

Investor and Analyst Q3FY19 Conference Call

January 29, 2019

Moderator: Ladies and gentlemen, good day, and welcome to Godrej Consumer Products Q3 FY2019 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Chordia from Kotak Securities. Thank you, and over to you, Sir!

Rohit Chordia: Hello, and good evening, everyone. On behalf of Kotak Institutional Equity, it is my pleasure to welcome you all to the third quarter fiscal 2019 earnings call of Godrej Consumer Products. I would like to thank the management team of Godrej Consumers to have given us this opportunity. And let me now hand over the call to Pratik from the Investor Relation team of GCPL. Pratik, over to you!

Pratik Dantara: Thank you, Rohit. Good evening, everyone, and thank you for joining us today to discuss the performance of Q3 FY2019. We have with us Nisa Godrej, Executive Chairperson; Vivek Gambhir, Managing Director and CEO; V. Srinivasan, CFO and Company Secretary; and Sameer Shah, Head of Finance, India and SAARC and Investor Relations. We will now have Vivek share his thoughts on our performance and then we can open up for Q&A. Over to Vivek.

Vivek Gambhir: Thank you, Pratik, and thank you, Rohit. I will share a brief commentary about our results, which is essentially captured in the performance update presentation that we had circulated earlier. And post this commentary, we will be very happy to answer any questions and take your feedback.

For third quarter fiscal year 2019, our consolidated constant currency sales increased by 8%, within India business sales growth was 6% and in International business growth was 10% on a constant currency basis. The consolidated constant currency EBITDA increased by 2% and the net profit for the quarter was Rs. 418 Crores with an EPS of Rs. 4.09. The board has declared an interim dividend of 200% or Rs. 2 per share.

Year-to-date, comparable constant currency growth has been 9% while the reported net profit growth has been 38%. Overall, for the quarter, the performance was mixed. The India business delivered single-digit sales growth on a high base but continued to grow EBITDA ahead of sales.

In our International Business, Indonesia continued its growth momentum with improvement in the Household Insecticides business. Africa is showing signs of a gradual recovery with

profitability improving sequentially. Latin America, however, recorded a weak performance due to adverse macroeconomic conditions.

During the quarter, we continued our innovation momentum with the launch of mosquito repellent incense sticks in India. In Indonesia, we also cross-pollinated the HIT Anti Roach Spray from India to expand our presence in the Household Insecticide category. We have also launched a naturals range of wet hair care products in the U.S.

We continue to make healthy brand investments for sustainable future growth. With the scale-up of our recent new launches, we expect to deliver much more improved profitable growth in the coming quarters.

If you take a quick look at our India business, as I mentioned, the third quarter India sales increased by 6%. This sales growth has been on a high base of a 17% growth. On a 2-year CAGR basis, the sales value growth has been 11% and volume growth has been 10%. We believe that this is a more representative way to look at the business performance given some of the changes in GST rates that happened in the base quarter.

For the quarter, the adjusted EBITDA increased by 11% with very healthy expansion in EBITDA margins and year-to-date sales have grown for the first 9 months by 10%, whereas EBITDA has grown by 19%.

If we take a quick look at the categories, the Household Insecticides category delivered a soft quarter. Sales were flat, driven by an unfavorable season. Overall, the rainfall during the October-December period has been 44% below normal and as you know, this is a category that does fluctuate depending on some of the seasonal dynamics. The impact of the deficient Northeast monsoon has been particularly hard in the south of India. Deficits in the states of Karnataka, Andhra Pradesh, Telangana and Tamil Nadu have been 47%, 57%, 65% and 22%, respectively.

Over 30% of our Household Insecticide business comes from the south. And our business in the east, which also has a high salience of insecticides, continued to be impacted by the growth of illegal incense sticks.

Over the last few quarters, we have been taking several corrective actions that we believe will start showing results and reflecting in better growth in the quarters ahead. To deal with the prevalence of incense sticks, we launched Goodknight Naturals Herbal Incense Sticks in Andhra Pradesh and Telangana in December as a pilot. We will continue to monitor this launch carefully and then make effective brand and trade investments to scale up growth in the quarters ahead. Apart from that, we have launched the Goodknight PowerChip and a

Liquid Vapouriser with 50% more power over the last few months. As these products gain more traction over the coming months, this will help us drive better growth.

Along with this, we are focusing a lot more on category development. We have launched a new campaign to educate consumers that dengue is caused by daytime mosquito. As we know, the penetration and consumption rates in this category still have tremendous headroom for growth, so we are focusing on building more awareness and developing this category.

Soaps sustained a double-digit growth of 13% on a 2-year CAGR basis, though sales growth in this quarter was low single digits of a high base. We have continued to gain market share. Our strong performance was led by very effective micro-marketing initiatives focusing on some new states and strong on-the-ground execution.

Hair Colours continued to deliver strong double-digit sales growth of 17% on a 2-year CAGR basis, though growth in this quarter was flat off a high base. Godrej Expert Rich Crème continued to consistently deliver robust growth and has achieved the highest ever market share on exit basis. We are focusing on activations, effective media campaigns and price-offs to recruit new consumers in the category. Godrej Nupur Herbal Based Powder continues to do well.

With regards to other categories, Mr. Magic liquid to powder handwash has started off well. While it is very early days, the initial results and offtakes have been encouraging. Aer continues to perform very strongly.

Turning to our international business. The business in Indonesia continued to sustain a good growth momentum and delivered a constant currency growth of 7%. For the 9 months, sales have grown by 10% and EBITDA by 12%. The Household Insecticide business continues to do well. We have extended our market share position in Household Insecticide and are gaining market share consistently.

During the quarter, we also cross-pollinated the HIT Gel Spray from India to expand our presence in the Household Insecticide category. We have clearly seen a leap forward in our various marketing campaigns and that is showing real positive results. Project Cermat, our cost reduction project is delivering good results. The team is also making good progress on Project Rise, the general trade transformation project. The thrust in innovation continues, and the Indonesian team is planning to launch four new products in Q4. We expect the growth rates to improve in Q4 on the back of strong innovations and distribution initiatives.

Our Africa and the U. S. cluster had a mixed performance with constant currency sales growth of 4%. Sales in the quarter were impacted by continued weakness in South Africa as

the macroeconomic environment there continues to remain very challenging. However, we have begun seeing gradual improvements in South Africa, driven by the actions that the teams has taken. We have also launched new lower-priced styles to counter competition. Over the next few months, we will be re-launching the Darling brand in South Africa. We are hoping for better performance going forward and believe that the worst is over in South Africa.

The West Africa and U.S. cluster continued to deliver strong growth. Kenya is showing early signs of recovery. Recently, we had relaunched the Darling brand in Nigeria and Kenya. This was a major relaunch with new communications, new packaging and new style introductions. The relaunch metrics from a brand awareness perspective have been very positive, and the new products that have been launched have received an encouraging response.

The scale-up of our wet hair business is progressing well. A lot of good work is happening on ramping up distribution, launching new products and demand generation. Operating margins for the cluster improved sequentially by over 500 basis points. So we are seeing the business head in the right direction. Over the last few quarters, we have put in a lot of effort to scale up the business, invested in talent, brand-building and go-to-market infrastructure. These investments should start showing up in improved results from Q4 onwards.

Overall, while we had a mixed performance in Q3, given the kind of investments that we have made and the kind of building blocks that we are putting in place, we are very confident that you should see a much stronger performance on both top line and bottom line in Q4 and the quarters ahead.

I will be very happy for our team to answer any questions that you have and take your feedback. Thank you.

Moderator: Thank you Sir. We will now begin the question and answer session. We have the first question coming from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. Good to see strong growth on hair color even on 2-year basis. My question is, how is the gross margin here? Why I am asking this is both you and Garnier have cut prices sharply, and now the price gap between you and Garnier is only Rs. 5, which was earlier Rs. 7 and in fact, at sometimes it was even Rs. 10. So could you elaborate who cut the prices? What impact this can have on the entire profit pool of crème hair sachet?

Sameer Shah: First of all, this price-off, is supposed to be a temporary price-off. However, we will evaluate as to how this evolves over a period of time, both from our end as well as any other

competition. This is also effective January 2019 and hence this does not have any material impact on gross margins in Q3. Further, the crème format compared to our overall India business portfolio, is relatively small to move the needle dramatically on gross margins. Even if there is any impact, we intent to work even harder on our cost-saving projects and initiatives to offset this impact.

Vivek Gambhir: I think as Sameer mentioned, this is a temporary promotion. We will evaluate how well this does but the intent is to try and see if we can drive penetration in rural, where there is significant headroom for growth still.

Abneesh Roy: How does this impact the consumer behavior? Because from Rs. 10 to Rs. 25 price point, GCPL has lot of products and, of course, competition has even more. So is there a downtrading or uptrading potential?

Vivek Gambhir: The idea would be to, first of all, recruit new users to the category because penetration rates are quite low. Secondly, it provides a more affordable path to upgrade powder users. So this is more of a pilot to see whether a more affordable price point will enable more upgrades of powder users.

Abneesh Roy: How has Nupur Herbal Based Powder with the Rs.10 price point done?

Sameer Shah: We have launched it in a few states and in the states where we have launched it, the initial traction has been quite positive.

Abneesh Roy: My last question is on the incense stick. So your product is promising 3-hours burning versus unorganized competition which is at 1 to 2 hours. But in the presentation, you have claimed 6x. So how does 6x compare to the 1 or 2 hours? Further, in urban India is availability of unorganized incense sticks quite strong?

Sameer Shah: Abneesh, on your first question, we have sampled out most of the available, illegal and unorganized incense sticks. On an average, they burn for close to 30 minutes and that is where we claim 6x in terms of relative burning time.

Vivek Gambhir: In urban India in certain cities, incense sticks are available through largely word-of-mouth. If you ask some of the smaller stores, they might have them even in urban India as well. The other important point I want to mention is that the Industry Association has had some success over the last couple of months to be able to work with the government to launch raids in a few factories. And in some of these cases, criminal cases have been filed against factory owners as well as certain wholesalers who were carrying the product with some arrests that have actually also been made. And so I think the intent from an association point is to keep on educating the consumer and the government about the harmful effects of

these illegal incense sticks and try and use the legal and regulatory machinery to try and also address this issue. So we are beginning to see some initial success from a regulatory and a government action perspective.

Abneesh Roy: Last follow-up. In the previous concall, you had mentioned that the incense sticks, which you will launch, will be disruptive in efficacy. In the product which has been launched, is this enough? Do you think you need more in terms of efficacy to fight the unorganized players?

Nisaba Godrej: This is a formulation that we have been working on for a while and we have tested these products extensively. The consumer is extremely delighted with this product. That being said, we are always looking at improving efficacy. But for now, we are extremely confident and excited about this product. And I will encourage anyone not to take our word and to try the product themselves. Over time you will also see other natural products being launched under the brand Goodknight.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir, my first question is again on Household Insecticides in India. So if I just take a simple average growth rate of your last 12 quarters, it is about 3.5% to 4%. Now the reason I have taken 12 quarters is that it removes any sort of anomalies in terms of pipeline going up or down etc. So assuming that you have not lost any market shares, this would be a good representation of what the industry is growing at currently. So the question is two-pronged. One is how much has, in your opinion, these new illegal incense sticks taken away from the industry growth in terms of basis points? And secondly, what do you think will sort of take the industry growth back to a higher number that we are used to seeing in the past? What events need to happen? Or what sort of things need to play out for this to happen?

Vivek Gambhir: I think, our estimate is that about 4% to 5% growth of the category has been taken away by incense sticks. So if you were to add that, then you would almost come to 6% to 8% kind of growth for the category as a whole. And this is also on the back of, unfortunately, a couple of few quarters of very unfavorable season. But my point in saying that is that at the end of the day, fundamentally, there is nothing wrong with the category. I think there have been some structural and format changes in the category. But I think the category in terms of growth dynamics still is a very attractive category. And then I think over the last 6 to 12 months we have really focused a lot on trying to launch a series of different products, whether it is personal repellents, incense sticks, Goodknight PowerChip and Liquid Vapouriser with 50% more power. There will also be a naturals range, as Nisa was saying. There are some more products that are planned. So I think in this category also, products do

take some time for consumers to start gaining some traction in. But I think our level of confidence still is very high to be able to get back to double-digit growth.

Percy Panthaki: Since you mentioned PowerChip, it has been a few months now. Any kind of feedback you can share with us as to how it is doing, whether on a monthly run rate, is it close to breaching the Rs.100 crore kind of mark? Or how do you judge whether it is meeting up to your expectations or not?

Vivek Gambhir: It is tracking well. I would not want to give any specific numbers at this stage. But we are seeing now a decent amount of repeat consumers buying PowerChip. So the intent was to try and upgrade coil consumers because you can imagine, any kind of an upgrade like this will take some time. But now that we have been in the market for a few months, the data that we are getting on repeats is looking quite encouraging. Typically the first 6 months, for some of these launches go a little bit slow. But I think now that we are getting this data, we are very confident in terms of being able to see the next wave of growth there.

Percy Panthaki: How do you prevent downtrading from liquids into PowerChip?

Vivek Gambhir: At the end of the day, if it happens, we will have to just evaluate that.

Nisaba Godrej: The way liquid vapouriser is used, the consumer scores are little bit different and we will have to boost them more. Towards these we also released the higher-efficacy liquid vapouriser and you will see more premium innovations most from us next year in the electric format. I think one of the vectors we saw in terms of growth is that driving penetration of electric and upgrades of coils are very important and you know price does become a factor there, so that is why this sort of a format. So the way we have positioned it, the way we are advertising, the way we are doing distribution is to drive coil upgrades.

Sameer Shah: Just to be very cautious, Percy, we have not launched this in south and south happens to be one of our biggest Household Insecticides and liquid vapouriser market.

Vivek Gambhir: We have been a little cautious in the first few months, because it is a new format, I think we have just been spending more time to drive awareness. And one anecdotal feedback we got from some users was that they were actually peeling off the PowerChip. And so I think we are now reworking the communication a little bit. So some of the advantage of actually going a little bit slow the first couple of quarters is that some of these issues can actually be fine-tuned. And I think now that we have this data, we have been pleased with repeats. Now that we have gotten this feedback, the next scale-up will be at a much more aggressive level now.

Percy Panthaki: Right, Sir. My second question is on dry hair care in South Africa. Last time, you had said that there is an increased competitive intensity in South Africa. So just wanted to understand where we are on that particular issue. Is the player who had this higher competitive intensity, is he still continuing with the same intensity or has he ratcheted down? And if so, do you think it is sort of temporary issue? Or how do you look at it going ahead?

Vivek Gambhir: So, Percy, there were a bunch of small local players, Chinese players who were in the market. It was not one particular player, which is quite good in some ways. So what we have had to do is basically create and segment the market with a range of more lower-priced products as well. And just given our strengths in distribution and our relationships with wholesalers and retail, our belief is that because as soon as we create these products with these kind of price points, we will be able to garner more shelf space and be able to then hopefully overtime displace these lower-priced competitors because ultimately our quality and our proposition will be stronger. And along with that, I think the next part of the strategy will be, as I was mentioning, is a much more integrated relaunch of the Darling brand. The Darling relaunch will come with actually new products and new innovation that will be launched at the more premium end of the market as well. So strategically, I think we will with these lower-priced braids try and protect the low end but also over the next few months have a higher-priced range of products so that both will enable us to also get the profits of the business back on the right track.

Percy Panthaki: Those lower-priced products, are they under a separate brand or something?

Vivek Gambhir: While they are all under the Darling brand, the sub-brand is quite different, yes.

Moderator: Thank you. Next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Thanks for the opportunity. Sir, my first next question is again on the Household Insecticide business and wanted to understand basically, the new launch which you did in the liquids segment, Power Activ+ liquid, which you launched. How has been the acceptance amongst the consumer for that product? And is it fair to understand that liquid portfolio is also struggling in the last few quarters? And if this clicks, then this will be a major growth driver?

Vivek Gambhir: I think while the data is still very early to make a call, all I can say is, at least, if I look at our market share, our December share was the highest over the last 6 months in liquid vapourisers. Again, it is anecdotal and very early to make a call but at least we are seeing improved traction as a result of 50% more power, higher efficacious liquid vapouriser machine. And as Nisa was mentioning, I think one is obviously making the current liquid vapouriser machine more efficacious, but over the next 12 months or so, there will certainly

be more plans to create more premium, more efficacious machines as well. And so while we are also focusing much more on more affordable products like incense sticks and PowerChip, at the same time, there are opportunities to drive a more premium, a more naturals range as well. So I think that way, we will be able to straddle almost every format, every single consumer occasion and every price point to be able to offer a very compelling portfolio for the consumer.

Amit Sinha: Sure, Sir. And is it fair to assume that this liquid completely replaces the earlier version?

Vivek Gambhir: Yes.

Amit Sinha: Secondly, on the rest of the India business and basically on the soaps and the hair color, I mean you clearly mentioned that the right way to look is 2-years CAGR. So just basically, for confirmation, I am repeating the question again. So the underlying strength of the business is 2-years CAGR and that is how we should look at it, right?

Vivek Gambhir: Yes. Just because the base quarter had so much of noise in it. With the GST changes, it is a much better way the 2-years CAGR. It is a more representative view in terms of how the business progressed going forward.

Sameer Shah: And just to add to that, Amit, if you look at the trend over the last 2 or 3 quarters, I think on an average on a 2-year CAGR basis, India business has recorded 10%, 11% of sales growth. So I think in isolation, a particular quarter will stand out either in terms of lower growth or higher growth. But if we just look at the trend over the last 3 quarters, at least, the growth has been very consistent in the range of 10% to 11%.

Vivek Gambhir: Amit, ultimately the revenue growth is an outcome. What gives us enough confidence about the future prospects and which is why we say look at a 2-year CAGR, is we look at some of the underlying metrics like market share, numeric distribution, weighted distribution, share of handlers, consideration scores for the brand, awareness scores, all of those actually are trending very positively. I think because of the base effect, the numbers we should not read too much into just the Q3 reported numbers.

Amit Sinha: Sure. Sure. Lastly, if I may squeeze in one. The gross margin for both India business and the international business has come off this quarter. Is it fair to assume that because of the input costs also now softening, the normal levels of first quarter gross margin can come back?

Sameer Shah: Yes. I think sequentially, the margins will be much more healthier as compared to 3Q. That is because of the peak crude and rupee depreciation which adversely impacted gross margins across the board for us. So yes, Q4 will see a much better gross margin profile

compared to Q3 but there will be some moving parts like mix and a few others. But directionally, it will be a much better gross margin quarter.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Thanks for the opportunity. First on soaps, you talked about market share gains. Over what period are you talking about? Considering your growth has been slow at 2%, has the industry grown lower than that?

Sameer Shah: I think in terms of market share gains, we have been seeing it consistently now over the last 18 to 24 months, which means that we are going significantly ahead of overall category growth rate, not just for one quarter or one year but I think over the last 18 to 24 months now.

Kunal Vora: No, but the 2% year-on-year growth, would market share be still higher compared to last year or it would go down there?

Sameer Shah: See, market share normally will have a lag of around 2 to 3 months on an average, But the trends do not change just with one quarter under or over performance. Even if you look at MAT December, we are gaining shares. Even if you look at just 3Q of FY2019, we are gaining share as compared to the base quarter as well as sequentially month over month.

Kunal Vora: Sure. Second one, is it fair to assume that last one year like in certain categories, like soaps and hair color, there was some benefit because of GST rate cut? And these going forward will be slightly more difficult to grow on?

Sameer Shah: Yes. I think we have seen GST-led kind of price drop growth coming in. But for soaps, I would say, it is here I think since last 7 to 8 quarters now. So it has not just a GST phenomenon. There is a lot, which is happening in terms of micro-marketing initiatives, picking up one state at a time, spending time and scaling up the business and then moving to another state. So that strategy is working very well for us. Even in hair colors, we have seen crème continuing to fire on all cylinders, and we are arresting the relatively slower growth in powder through launch of Herbal Based Powder Hair Colors and there could be something more also coming, I mean, over a few months in terms of new product launch in this space. So I think it is a mixed bag of both. Yes, there is some benefit coming behind driving growth by passing on all the GST-related benefits but also a few coming in from internal growth strategies.

- Kunal Vora:** Sure. And last one, last quarter you had mentioned that demand environment is not as good as 3 or 4 months back. What are you seeing now? Have you seen some improvement? Or things have deteriorated further? Any comments on that?
- Vivek Gambhir:** No. I think gradually, we are seeing continued gradual recovery in consumer demand and a stronger pickup in rural versus urban. So our outlook, as far as demand is concerned, remains quite consistent with what we saw 3 months ago.
- Kunal Vora:** The reason why I am saying is that last quarter you had mentioned that it deteriorated compared to 3, 4 months back. So that is why I was asking that. Are things stable now?
- Vivek Gambhir:** Yes, demand is stable. I think there is no significant concern on the demand situation.
- Moderator:** Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** Good evening. Thank you for the opportunity. I have 3 quick questions. One is on the soap business in India. Could you help me understand what is our distribution reach ? And how much headroom do we have to grow our soap distribution vis-à-vis the universe?
- Sameer Shah:** Binoy, this is Sameer. I think a great question but unfortunately, for competitive reasons, we will shy away from sharing any data points in terms of our distribution reach. But as we have shared in the past, we are very strong say with brand like Godrej No. 1 in five or six states. The opportunity for us is to get into some of the other states, where we have a presence but not in a very meaningful way and where historically we have not invested very strongly in these states. And that's what we are doing. Again, it is something, which is taking time, at least 6 to 8 months in terms of spending time on ground, making a 360 degree effort and then scaling up. So there is still huge opportunity for Godrej No. 1 to penetrate into more states in a much more meaningful way from where we are even as of today.
- Vivek Gambhir:** I think another way to look at this is our market share is in the low double digits, right? So just think about the headroom for growth that is available from a distribution perspective.
- Binoy Jariwala:** Second question is on the Household Insecticide business. What proportion of our Household Insecticide portfolio would be coming from the non-mosquito part of the business? And how do we plan to scale this business scale this particular part of the business?

- Sameer Shah:** I think, our non-mosquito portfolio is close to around low double digits. So that is where we are. And if you look at what it was, say, 3 years back, this would have been mid to high single digits.
- Vivek Gambhir:** I think it is a great question. One is obviously to try and come up with very innovative products. And I think we have some very exciting products that we have launched and they are a few in the pipeline. The second is a lot of effort is required in terms of consumer education and awareness building because lot of times consumers are not fully aware of the harmful damages, say, what a roach can cause with regards to diseases. And so this does require a sustained effort in terms of brand awareness and brand building, which I think the journey has started. Clearly, there is a lot more work to be done but the headroom for growth is quite significant in terms of looking at best beyond mosquitoes. Having said that though, we still believe there is tremendous headroom for growth within the mosquito prevention business as well to develop the category, drive penetration rates and come up with products that consumers can use both in home and out of home. So I think collectively, both the mosquito protection business along with other pests should be able to give us significant opportunities for future growth.
- Binoy Jariwala:** Any targets for where the non-mosquito part of the portfolio we want to take? And secondly, we had launched fabric roll-on a few quarters ago. If you could share some brief on how is it performing in the market, etc?
- Vivek Gambhir:** Without getting into the specifics, I think the consumer feedback on fabric roll-on has been very positive. The initial product was launched at Rs. 75. We have also launched a low unit pack recently last quarter for about Rs. 20, which is again a penetration pack. But because it is a new consumer habit in some ways, it will take some time to be able to develop the out-of-home market per se. But I think generally, we are quite pleased with the initial progress that this launch along with patches and the gel, it is a full portfolio that we are seeing.
- Binoy Jariwala:** Okay. Last question is on the Hair Care business. If you could share your thoughts on how is Godrej Professional and B:Blunt doing in the market? And in terms of their distribution reach, have we covered our targeted outlets?
- Vivek Gambhir:** B:Blunt it is a more premium category, focused much more on e-commerce with premium general trade outlets. And this is a brand where we have also been investing selectively rather than a large-scale kind of an investment approach, more just to learn how to get the proposition right. Similarly, Godrej Professional, it has been launched in a few cities. In the cities that it has been launched, we are seeing good traction, good repeats. But again, it is a new channel. And so I think it will take time but we are very committed to both the

premium hair care range and the salon channel for Godrej Professional. But I think in the near term, this will not meaningfully impact the revenues but over the longer term, we do believe these are important growth vectors to invest in.

Binoy Jariwala: If one last question I can squeeze in. The other part of the India business is growing very well and is quite large now. Anything to call out in terms of Aer or Ezee? Anything you'd like to share?

Vivek Gambhir: No. I think generally, we have been quite pleased with the growth rate that we have seen, particularly in Aer. Ezee also continues to do quite well. And some of the toiletries that are part of others also are doing well.

Binoy Jariwala: Thank you so much.

Moderator: Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: My first question was on Indonesia. Would it be possible to share some color on the sales performance of the portfolio ex Home Insecticides?

Sameer Shah: Latika, I think, if you look at our overall growth, it is close to around 7% and I think Vivek did mention in the call earlier that we expect a very strong close to the year. So I think, to begin with, it is a sort of phasing between 3Q and 4Q, which happens at times depending upon the purchases made by modern trade channel partners. I think ex-Home Insecticides, also the growth is relatively strong, though we will not be able to share the exact growth rate but it is quite strong. But yes, I think in this quarter, the growth rate has been led by Household Insecticides portfolio but the non-Home Insecticides portfolio is also as, kind of, planned in terms of growth rates, market shares, launches and even distribution initiatives.

Latika Chopra: Okay. So you are looking at double-digit growth for FY2019, this is coming off a low base as well. How confident are you that this kind of a double-digit trend could continue in Indonesia? Looking at the consumption landscape there, looking at the competitive landscape there, any thoughts that you would share?

Vivek Gambhir: No. I think the confidence level is very high, Latika, basically on the back of innovations that we have launched this year. And as I mentioned, we have four innovations more that are planned for next quarter with an equally strong agenda of the coming year. And along with that, I think we are beginning to start seeing very positive results from Project Rise, which was a general trade expansion initiative. And so our belief is that while obviously, the macroeconomic situation can have some impact, given what we can control is

distribution and innovation in marketing. The building blocks on these seem to be quite strong for us to deliver double-digit growth next year and FY 2020 as well.

Latika Chopra: Just on Africa, this year we have largely seen 4% to 5% levels of constant currency growth, part of this is on account of external challenges. But as you plan for 2019, what kind of realistic growth expectations you envisage for this region considering the relaunch for Darling and scale up of the Wet Hair Care product portfolio? And also on margins, do you think 13%, 14% levels for Africa-U.S., piece is more sustainable range? Or do you think there is an upside risk with these numbers?

Sameer Shah: I think directionally, we are planning for much better sales growth as compared to FY2019 which will be driven by multiple drivers though honestly, FY2019, may not be the levels of sales growth to baseline with. I think even optically while, FY2020's growth on FY2019 will be much better to some extent because of a soft base, other initiatives, like Darling brand relaunch, scale up of Wet Hair Care and Household Insecticide launch in some selective markets during the course of next year, would go in terms of driving relatively stronger growth. I think the other piece, which we have talked about in the past also, is driving profitable growth in the Africa-U.S. cluster. And again, this year the margins, at least in first half, have been extremely weak. We did see some recovery in Q3. As we had mentioned in the last call and perhaps again in this call, we will continue to see a profitable growth in the Africa-U.S. cluster in coming quarters as well as in FY2020.

Latika Chopra: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Good evening everyone. A few questions; first on the Indonesia margins, which is down both quarter on quarter and year on year? How much will be the quantum of upfront marketing and trade promotion in that 160 basis points decline? And till when do you think it continues?

Sameer Shah: I think in terms of deciphering the margins, my sense is close to around two-thirds of this drop will be driven by optimum marketing and trade marketing investments and it is because of the new product launches, which we have had over the last three to four months. As I mentioned earlier, I think we expect a very strong Q4 and a strong Q4 will just not be on sales growth but also a profitable sales growth. So we will see most likely margin expansion again in Q4.

Vivek Maheshwari: Okay. Sure. Second, when I look at your constant currency comparable growth in terms of revenues versus a comparable, there is a positive impact of around 1%, so 9% comparable,

10% constant currency comparable. When I look at on EBITDA, the impact is negative. So your EBITDA comparable is negative 9% whereas constant currency is negative 16%. Can you explain what is the reason for this opposite movement in sales versus EBITDA?

Sameer Shah: Vivek, it is largely to do with the weightages of sales and EBITDA, which are very different coming in from each cluster. So directionally in Indonesia and in Africa-US cluster, we have a positive foreign exchange translation benefit, but in Latin America, we have a negative kind of impact. And the direction is different actually for sales and EBITDA, purely driven by the weightages of sales of each of this cluster to the overall international or consolidated businesses.

Vivek Maheshwari: Another one is more from an industry perspective, this incense stick phenomena which you mentioned and, let us say, it is illegally produced and distributed. A few years back when GST was implemented, one of the things, the unorganized to organized story and we have seen certain segments seeing that conversion from unorganized to organized. In this case, is it just sheerly because of the nature of raw material and which is why there is a shift towards incense stick? What is the reason for that? Why is it different, let us say, from paint or a detergent from that perspective?

Vivek Gambhir: No. I think, first of all, these are very efficacious products. They are illegal with potentially unsafe chemicals. But from a consumer need perspective, the products are working quite well. And second of all, this was a format that is quite familiar to Indian consumers. And third of all, it is an attractive price point, Vivek. So if you look at the dynamics in some ways, just given the consumer need and the price point and the efficacy, that is what really led to consumer acceptance, which in turn then led to a lot more manufacturers finding ways to illegally manufacture these products.

Vivek Maheshwari: Last, a very small question, there is a sequential and a year on year increase in debt between Rs. 150 crore to Rs. 200 crore. I would imagine you would have generated free cash. So what is the reason for debt to go up year on year and quarter on quarter? I am talking about net debt.

V Srinivasan Net debt, there is actually a reduction. There is of course in terms of dollar debt which has gone down by about \$50 million but due to rupee depreciation, the translated amount did not equal to the reduction that was there in the base year's dollar amount.

Vivek Maheshwari: Okay. So you are saying it is initially because of rupee depreciation?

V Srinivasan: Yes, translation.

Vivek Maheshwari: Got it. Okay. Thank you and wish you all the best.

- Moderator:** Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** Good evening. So my question was on the international margins. If I heard you correctly, you said Indonesia margins are expected to improve from 3Q levels but this would be in spite of the fact that you are going to have these hosts of new product launches which are going to come through, you still expect a pickup in margins from these levels?
- Sameer Shah:** I think the point earlier, which I had made was that on a year on year basis, it is quite likely that in Q4 we will see margin expansion in Indonesia. Honestly, I think sequentially, it is not the right way of comparing margins because of category mix and weightages, which each of the categories would have in overall business performance.
- Harit Kapoor:** So because even on a year on year basis, Q4 margins are quite high?
- Sameer Shah:** Yes. At this point in time, I mean, going in understanding is that we should see margin expansion.
- Vivek Gambhir:** Harit, the reason being some of the work that has happened on media optimization wherein the team has done a very good job to be able to optimize the existing media investments. And second, typically Q4 is when some of the cost reduction efforts start showing results. Therefore while there might be higher investments as far as advertisement and promotion is concerned, because of the of cost reduction efforts that the team believes will show results, the level of confidence is quite high to be able to deliver.
- Sameer Shah:** And we also expect scale leverage in Q4 compared to Q3, which should also improve margins.
- Harit Kapoor:** Second thing was on the Africa piece. Now if you could just give a sense about this movement in margin from 9% to 14%? You had said already in the Q2 call that there will be an improvement. Would this largely have been because the price increases, which came with a lag, have kind of flown through into the numbers? And that is why you are more confident that margins will sustain or even improve from these levels?
- Sameer Shah:** I think as we had mentioned, I mean, last time around we said that we expect profitable growth in Africa-US cluster. We did share that. Some of the upfront marketing investments, trade-marketing investments are now in the base. So what we will see is perhaps incremental ones, the investments in talent is also more or less now in the base. So again, we are not going to see those block of spends coming in behind all those one-time investments. And these are the prime reasons which are driving margins. I think, sequentially, may not be the best way of looking at margin because as a bit of category mix

impact. But the point is, we should see kind of stable, consistent margins in Africa-US cluster even going ahead.

Vivek Gambhir: Harit, the other very important point is the impact of portfolio mix because, at least, if as Wet Hair scales up, the margins in Wet Hair, the gross margins tend to be higher while it requires more advertisement and promotion investment. But as the portfolio gets a little bit more balanced, one is, we are less susceptible to one category seeing a sudden decline. So it allows us to actually be a little bit more consistent in our growth, which we have not been the last few quarters. And then second of all, hopefully, incrementally at least, it should allow us to deliver slightly better margins.

Harit Kapoor: Last thing was on the Latin America piece. By when do we expect the full impact of the devaluation to come through? And would it be another couple of quarters where we start to see a slightly better improved performance on a reported basis?

Sameer Shah: It looks like so, Harit. I mean, we have seen the performance, which has been actually a little soft even locally, getting completely wiped out because of very sharp currency depreciation and in fact we have to adopt this hyperinflation accounting, which in itself is kind of clocking out to a few basis points of margins even at international business levels. I think this continues at least for a couple of quarters. I do not see a very dramatic shift in the overall business performance. Internally, we are planning for a much better Q4 as compared to Q3. But then again, the impact of the sharp currency depreciation, how much it will sort of erase off those better performance, only coming times will tell. But yes, I think, maybe a couple of more quarters and hopefully, then it gets into the base.

Harit Kapoor: Got it. That is it from me. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Srivastava from Bay Capital. Please go ahead.

Ravi Srivastava: Just two questions. One on innovation side, so do you track or do you give numbers as to how much of the revenue is contributed by new products introduced in the last two to three years? And second question was on Project Pi. Can you just elaborate how the margins have expanded? And what are you doing on the cost-saving initiatives? What can we expect going forward?

Sameer Shah: Ravi, this is Sameer here. I think we share normally our innovation rate once a year when we have the annual analysts/investors meet and hence we would shy away from sharing at least mid-quarter or mid-year as to how those rates are evolving. But directionally, they are heading northwards is what I can share with you for clusters like India as well as for Indonesia. In terms of Project Pi, we have shared this that this is the fifth year of Project Pi

in India. On an average, it has added close to 200 basis points in terms of saving, which primarily used to come in from materials cost basket. But this year, we have also worked upon optimization of media spends, which is also now meaningfully getting added to the overall pool, part of which is getting reinvested back for growth and part of which is actually flowing to the overall operating margins expansion.

- Ravi Srivastava:** Got it. Thanks.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Crédit Suisse. Please go ahead.
- Arnab Mitra:** On the revenue growth in India, you have 6% revenue and 1% volume so this nearly 5% realization growth; could you help us understand what segments it is coming from? Because in general, I see companies are struggling to get pricing growth this year. So what is driving this growth? And is it something, which is likely to continue in the next few quarters?
- Sameer Shah:** Arnab, this is Sameer here. So I think it is very dynamic to be honest because we are seeing kind of price-offs, consumer offers as we shared also, say, for example, in hair colors in one of the earlier conversations, which we were having on the call. But my sense is this quantum of price-led growth, which we are seeing in Q3, will come down in, at least, Q4 and even maybe kind of going ahead. Now it is difficult because I mean every category will have its own dynamics and not just for the quarter but also for the base quarter, which did have GST-led price changes. I think one of the reasons why we are seeing a price-led growth in this quarter, Arnab, is because in the base quarter, because of GST, rate changes across many categories, like hair colors, toiletries, air freshener portfolio, we immediately took the price cuts to sort of pass on the benefits to end consumer. But yes, as I mentioned earlier, we will see this quantum of price-led growth coming down in coming quarters.
- Arnab Mitra:** That is it from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** Thank you for the follow up question opportunity. So a question on GAUM cluster. While we are building our Wet Hair distribution business, are we also continuing with the Household Insecticide registrations, which we had started earlier? Or has it been put on hold as of now?
- Vivek Gambhir:** No. I think the Household Insecticide registrations are well underway. The propositions are being tested. You will see a couple of pilot launches in some geographies over the next 12 months. So we will actually launch the products in a couple of our markets. The products in

some markets is already available, like Tanzania. So clearly, I think while the focus has been far more from an investment and focus point of view on scaling up the Wet Hair portfolio, we still remain quite committed to Household Insecticide as an opportunity. We are just sequencing it but in parallel, all the work on propositions and consumer testing and registrations is continuing.

- Binoy Jariwala:** And the Home Insecticide products will be manufactured locally, right?
- Vivek Gambhir:** We have not decided that yet. I think it will a little bit depend on what products we launch and what the manufacturing capability is. I do not think we have made that call yet.
- Binoy Jariwala:** Which means that we have not made any manufacturing investments for African Household Insecticide as of now?
- Vivek Gambhir:** We have not made any manufacturing investments. You are right.
- Binoy Jariwala:** The next question is on the Latam business. We did about a 40% constant currency growth. However, we reported EBITDA loss. Now my understanding was that these products are locally manufactured. There is no import component within these products. Could you guide my understanding whether it is right, wrong? And where is the differential? Was there a pricing lag, which led to an EBITDA loss?
- Sameer Shah:** I think, it is a mixed bag of both. There is definitely a little bit of gap between increase in input costs even locally driven by kind of currency depreciation and the price increases, which we have taken. Also, there is a scale deleverage, while it sounds 45% but the increase in fixed overheads is manpower costs, other G&A expenses is much, much higher than increase in sales growth. So that is resulting in the kind of performance, which we have seen on the operating profits over there.
- Binoy Jariwala:** Any guidance that you can share with regards to coming back on track with the 16%, 18% kind of EBITDA margins that we had early on?
- Sameer Shah:** As I shared, I think, again, with someone earlier on the call, internally it seems like Q4 should be locally much better than some of the previous quarters. But honestly, how much of it gets erased through this new sharp currency depreciation, we do not know at this point in time. It is quite choppy as you have seen it over last two, three quarters but the hope is that over the next couple of quarters, it sort of settles down.
- Binoy Jariwala:** Okay. That is helpful. And just to confirm, there was nothing of a foreign currency impact between the revenue growth and EBITDA loss? There was no foreign currency related impact, right, because of imports?

- Sameer Shah:** No.
- Binoy Jariwala:** Last one on deleveraging the balance sheet; if you could just share your plan with regards to deleveraging the balance sheet.
- V Srinivasan:** Binoy, as you can see, when we divested our UK business, the entire proceeds from the sale has been channeled towards prepayment of some of our overseas borrowings. So the efforts on deleveraging continues; we are focusing on reducing the net working capital, generating more cash in the international geographies and using the surplus cash generated for repayment of debt. So that continues.
- Sameer Shah:** I think balance sheet is in much healthy position. I mean, if you look at some of the metrics, like working capital days sequentially as well on a year-over-year basis, they have come down. The returns have improved both in terms of returns on equity and returns on capital employed and that is the trend which we would want the balance sheet to sort of progress on.
- Binoy Jariwala:** Right. Any yearly repayments that we need to do for debt that we have marked out?
- Sameer Shah:** We actually have our own repayment schedule but we also have flexibility of kind of preponing or postponing some of our quarterly payouts.
- Binoy Jariwala:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you, and over to you!
- Vivek Gambhir:** Thank you very much for your feedback and questions. As a team, we remain very charged up to build on some of the progress we made over this quarter and the previous quarters to deliver stronger topline and more profitable growth in the quarters ahead. Thanks a lot.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Kotak Securities Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.