
								

Along with driving strong sales growth, we are continuing to invest in building a sustainable platform for the future. Over the last few months, we launched several exciting innovations along with significant renovations in our portfolio. We are continuing to back these innovations with strong marketing investment. This 2Q our advertising and publicity expenses grew by 39% year-on-year with investment both in domestic as well as in our international businesses; however, as our new launches continue to scale up well, our A&P expenses as a percentage of sales have moderated sequentially at 11.3% versus 13.9% in the previous quarter. The response to our innovations has been very encouraging and the performance is significantly ahead of our plans. We have also seen significant improvement in our gross margin during this quarter. Gross margins in our India business improved by 550 basis points during the quarter. The improvement in the gross margin is the result of a calibrated premiumisation strategy, operational efficiencies and lower increase in input costs. I will now recap our six key business imperatives and assess how we have performed on these priorities during the quarter. After this I will discuss the highlights of our financial performance during the quarter. We will then 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—home care, personal wash and hair care—in India. Across these categories our focus is on growing ahead of the market, driving consumption and penetration and strengthening our portfolio. If we look at our India business across categories we have grown ahead of the reported category growth rates. Our household insecticides category delivered another growth of robust performance with 25% sales growth. This is well ahead of the category growth. Distribution synergies, innovation and continued brand investments have contributed to this growth. We continue to gain market share and are leaders across all formats of electrics, coils, and aerosols.

In India, there are 24 million cases of malaria every year and 90% of the population resides in malaria-prone areas. Dengue cases have also been increasing in alarming proportions, more than half of households in India don't use any household insecticide product and in rural areas the penetration is even lower. As market leaders we have been exploring new ways to tackle this problem. As another step in this direction we introduced an innovative paper-based mosquito repellent, Good Knight Fast Card last month. Launch of this format at a disruptive price point of Rs 1 will make it affordable for poorer households to protect themselves against mosquitoes. Our Good Knight Fast Card provides instant relief from mosquitoes, has one of the safest active molecules and is very easy to use.

The soaps category had a challenging quarter this year. We delivered 3% value growth for the quarter which was better than the reported category growth. Sales growth was lower than our expectations due to relatively slower ramp up of one of our key consumer offers and political turmoil in Andhra Pradesh.

								
								

We had a volume growth of 4% in soaps versus a reported de-growth for the category. We continue to be the second-largest toilet soaps player in the country. Cinthol continues to perform very well post the relaunch last year. Godrej No. 1 also continues to do well, led by our varianating strategy. The response to our new variant Aloe Vera and White Lilly has been good. Godrej No.1 is now the third-largest soap brand by both value and volume in the country. Godrej No.1 saffron and milk cream variant were recently selected as a Nielsen Breakthrough Innovation. Gross margins have expanded on a year-on-year basis as a result of an improvement in our mix and lower palm oil prices. We are closely tracking the recent rupee depreciation versus the US dollar due to the resultant increase in palm oil prices. We will evaluate any changes required on the pricing front based on how the situation evolves.

In the hair colorant category too we continued to be market leaders. We grew by 24% during the quarter, far ahead of the category. We expect this momentum to continue going forward. Expert Rich Crème continues to do well and has completed one successful year last month. We have now also launched Godrej Expert Rich Crème Hair Colour in south India. We have also initiated salon engagement programmes to drive crème penetration in small towns and villages. The response on Aer, our air freshener brand, too has been very encouraging and is ahead of our initial expectations. We continue to find innovative ways to promote Aer air fresheners. Recently, Aer had an innovative marketing campaign on Twitter, leading to the first-ever Twitter sourced song "Don't smoke because." We have also introduced a new format to provide consistent fragrance in a spill proof gel technology.

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

Our biggest international business, Megasari in Indonesia excluding the foods distribution business arrangement continues to grow at a healthy pace of 17%, aided by the success of new launches and distribution expansion. Megasari continues to strengthen its position as the market leader in urban household insecticides, air care and baby wipes in the Indonesian market. EBITDA margin of 17%, which is before payment of technical and business support fee, was impacted mainly by a 58% increase in minimum wages and 33% hike in fuel prices. Price hikes have been taken to absorb these cost increases, which helped our margins improve by 150 bps sequentially. We expect margins to normalize gradually.

Our African operations, which comprise Rapidol, Kinky, Tura and Darling, made steady progress during the quarter and grew by 53% in constant currency terms. Revenues stood at Rs 250 crores and EBITDA margin at 14%. Business momentum was impacted due to lower consumer confidence in South Africa. Consumer spending has been at a 10 year low there and key retails chains have reported a de-growth

								
								

in sales. An auto workers strike also impacted overall FMCG sales. Our Inecto brand, which is a market leader in 14 countries in Africa, has recently been awarded the 'Best Hair Colour Brand in Africa 2013'. Godrej South Africa (Rapidol and Kinky) was also certified as a 'Top Employer 2014' in South Africa during the quarter. The Africa margins were impacted by an adverse product mix, and input cost pressures due to wage hikes in the Kenya and South Africa. However, on a quarter over quarter basis, our EBITDA margins are up by 100 basis points and trending towards normative levels. We have also rationalized the store footprint in our Kinky business. Our team is working on several initiatives to improve operating effectiveness and we hope see the results of these in the coming months. Going ahead, we expect Africa margins to improve in the festive season in quarter 3.

Our Latin American operations, which comprise Argentina and Chile, showed improvements during the quarter. Revenues stood at Rs 154 crores with a growth of 23% in constant currency terms. EBITDA margin moved up to 7%, up 390 basis points year on year. In Argentina, Issue and 919 continue to strengthen market share in hair colours. In Chile, Pamela Grant has been re-launched with improved packaging and a new brand ambassador. We also continue to invest in growing our business in the neighboring countries of Argentina and Chile. In Argentina, we have also launched a profitability improvement project, supported by an external partner.

Our Europe business recorded a constant currency growth of 88%, led by strong organic growth and the integration of Soft & Gentle. Our recent acquisition Soft & Gentle, the UK's fourth largest brand in the female deodorant space, continues to do well. EBITDA margin for the business was around 10%. Strong gross margin expansion supported higher investments in brands. The Touch of Silver range registered excellent growth doubling market share on a year on year basis.

Our third strategic pillar is to accelerate the pace of innovation and to strengthen our brand portfolio. The last few quarters have seen many innovations and new launches across categories and across geographies. We launched aer Air Fresheners, Godrej Expert Rich Crème Hair Colours, HIT Anti Roach Gel, refreshed Cinthol, and very recently launched Good night Fast card in India. We also launched home insecticides in Nigeria, Hit one push aerosol in Indonesia and Villeneuve sun care range in Argentina. We also refreshed Illicit and Pamela Grant in Chile and the Aapri skin care range in UK. The initial response to these launches has been encouraging and we are beginning to see strong traction in sales from these launches. In India, nearly 40% of the incremental sales growth in the first half of this year was driven by new launches.

We have been making upfront marketing investments to ensure that we adequately support our new launches. Three fourths of the increase in Advertising & Publicity spend in H1 was targeted towards 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 have launched Project Daksh to improve the productivity of our sales force and to enhance go to market efficiencies in our urban markets. Our urban growth during the quarter was 15%. Through Project Vistaar, we continue to improve coverage in our rural markets. Our rural growth in the quarter was 21%. We also continue to deepen relationships with our modern trade partners through joint business planning and setting up electronic data interchange (EDI) interfaces to automate the exchange of data. Our modern trade channel grew at 25% during the quarter.

Our fifth pillar is to create a global best-in-class supply chain. We have taken strong steps in this area by establishing centers of excellence in TPM, lean, six sigma and low cost automation. We have also set up a strategic sourcing team to leverage scale and reduce our procurement costs. Our gross margin performance, especially in our Indian sub-continent business, is well supported by ongoing cost saving initiatives. We have also launched Project ICON (ICON standing for Improving Contribution) to put additional focus on efficiency improvement and margin enhancement.

We have also significantly improved the quality of information and analytics, to enhance decision-making and to better track critical priorities. In fact, in our Supply Chain, we can now manage fill rates for our key platinum SKUs (comprising 70% of our business) at 99%. Our modern trade fill rates are ranked consistently in the top bracket with most of the key modern retailers.

Finally, we continue to execute several initiatives to foster an agile and high performance culture in the organization. Recently, GCPL was ranked as the number 1 FMCG company to work for in India by the Great Place to Work institute. This is the largest study on workplace culture in the world. Over 550 companies participated in the study in India this year. Our overall ranking across all sectors too has improved from number 25 to number 11. GCPL has featured in the list of best companies to work for 10 years in a row. Our ranking reinforces our commitment to creating an outstanding workplace that attracts and retains talented employees and delivers superior value to our consumers.

We were also ranked Number 44 overall and number 5 in the FMCG Category in Business Today's 500: India's Most Valuable Companies 2013. This ranking reinforces our commitment to becoming one of the most admired FMCG companies in emerging markets and delivering superior value to all our stakeholders.

								
								

I will now cover the highlights of our financial performance this quarter. For the quarter ended Sep 30, 2013, our consolidated net sales stood at Rs. 1,957 crore, with a growth of 23%. Our consolidated business organic, constant currency sales growth was also robust at around 14%. EBITDA margins stood at 15.3%, which was flat year over year, if we exclude the impact of food distribution business in Indonesia. Sequentially, EBITDA margins improved by 220 basis points versus Q1FY14. Earnings per share non-annualized stood at Rs. 5.7 for the quarter. The Board of Directors has declared second interim dividend of 100%, which translates to Re 1.0 per share. Our net sales in India increased by 14% to Rs. 1,024 crore, with significant growth across the core categories. Our branded sales in India grew by 17%. Our EBITDA growth was healthy at 20%. EBITDA margins stood at 18.9%, driven by strong gross margin expansion. We continue to invest aggressively in our brands with 39% year over year growth in our A&P spends. Our international operations, which accounted for little less than half of our consolidated turnover during the quarter, reported revenues of Rs. 933 crore, an organic, constant currency growth of 14%. EBITDA margins stood at around 11.3%. Our robust operating performance is a result of our continued focus on strengthening our position in our core categories. We continue to be aggressive in launching new innovations that have been well accepted by our consumers. We are backing our new launches with strong investments. At the same time, we continue to intensify our efforts in enhancing our distribution and improving productivity through technology.

The overall market outlook remains turbulent and uncertain. We remain watchful, agile and prudent. We have launched several operational excellence initiatives to further enhance our operational performance. Uncertainties however also present opportunities to propel forward. We will continue investing judiciously for the longer-term to improve our position, create competitive advantage and emerge stronger than ever before. I am confident that with our clear strategic focus, our superior execution and our top notch team, we will continue to deliver industry leading results in the future. I now conclude my opening remarks on the quarter performance and open the floor for questions.

Moderator:

Thank you very much sir. Participants we will now begin with the question and answer session. We will take the first question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Hi and congratulations on a good set of numbers. Before I start my question I just wanted to get a couple of housekeeping data and figures at hand. Firstly, if you could tell me your margins for Darling this quarter, I believe you have given the Africa margins which may not represent the correct picture because they may be depressed due to losses on the Kinky business, that is one, and secondly on

								
								

soaps you have mentioned the Telangana issue as one of the reasons why the growth was slower, if you can give an idea maybe excluding Andhra rest of the country what was your growth rate please?

Sameer Shah:

Percy, on first question, for competitive reasons we cannot share what are the Darling margins, but directionally Darling margins have been much better than the overall reported Africa margins of 14% this quarter, that is one; your second question on soaps, if we strip out the impact of the Andhra Pradesh turmoil then our soaps growth would have been higher by 100-150 basis points on volumes.

P Ganesh:

I would also like to add that Darling today constitutes the bulk of our revenues in Africa.

Percy Panthaki:

Pressing ahead on soaps basically the market leader has reported double-digit volume growth in soaps and I think after several quarters probably our growth would have been lower than that of the market leader, even excluding the Andhra issue. Can you throw some light on why that has been the case?

Adi Godrej:

Well, our market share has increased very clearly because we have grown ahead of category growth. I think I have read the figures put out by the market leader. I don't have any comments on that but we feel clearly many players have lost considerable share and sales in the soap business.

Percy Panthaki:

Secondly I would like to know a little bit more about the household insecticides business in Nigeria, if you can give some idea on how you are progressing there. What kind of success you have achieved? What kind of distribution methods you are adopting? What kind of formats you are targeting etc?

Shashank Sinha:

In Nigeria we have launched Good Knight in aerosol and coil format. We have been seeding the market over the last couple of quarters. Very recently, which is in this month, November, we started to advertise on television. Nigeria, as you know, some parts of Nigeria are disturbed by law and order situation, and so we are essentially focusing right now on the bigger markets which are in the South

								
								

and East of the country and there we are using both direct and indirect distribution through the wholesale channel as well as in to modern trade. We are doing activation, trial generation in modern trade and we are also doing in market activation in bazaars and in more down-trade or the traditional trade market.

Percy Panthaki:

Are you using your Darling distributors or are you appointing new distributors for this?

Shashank Sinha:

In Nigeria we have two businesses, we have soap business which is Tura and we have the Darling business. We have distributors which are more of classical FMCG distributors who are already distributing our soap brand, and so we are using a lot of those distributors but for insecticides we are also appointing new distributors and therefore it is a combination using our existing soap distributors and appointing new distributors in Nigeria.

Percy Panthaki:

Okay but you are not using the Darling distributors?

Shashank Sinha:

The channel tends to be quite different. They cater to a different sort of a market and the store overlap is actually negligible, and so therefore we are not using that.

Percy Panthaki:

If you can just give me a sense on your vision or your long-term objectives of entering this business in Nigeria in whatever way you might be comfortable, either market share number or total revenue number, just wanted to get a sense on what kind of aspirations you have in the HI space in Nigeria.

Adi Godrej:

We are extremely strong in the household insecticides business especially in India and Indonesia. We have some excellent products, and so we feel organically growing in household insecticides outside India especially in tropical countries is a great opportunity and as malaria and dengue fears start growing, the growth of this market which is under-penetrated in most parts of the underdeveloped

								
								

world is likely to be very strong. So we feel there is a very strong opportunity to leverage our existing distribution systems in many countries for this category.

Percy Panthaki:

Sir my last question would be on Darling, I believe the constant currency organic sales growth has not yet gone into double-digit figure which we would like to achieve. I understand that South Africa economy is weak and that is one of the reasons, but is there any other reason you can think of, is there any increase in competitive intensity? Is there any discounting whereby your price growth is, your value growth is lower than your volume growth any other reason apart from a slow economy that you can think of why sales growth is still in single digits?

Sameer Shah:

Before Omar chips in just in terms of numbers we have seen like-to-like constant currency value growth, high single digit may be even early double digit, and the volume growth even has been higher by 400-500 basis points related to the value growth. So that is the right set of numbers to go with on Darling and which is also sequentially improved.

Omar Momin:

I think the situation is very different across each of the countries. I think in Kenya we are seeing mid double-digit growth on a steady basis over the last few years. In South Africa we have had the unique position wherein volume growth has been leading value growth in the last few quarters and I think that is now converging and we expect that to stabilise towards double digits in the next quarter and I think Nigeria has been close to touching double digits and we expect that within this quarter we would be getting there. So as Sameer said on a comparable like-to-like basis because there are eliminations in the base quarter etc, we are pretty much touching double-digit growth in the quarter gone by.

Percy Panthaki:

But Omar, if your volume growth is like 400-500 basis points higher does that mean there is an effective price decline of 400-500 basis points for Darling overall across the three countries on an average.

Omar Momin:

								
								

This was the 400-500 basis points volume, value difference is only for South Africa. On a total consolidated basis, price and volume should be almost within 100-200 basis points.

Percy Panthaki:

In South Africa the reason for this differential is what?

Omar Momin:

There has been a change in the mix towards braids which are a higher-volume lower-value segment within the business; therefore you have a significant difference between the two segments.

Moderator:

Thank you. We have the next question from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi:

At the outset congratulations Mr. Godrej on a wonderful set of performance in a very challenging environment both in India and globally and I think part of your valuations are also because of very high governance standards that you follow in your group. I have two or three questions. One is that when you see the Indian landscape, it has substantially slowed down; do you still maintain your vision of growing the company at 10 times in 10 years despite the slowdown that you see now?

Adi Godrej:

Yes, in the long term in a 10-year period we do. We started this process around three years ago and up to the last year we were growing at more than 30%, and so we expect to be able to do it, 10x10 means about a 26% CAGR. We expect to do it, even in India we expect things will turn around because the monsoon has been good, agriculture season is good, rural demand will pick up, and so we feel the second half is likely to be better than the first half.

Jiten Doshi:

Sir, are you looking at any further inorganic moves now in this environment in India or abroad?

Adi Godrej:

								
								

Yes, if the opportunity is right and there is a good strategic fit, we will certainly look at inorganic growth and also as you may be aware our Darling agreement is for a long period. So there are geographies where Darling is operating which gradually we will keep taking over.

Jiten Doshi:

So when do you think you will complete the entire acquisition process of Darling which means 100% of all the companies in the fold?

Adi Godrej:

That will depend on how things pan out in Africa.

Jiten Doshi:

How much do you think you are going to spend for this acquisition roughly?

Adi Godrej:

That will also depend because the acquisition cost will depend on the valuation at that point of time, and so it depends on how the growth takes place.

Jiten Doshi:

Any thoughts of divesting Keyline because that is not really fitting in this whole scheme of things?

Adi Godrej:

Right now it is the fastest-growing part of the business, about 80-90% last quarter including of course acquisition of brands. So it is doing very well and there are no plans to divest it.

Moderator:

Thank you. We have the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

								
								

Hi sir, congratulations on a great set of numbers. My first question is on the employee cost which has jumped up quite sharply on a year-on-year basis, could you throw some light on this and on a sequential basis how do you see this cost moving?

Adi Godrej:

See, one thing you must remember before I ask Sameer to answer your question that we are a company where a considerable part of our remuneration is through variable remuneration based on EVA improvements, so performance-linked variable remuneration. So strictly comparing employee remuneration sequentially or year-on-year is not correct because if we do well then our employee cost provision will be higher but I will ask Sameer to answer your question in greater detail.

Sameer Shah:

If you look at the standalone business on a year-on-year the increase has been around 50-odd percentage. Mr. Godrej just mentioned that we have performance-linked variable remuneration as a relatively big component of compensation at our firm, around 50% of that 50% increase has come on behind higher performance-linked variable remuneration which in turn is driven by a very strong operating performance in the quarter and the balance is on account of investment in new talent as well as increase in salaries and wages bill. If you look at the international business and hence consolidated, one, we have added Kenya which was not in the base and the hair extension business has relatively higher employee cost as a percentage to sale than other businesses which we have. There was also around 58% increase in minimum wages in Indonesia which is also sitting in the employee cost of international business.

Arnab Mitra:

Right, so any kind of one-off in the numbers as such either in the base quarter?

Vivek Gambhir:

Nothing unusual at all.

Arnab Mitra:

Next question is on the hair colour part where you have continued to ramp up well, two questions on this, are you seeing any reaction from the multinational competition here and secondly as the base of

								
								

the launch catches up, do you still see high growth because may be distribution is still, footprint is not complete and more of the ramp up will happen going ahead?

Vivek Gambhir:

I think for your second question we initiated the launch of hair colour in South India about six weeks back, and so we will definitely see more upside from our south India ramp up; beyond that we are still picking up distribution in crème. We made a lot of good progress but there is still a fair amount of upside left as for us crème distribution is concerned. On the second part, obviously any innovative disruptive launch like this there will be competition, and some might be quite desperate but I think we are fairly geared up given the nature of the product and our offering to deal with any competitive reaction.

Arnab Mitra:

Lastly on the soap side you mentioned that there has been one of the promotions did not ramp up well, if you could just elaborate on that and secondly also going ahead do you see the pricing component of the growth starting to pick up or will it still remain flattish to negative with whatever pricing is there in the market today?

Vivek Gambhir:

On the second part, clearly the entire category had benefited from a fair amount of price-led growth over the last 12-18 months, that effect will be a lot less going forward. We are evaluating some price hikes given the nature of the palm oil prices right now. No decisions have been made that, I think having said that the amount of price-led growth will be significantly lower than the last 4-6 quarters. In that sense most of the growth will be in volume-led growth, I think which as you know in a category like soaps will tend to be lower than hair colour and insecticides.

Sameer Shah:

On your first point on the consumer offer it was a product consumer offer. I would not like to get into the specifics of it which was a little bit slower to ramp up but it is shaping out pretty well in this quarter.

Arnab Mitra:

								
								

One last question on Indonesia, are we hoping to get back to the earlier margin levels given the kind of slowdown maybe even there and the cost push we should live with lower than what historically last 2-3 years has been the margins in that business?

Vivek Gambhir:

We would not like to get into guidance but directionally we do expect uptake in our sequential margins in Indonesia as well as in Africa.

Shashank Sinha:

Even in the current quarter sequentially you have seen an improvement.

Moderator:

We have the next question from the line of Prasad Deshmukh from Bank of America Merrill Lynch. Please go ahead.

Prasad Deshmukh:

Thanks for taking my question and congratulations on a very good set of numbers. One question, recently there was this announcement of stake acquisition in b:blunt salons, and so what is the thought process behind this and how much scale up do you think we should be making into the numbers going ahead in next 3-4 years from this?

Nisaba Godrej:

It is a very small financial investment in b:blunt. We feel them being in the salons at premium end, there are strategic benefits that we could work together which we are looking at but I think the financial investment is materially insignificant and we don't see doing any more investment at this stage.

Adi Godrej:

We expect it will be a great learning experience for us.

Prasad Deshmukh:

								
								

Because typically I think bblunt is more focused on your competitor's products versus your product as a chain, and so are we looking to aggressively scale up salon-focused products or is it just like experimental kind of an investment?

Vivek Gambhir:

Right now from our point of view it is a learning investment more than anything else. I think for a lot of premium end consumers, the salon tends to be a bit of an endorsement for the choice of hair colours. We feel like in partnership with them we will be able to learn a lot more about the salon business which will help us come up with better hair colour products in the future.

Moderator:

Thank you. We have the next question from the line of Prashant Kutty from Emkay Global. Please go ahead.

Pritesh:

Hi, this is Pritesh here. If you could just help us decipher in the regional businesses of Africa, Latin America and Europe in few of these places it is fairly difficult to find out the constant currency growth numbers for the existing businesses because these constant currency growth numbers would have consolidation part as well. So for the base business what would be the growth in these three geographies and if you can decipher or give some qualitative aspect on the volume part in these businesses?

Sameer Shah:

We just talked sometime back about the Darling and Africa business, and so the constant currency, like-to-like comparable growth in Africa is high single-digit, early double-digit, that is one. If you look at Latin America, the entire growth in this quarter is organic because we have a comparable base of Chile for the whole three months in 3QFY2013. In the UK, our constant currency organic growth was in mid-20s. Coming to your second point on the volumes because of multi-category business it is practically impossible to compute what has been the volume growth across all these businesses.

Pritesh:

Second product question, what are the steps taken to improve the capital efficiency of these investments which are made over the last 4-5 years now?

								
								

Sameer Shah:

Well, if you look at the overall investments in terms of acquisition if I get your question correctly we are seeing better returns on our capital employed as well as equity. We are working very rigorously on working capital and that is also getting reflected in terms of reduction in the number of days. We do expect our margins also to gradually improve in the medium term.

Pritesh:

Any thoughts on sharing some targets on the working capital part of the business?

Sameer Shah:

Sorry Pritesh, we would not like to get in guidance on this front but we do see there is still some juice left in it.

Moderator:

Thank you. We have the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

Sir, thanks for the opportunity and congrats. My first question on the Indonesia business, we have grown 17% like-to-like. If I see in the last two quarters we have seen slowdown versus the earlier high growth rates. So if you could tell us when do you see the growth rates coming back to 20-25% plus because of the huge salary increase? You have mentioned in the past that with the lag, the consumer trends will become stronger and also from Indonesia you have a plan to target other countries also. If you could tell us about that plan, the neighbouring countries of Indonesia, how that is going and within the two sub-segments in Indonesia, the HI part and the tissue paper, this year you are focusing more on the tissue paper part of the business. So if you could tell us how HI is doing that would be helpful?

Shashank Sinha:

I think in terms of overall growth there is a seasonality factor because a large component of our business is insecticides and I think as you know the insecticides season tends to fluctuate. We expect that this is going to be an average insecticides season in Indonesia and therefore we are in line with overall conditions, I think, we had in the last year due to climatic reasons fairly extended bigger

								
								

insecticides season. I think that overall we are on track, we are gaining market share, we are introducing new products and we are supporting them quite strongly. We also believe that high wage increase is going to get more purchasing power into the market and there is a lag effect to that. So I think overall the fundamentals remain quite strong. I think your other question about targeting other market, so I think around Indonesia, we have export initiatives which look at the Indochina region, Cambodia, Laos, Vietnam and in the kind of Malaysia region. So that is geography that we normally look at. Insecticides seem to be quite a highly regulated business and so we are much more using our export network of distributors and we have started the initiative of in fact looking at our entire product range from Indonesia which includes the Mitu baby care range as well as the Stella air freshener range. So I think that is an ongoing initiative and your last question focus between the tissue business and insecticides business, I think we remain quite focused on the insecticides business. We have basically two major brands in Indonesia which is the air freshener brand, Stella, and the insecticides brand, Hit. These are the two pillars of our business. I think seasonally we have once in a while added a lot more initiative in our baby care business because we have expanded it from a tissue business to an entire range of baby care products but that does not mean we have taken any focus away from the insecticides business.

Abneesh Roy:

Sir, one follow-up question on that and here I am comparing the HI business in India and HI business in Indonesia. In India, HI business for the last 13-14 quarters in spite of very high base we continue to do extraordinarily well, and rainfall or no rainfall, growth rates are extremely positive, and in Indonesia we have seen two quarters, the growth rates come down, and so in terms of penetration and rural in India is much more favourable versus Indonesia and when do you see the base effect and maybe the penetration upside and India also kind of tapering off.

Adi Godrej: I think two responses to your question. One is penetration in Indonesia is much higher than in India; second, India has had a tremendous number of cases of malaria and especially dengue off late. So that we feel might be contributing to a higher growth rate in India. Indonesia is not reporting anything particularly new on malaria and/or dengue but if that sort of a situation arises I am sure we will leverage it strongly.

Abneesh Roy:

Sir, my second question is on the opening remarks wherein you said because of the monsoons you expect second half demand should be better. So as of now in second quarter, how you have seen the

								
								

rural growth rate versus urban growth rate? How the gap is and do you see that gap accelerating? Urban demand what is your personal view when do we see that improving in the overall consumption?

Adi Godrej:

Before I ask Vivek to answer your question, the second quarter is a little too early to see the effects of the monsoon and/or agricultural growth on rural demand. I think that will come in more in the third and fourth quarters but I will ask Vivek to answer your question in terms of growth rates?

Vivek Gambhir:

For us in 2Q rural growth was 21%, urban growth was 15% and I think in 3Q and 4Q we would expect rural growth to be better than the 21% growth we had in the last quarter.

Abneesh Roy:

Sir this 6% gap how is that trending in the last few quarters?

Vivek Gambhir:

Usually the gap tends to be a little bit wider, somewhere between 8-10%.

Abneesh Roy:

Sir my next question is on the innovation funnel. We have been extremely aggressive on that 37% incremental growth you have got from there. So if you could share in specific, Aer, how we have gained market share because new granular details are available, it is a bit early, but if you could share some details there? Similarly in Nigeria when we are doing HI in some parts of Nigeria when do you see a respectable market share being built there? How much time it takes in this kind of regulated business? It is a new geography in a sense and when do you see that really becoming a sizable business?

Vivek Gambhir:

I think typically for Nigeria I would wait for at least 12-24 months before we can see any meaningful, you know, we have looked at some initial market share numbers, it is all trending in the right manner but I think these things will take time to ramp up. So it is a one or two year period before we can at least, we need to wait to make a call on that but things are all going in the right direction as far as our input metrics are concerned. Again, with Aer, our performance so far has been much ahead of plan. We

								
								

are gaining share particularly in the car fragrance market but again it is relatively early days but as we look at our consumer franchise, the quality of our products, the kind of traction we are seeing in the channel, it is all heading in the right direction.

Abneesh Roy:

Sir my last question is on the soaps business. The market leader it seems has grown faster and we have done the Cinthol relaunch a few quarters back. So do we need more interventions in that space and any plans if you can share? I know advance plans sharing might be difficult but is that required? And second whenever we see deflationary trends in raw material the unorganised part of the market comes back. In the opening remarks you said that the unorganised part and the weaker player seemed to have lost share. So in spite of deflationary trends you think the regional players are losing out?

Vivek Gambhir:

On palm oil, just one clarification, actually the palm complex has rallied by about 20% from its July lows. There has been a perception that production during the peak month of September, October and November will not be up to expectations in Indonesia and also given the weakness of the rupee for instance local prices have increased from about 37,000 rupees to about 47,000 rupees for PFAD and certainly we expect that these prices will remain at around this level till at least March. So that is just a misconception I wanted to clarify as far as palm oil prices are concerned. I think this is an area where we are evaluating both tactical and more longer-term initiatives, and so you will see a lot more activity from us both on the promotional front over the next couple of quarters and strategically also you will see a lot more action from us on the soap side both in Godrej No.1 and Cinthol over the next 6-12 months.

Moderator:

We have the next question from the line of Ashish Urganlawar from Elara Capital. Please go ahead.

Ashish Urganlawar:

Yes, just wanted to know if you could share in the Indonesian business what would be the volume growth for this quarter because I would assume that the price hikes would be a bigger component this quarter?

Vivek Gambhir:

								
								

In Indonesia again the price hikes are being taken in a more calibrated manner, and so these had some marginal price hikes there. Probably few more of that could come down the road but the bulk of the growth in Indonesia has been volume-led growth, very similar to India.

Ashish Uppanlawar:

Sir, can you comment a bit further on the gross margin. I think you said that palm oil prices are coming up, and so overall would we see this kind of better gross margins going ahead also maybe at least for the next 2-3 quarters?

Vivek Gambhir:

That is what we are working towards yes and again on palm oil the clarification is that we expect the palm oil prices to remain at about the same level for the next few months but palm oil prices have gone up by at least 20% since the July lows. One other point is that the sales mix would be more favourable in 3Q-4Q.

Ashish Uppanlawar:

One more thing I wanted to ask on the Africa business, would it be possible to share or give any indications on the topline contribution of Darling in this quarter or maybe in general percentage at least?

Sameer Shah:

Sorry Ashish, for competitive reasons we will not be able to share these details.

Moderator:

The next question is from the line of Prakash Kapadia from IAlpha Enterprises, please go ahead.

Prakash Kapadia:

Thanks for the opportunity and congratulations on a good set of numbers. Sir, on the insecticides business, if you could give some sense, historically we have had a 40% sales coming through coils, how has that been trending in terms of the mix? Is it that coil is decreasing and aerosol and electronic vaporizer increasing?

								
								

Adi Godrej:

Coils are the slowest-growing part of the household insecticides mix. Aerosols and liquid electrics are growing faster and we feel that in the future also this trend will continue and especially now that we have launched Good Knight Fast Card, we expect it will cut into coil growth.

Nisaba Godrej:

I think as market leaders and with the fact that there is still a lot of penetration left to happen in India in rural India only 28% of people use the product. I think we have a very strong innovation pipeline, and so I think we expect with very, very good product. We do expect that these will grow much faster than coils.

Prakash Kapadia:

So, there could be some cannibalisation in coils because of the recent paper one, is that correct?

Vivek Gambhir:

I think we have focused much more on market creation and market overall growth.

Nisaba Godrej:

We are also very focused on our new innovation that we are constantly looking at higher margin products, also in cost savings, new manufacturing technologies and stuff. So our innovation strategy is to satisfy the consumer but also to make the company more profitable.

Prakash Kapadia:

We have been increasing our sales at a much faster growth, and so is it fair to say that our market share is like above 40% in this category as a ballpark number?

Vivek Gambhir:

We would not like to comment on the specifics of market share.

Prakash Kapadia:

								
								

Secondly on soaps is there a thought on bridging the gap on health and hygiene portfolio in India, any thoughts on that?

Nisaba Godrej:

I cannot give you a specific answer to that but we see health and hygiene as a very important sort of growth trend both in soaps and in other categories and we are definitely focused on that.

Prakash Kapadia:

So in the future that could be your game plan. Lastly, on AP have we seen normalisation of events or still there is some uncertainty on the ground?

Vivek Gambhir:

I think the last couple of weeks have been much better on the ground.

Moderator:

We have the next question from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor:

Hi, my questions are all on the India business, first just wanted to understand could you share any initial learning from the Fast Card launch, it has been about a month and a half into it, and so just initial thoughts on it?

Vivek Gambhir:

Very early days but so far I think as far as placements are concerned initial offtake data, it is all very promising, and so all the feedback has been very positive but frankly extremely early to say anything more substantial.

Harit Kapoor:

Sure, second thing just wanted to get a sense on the rural market, if you could just share what would have been over the last maybe 12 months or so the increase in terms of reach that you would have

								
								

done in rural India maybe direct plus indirect reach that you would have increased over the last 12 months or so?

Vivek Gambhir:

Direct, we have added about 6,000 villages this year.

Sameer Shah:

If you look at direct reach in rural we would be around 5-6 lakh outlets and if you also look at the villages addition which would be more towards rural we are close to around little as in 50,000 villages in terms of the number of villages we reach out to. So we have been increasing our distribution both in terms of villages as well as outlets in rural.

Harit Kapoor:

Lastly on the salon market just wanted to understand how large would salon sales be for hair colour as a category as a whole, how much would go through salons?

Nisaba Godrej:

There are no exact numbers, it would be very, very hard to be actually able to tell you there is no formal number calculation and in our category also happens that consumers still buy single usage sort of packs from the retailer next to the salon and then take it into the salon to get their hair coloured.

Harit Kapoor:

But would there be a much larger share of premium products through salon, that is fair assumption right?

Nisaba Godrej:

The salons are also very divided in terms of the types of salons that are in India. So obviously if the top-end salons like the very expensive salons, which very few people can access, there obviously the salons are selling professional salon products but our sense is that the majority of the market even within the salon is the in-home use products.

Moderator:

								
								

Next question is from the line of Harsh Mehta from HDFC Securities. Please go ahead.

Harsh Mehta:

Congratulations on a very good set of numbers. I have one question on Indonesia. In mid-October, October-end, there were again labour protests demanding further wage hikes and with elections in Indonesia coming for the next year how do you think it as a legitimate concern for you?

Adi Godrej:

Well clearly the run up to the elections as well as general effect of the news of American taper etc., on the developing world is a bit of a concern, and so Indonesian growth rates have decelerated a little from 6.5% to around 5-5.5% but it is still a country with a large number of young consumers. The growth rate continues to be good and I think in about 6-9 months we expect a strong recovery in Indonesia like we do in India.

Harsh Mehta:

Sir would the labour protest regarding the wage hike concern you, as you are still coping with wage hike that happened of 50%? Would further wage hike be possible in the near term again and would you require further price hikes in Indonesia to tackle it?

Sameer Shah:

Very recent understanding and this is something which has got played out over the last few days is that there has been a sign off on weighted average increase of around 13-14% wages for the next 9-12 months in Indonesia.

Harsh Mehta:

For that would you further require to take prices up in Indonesia because most of the price hikes that you had taken would be for the extent of 58% wage hike that had happened six months back right?

Sameer Shah:

But this is something which we will evaluate because it is not only wage hikes but also fuel cost to some extent also depreciating currency which puts pressure on the margins and price increases if any will need to happen again in a calibrated manner. So it cannot be equated one to one.

								
								

Adi Godrej:

You should also bear in mind that our Indonesian business manpower cost is not a very high salience in total cost.

Moderator:

Thank you. We have the next question from the line of Vivek Veda from Espirito Santo. Please go ahead.

Nitin Mathur:

Hi, this is Nitin Mathur. Congratulations on a great set of numbers. Just one question it is more on your emerging markets business, now what we are looking at several emerging Latin America or South Africa, the slowdown, the economists, are still debating whether it is cyclical or is it more of a structural slowdown, just wanted your thoughts about the whole strategy that while we might be immune we are not insulated from a slowdown, so what is your thought process on these businesses now?

Adi Godrej:

We still think that the developing world growth rate will be much higher than in the developed world, and so clearly growth rates in the developing world will continue to be good and we are committed to the developing world and I think some of this slowdown will recover in the near future.

Moderator:

Thank you as there are no further questions from the participants I now hand the floor back to Mr. Shariq Merchant for closing comments. Thank you and over to you, sir.

Shariq Merchant:

Thank you. On behalf of Ambit Capital I thank the senior management team of Godrej Consumer as well as the participants on the call. I would like to now hand over the call to Mr. Godrej for closing comments please.

Adi Godrej:

								
								

Thank you Shariq. Thank you for hosting the call. Thank you all for joining the call. We will be very happy to answer any further questions you may have on our business. We expect to continue to do well because we feel our new products and our categories are in the growth orientation. Thank you.

Moderator:

Thank you sir. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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

								
								