Investor and Analyst Q4FY17 Conference Call

May 9, 2017

Operator:

Good day, ladies and gentlemen, and a very warm welcome to the Q4 FY2017 results call of Godrej Consumer Products Limited hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Purohit, Research Analyst of Emkay Global. Thank you and over to you Amit.

Amit Purohit:

Good evening everyone. On behalf of Emkay Global Financial Services, we would like to thank the management for giving us the opportunity to host the call. We have with us the senior management team of Godrej Consumer Products Limited led by Mr. Adi Godrej to discuss the results. I would like to now handover the phone to Mr. Godrej for his opening remarks. Over to you, Sir.

Adi Godrej:

Thank you Amit and good afternoon. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the fourth quarter of fiscal year 2017.

Joining me are Nisaba Godrej, Vivek Gambhir, Omar Momin, V. Srinivasan and Sameer Shah.

Before I share my thoughts on our performance, I would like to briefly comment on our leadership change and a couple of other corporate actions.

I am happy to share that our Board of Directors has appointed Nisaba Godrej as the Executive Chairperson of GCPL with immediate effect. I will continue to serve the Board as the Chairman Emeritus for the company.

It has been a privilege for me to serve as the Chairman of GCPL during a period when we have delivered strong results and have transformed the company. The foundations of GCPL are extremely strong. This is an opportune time to transition to a new Chairperson, who will lead the company in its next phase of growth. I feel very confident that Nisaba will be an outstanding Executive Chairperson. Over the last decade, I have worked closely with her. Nisaba, as you know, has been a key architect of GCPL's strategy and transformation in the last decade. She is an inspiring leader who will always uphold our values. I will continue to serve the GCPL Board and contribute in whatever way I can to GCPL's success and long term growth.

Separately, the board has declared an interim dividend of 1,200% i.e. INR 12.00 per share. This coupled with the earlier interim dividends aggregates to a 1,500% dividend i.e. INR 15.00 per share or total dividend payout (including dividend distribution tax) of INR 615 crore, resulting in a payout ratio of around 50% for FY17. The Board of Directors have also declared an issue of bonus shares in the ratio of one equity share for each equity share held, subject to requisite approvals.

I will now share my thoughts on our performance. I will then hand it over to Vivek to take you through the detailed results.

We have delivered another year of competitive and profitable growth. Despite some category and geography specific challenges, we have delivered good sales growth, which is a reflection of our clear strategic portfolio choices, backed by strong execution. Moreover, we also delivered robust operating profits across businesses, while investing in our brands and in our innovations.

As we look ahead, I feel confident of strong growth in the medium to long term. Post the remonetisation of currency, the demand has improved in India. We are now getting back to the recovery seen during the pre-demonetisation levels. We look forward to the GST implementation and are operationally ready for the same. While there could be some temporary volatility in the channel around the GST implementation date as the trade adjusts to the new tax structure, we are confident that end consumer demand will remain intact. As I have mentioned earlier, implementation of GST will be transformative for the Indian economy and will significantly boost consumption and GDP growth. It will also create a level playing field for the organized players by bringing the tax evaders under compliance.

In the international business, Indonesia continued to have soft growth but we are hopeful of a gradual recovery. In Africa, the roll out of our Strength of Nature brands is on track and we are laying the building blocks to fast track our growth in the coming years.

We remain excited about GCPL's future growth prospects and believe that we are well positioned to continue to outperform the industry.

I now ask Vivek to share his views on our results.

Vivek Gambhir:

Thank you very much, Mr. Godrej. Good afternoon, everyone. Good to be talking to all of you. What I will try to do is walk you through a few of our Q4 slides in our Performance Update after which we would be very happy to answer any questions with your feedback.

If we turn to the Performance Update on slide 3, which summarizes the financial performance for Q4, consolidated constant currency net sales grew by 15% year-on-year.

The India business sales grew by 10% year-on-year led by 5% volume growth. International business sales grew by 22% year-on-year on a constant currency basis.

For the fourth quarter, consolidated constant currency EBITDA increased by 22% and consolidated net profit and EPS, without exceptional items, increased by 22%.

If you now turn to slide 7, our India sales increased by 10%. Post remonetisation, we are seeing the good recovery in consumer demand, and as Mr. Godrej mentioned, we look forward to post GST stronger growth for the sector in the latter half of this year. Our adjusted EBITDA increased by 17% and our net profit increased by 21%.

I will spend a few minutes just walking you through our various categories. So in slide 9, if you turn to our insecticides business, the insecticides business had relatively soft quarter with sales growth of 4%. As all of you know, this is a seasonal category, and while January and February were strong months for us, the very hot weather in March, especially North India, actually impacted our business. The good news is that our market share increased across all the formats during the quarter and we maintained our leadership position across formats. Our recently launched Good knight personal repellents range is receiving an encouraging response from trade and consumers. Towards the end of the quarter, as part of our efforts to expand the insecticides category, we launched HIT Gel Stick, which is an affordable roach solution priced Rs.30 per piece.

In Hair Colours, on slide 10, we delivered strong double-digit volume-led sales growth of 13%. Our Godrej Expert Rich Crème continues to gain market share and reached its highest ever market share on an exit basis. And we continue to increase penetration and distribution reach of our Expert Rich Crème product.

On the Soaps side, which is on slide 11, we did see after a couple of very soft quarters, recovery in the Soaps business with a growth of 9%, led by mid-single-digit volume growth and withdrawal of consumer offers. Cinthol, our premium soap brand, does continue to do very well and outperform the category. And we have also initiated some selective price increases in our portfolio, and as I mentioned, we have been scaling back some of our trade offers.

In terms of some of our other categories, Air Fresheners has done very well and we believe that we now rank #1 in the overall market air care market. We are continuing to gain share aided by innovation and strong execution.

Our Cinthol deo stick, which was launched for men and women, has been well received by consumers and we are supporting this launch with very innovative consumer engagement, digital initiatives and impactful communication.

If you take now a look at our International business performance on slide 15, International business delivered a 16% reported growth in sales and a 25% growth in adjusted EBITDA. If we take a look at various countries starting with Indonesia, which is on slide 18, our

Indonesia business delivered a flat constant currency growth rate. However, the EBITDA margin story continued to be strong. And if you separate insecticides from the non-insecticides business, our non-insecticides business grew by 9% in spite of a tough macroeconomic situation.

The Household Insecticides market continues to be challenging because of very heavy rainfall. In spite of that, if you look at our market share, even in insecticides, we have been maintaining to slightly increasing the market share. The fundamentals of the business still remain very strong and we are looking forward to a stronger growth this quarter assuming that the insecticides season actually ends up improving.

On Africa, slide 19, the good news is that we have been sustaining a very consistent double-digit growth momentum over multiple quarters now, and the business has been scaling up and consolidating quite nicely. Our organic constant currency growth was 16%, though of course, if you add the Strength of Nature, the growth was much stronger. And our adjusted EBITDA margin increased a little bit year-on-year driven by some price increases and some mix shift changes.

As Mr. Godrej mentioned, the plans to localise manufacturing of Strength of Nature brand in Africa remains on track. And later this year, we have a phased plan to localise manufacturing and relaunch this product in Africa. Along with that, I think the big other step that we will take is the relaunch of the Darling brand. A lot of work is going on in terms of new brand architecture and a relaunch for Darling, which will happen over the next year or so.

On the Latin America side, good constant currency growth of 19%. We saw a significant improvement in EBITDA margin led by some gross margin expansion and some cost savings initiatives. A lot of the work that we have been doing in Chile and Argentina to improve profit margin is working well, and this year, we will focus on the relaunch of the Issue brand and continue to focus on innovation.

Our European business, which is on slide 21, delivered a mixed performance and constant currency sales declined by 5%. But a lot of our focus in that business has been in growing profitability, and our adjusted EBITDA margin increased by 590 basis point on the back of judicious marketing investment and a onetime reversal of some A&P provision.

The remainder part of the slides actually just provide you with a snapshot of our performance for the fourth quarter, along with the performance of the overall year on slide 23.

In terms of Brand Equity on slide 24, we continue to invest competitively in brand building and as you will notice from our results that we maintained and slightly increased our advertising spends as well. So we do intend to keep on investing competitively behind our brands and our marketing campaigns.

On slide 25, we have consistently been recognized as a great place to work, and about a week ago, we were recognized as amongst the top 25 best workplaces in Asia and we were ranked #12.

I will just stop there, and we will be happy to answer any other questions that you may have. Thank you.

Continue: - Q&A…

Questions and Answers:

Operator:

We will take the first question from the line of Abneesh Roy from Edelweiss.

Abneesh Roy:

After six-seven quarters, we have seen pretty strong growth in Soaps. How has Godrej No. 1 done? Any impact on Godrej No. 1 from either Patanjali or any other regional players in the past year?

Vivek Gambhir:

In aggregate, soap volumes growth was about 5% for the quarter. Clearly, Cinthol did very well. Godrej No. 1 is recovering. I think as we were talking in the last couple of quarters, there was a lot of excess stock in consumer homes. And as the stock has gotten replenished, we are seeing consumers return back to the market to buy soaps. On Patanjali, I think it is still early days. We have seen some impact in terms of a couple of states in the North, but frankly the Nielsen data does not actually show the kind of pickup that Patanjali is claiming. And so while we have seen some impact, right now I think the impact is not material enough to affect our overall business. I still think that from our perspective, there is plenty of opportunity to increase distribution, and to invest in marketing and continue to launch new variants. We do believe that Godrej No. 1 still remains to be the highest quality grade 1 soap in the market with the highest TFM levels and so we will continue to focus on quality and to try and build our consumer franchise.

Abneesh Roy:

Patanjali is expanding four to five new factories this year and South India distribution expansion. So what impact do you expect in South India because you are also going to be more focused on herbal?

Vivek Gambhir:

The Godrej No. 1 proposition has always been soaps with very strong natural ingredients and the highest quality. So I think rather than us trying to worry about what competition will do, I think our work is cut out to actually keep on launching good variants, do good marketing and build our equity position. I think what they do is going to be a choice that they make. The other thing to remember is in the entire FMCG industry, the organised sector by itself is about Rs. 450,000 crore. And anybody's guess can be as to what the unorganized sector is. But if you assume that the unorganized sector is 50% of FMCG that is worth another Rs. 450,000 crore of a market. So we are talking about Rs. 900,000 crore market in India for FMCG today. And given the growth potential of India over the next few years, there is a tremendous opportunity for growth for all the players who launch good innovation, can actually scale up distribution and do good marketing. And so our focus will be to play to our strength and continue doing the right thing for our consumers, but we do believe that there is plenty of opportunity for multiple players to grow and succeed and thrive in this market.

Abneesh Roy:

On the Hair Colour business, after 6 quarters double-digit growth has come back and good part of it is that it is volume led. So what is working here and is this sustainable?

Vivek Gambhir:

So the bulk of the growth has actually been driven by Expert Crème and it is really been on the back of good marketing, good execution and continued gains in household penetration and distribution. I think even BBLUNT, but its early days, is showing some very strong promise. And certainly, we have more plans for new launches and new innovation for BBLUNT as well and a couple of other hair care launches this year. So we do believe that this growth is sustainable, again on the back of continued improvement in distribution along with some exciting new launches that we have planned this year going forward.

Abneesh Roy:

Okay, lastly, Household Insecticides business, if I see 4 quarters of FY2017 it is been volatile, 3 quarters either negative or 4% kind of number. One quarter, we have seen good number. So does personal repellents and HIT gel stick help you get a much better growth in FY2018? Or these are too small currently and hence it will be completely dependent upon the seasonal factors?

Vivek Gambhir:

Every single thing will add a little bit to growth. But I do not expect a huge amount of new growth coming from HIT gel stick and personal repellents this year. But each of these opportunities will add incremental growth. The bulk of growth will be continue to be driven by increased household penetration, distribution and hopefully the season works in our favor. As we indicated, we should see better growth prospects this year. Last year, as you know, a couple of quarters did not work in our favor as far as the season was concerned. And one quarter did not work well because of demonetisation. Hopefully, this was an exception of a year. The remaining years, we believe are a better reflection of the potential of this category. Rural penetration still has tremendous headroom for growth. Urban consumption has tremendous opportunity; out of home is an emerging market. Others pests is also a huge opportunity. So we have plenty of growth vectors. A part of some of these new launches is an effort to also de-seasonalise the category. And as long as I can think we are market leaders and are continuing to gain share, the trajectory of the business still looks very promising for the next 3 to 5 years.

Moderator:

The next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha:

Sir, my first question is on the Household Insecticides. Just wanted to understand the competitive intensity in the segment, especially after the recent launch of DND. Has the competitive intensity in the sector changed?

Nisaba Godrej:

No, I don't think we see any sort of intensity changing. I think, with our product portfolio and different price points in our offerings, we are quite confident of our business. And to add on to one of the earlier questions in Household Insecticides, we have quite a slew of products that we will launch. So even in something like personal repellents, we are very excited because we are going to be offering different price points that are more affordable. So I do not think we are seeing any increase in competitive intensity.

Vivek Gambhir:

I think our focus is in actually expanding the category given our leadership position. I think for us the big focus is on expanding the category, creating new vectors of growth and continuing to deepen our distribution because if you look at distribution also – I think our distribution is significant multiples ahead of any other player. So I think we will play to our strengths. And as Nisaba mentioned, innovation and distribution will continue to drive growth in this category for us.

Amit Sinha:

My second question is in the last quarter, you highlighted that the product mix was more in favor of liquid in Household Insecticides and in Hair Colors, it was in favor of crème mainly because these products are less wholesale dependent. How has the mix behaved this quarter? Has the trend continued?

Sameer Shah:

I think the mix is more or less continued in what we are driving internally which is premiumisation. So even with around Household Insecticides, we are working extremely hard to fast track growth of high-margin categories like aerosols as well as liquids and that is also exactly what we are doing in Hair Colors wherein we expect higher profit per application by fast tracking growth of Expert Crème. So the trend of quarter 3 continues in quarter 4 also.

Moderator:

You will take the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon:

Couple of questions, firstly, what exactly would be your strategy for the next few years? Would it be skewed towards new product launches or would it revolve around investing and ramping up what you have doing in recent times, specifically in India and Indonesia? The reason I am asking is because this may have some implications for your ad spends and thought process of profit growth in line or ahead of revenue growth?

Vivek Gambhir:

The idea is to keep on trying to increase household penetration and drive market share in all core categories. A lot of innovations are going to be focused on existing brand platforms. And so we are not intending to launch any new brand, which is where a disproportionate amount of ad spend gets consumed. But the idea would be to keep on trying to extend the consumer franchise, play across that platform because it allows us to leverage our ad spends quite effectively. Along with that, there is a fair amount of work going on in terms of optimising our marketing and sales promotion spends. So we are putting in place one of the first trade spends optimisation systems in India. A lot of work is being done on marketing mix modeling, which is not intended to reduce ad spends, but to try and see if they can end up doing more for the same amount of money. And so right now, our belief is that we can continue to sustain the kind of innovations that we want to put in the market with a competitive level of advertising spend. Though we will take some calls in terms of P&L management to calibrate some launches, but the idea would be to invest competitively in brand-building with focus on volume share. And we do believe that there are opportunities within P&L whether its overhead management, better gross contribution management, raw materials sourcing, etc to be able to sustain margins and we ideally try and drive profit growth ahead of sales growth.

Nisaba Godrej:

One thing that we have also focused on is very strong gross contribution and margin expansion on NPDs, which is growing much faster than the average portfolio. We do have the capabilities in some brand extensions to be net contribution positive from year one itself even though we spend a significant amount on advertising.

Vivek Gambhir:

Also gross margin improvement this quarter were on account of better portfolio mix, higher gross margin of innovative products and better-cost management. The intent will be to continue to try to drive the P&L better.

Manoj Menon:

Hypothetically would an acquisition like BBLUNT be possible in the near term?

Nisaba Godrej:

We didn't acquire BBLUNT. BBLUNT is associated in two parts. We developed a range of products in collaboration with them where we pay a very small royalty to BBLUNT. As part of that, a few years into that partnership, we bought a very small investment of about a 30% stake in the salon. And it helped us get some amount of control over salon brands, but we have not acquired BBLUNT.

Manoj Menon:

Ok moving on to management's and the board's view on dividend payouts, how should we think about it for the next 2, 3 years? Is it the same template that the company would be opportunistic if there is a target available? Or would it be fair to say that the next 3 years would be a slightly higher payout and maybe slightly better ROCE than chasing inorganic growth?

V Srinivasan:

If you see our peers, basically our payout ratio has been fairly low. Essentially, in the initial phase of acquisition, we wanted to conserve cash. Our strategy continues to look for acquisitions that are value accretive. But we also want to reward the shareholders on the basis of a reasonably good payout ratio. That is what has happened with time. And we continue to maintain that view. The board will decide a balanced payout and capital allocation based on the situation that emerges from time to time.

Vivek Gambhir:

A big focus for us has been to improve our free cash flow generation. And so at this stage, I think the management team believes that it will be possible for us to continue sustaining this kind of payout ratio, continue to repay down debt given our existing debt repayment schedule over the next two to three years along with having a kitty for a medium-sized acquisition. We do not expect any big ticket acquisitions, because over the next few years, the focus will be to continue improving ROCE. But certainly as you look at various scenarios, the ability to actually do a medium-sized acquisition, even with these higher payout ratios and the current debt repayment schedule, given the cash flow generation projection seems to be very solid case.

Moderator:

The next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

What would be our current indirect tax rate?

Sameer Shah:

If you look at our total indirect tax rate at gross level, it turns out to be close to around 23-24%. But because we enjoy excise exemptions having presence in Himachal Pradesh as well as Northeast, the effective indirect tax rate for us will be around 16%-17%.

Percy Panthaki:

So if the rate comes to around 23% then it would be tax neutral for us? We won't benefit much in case the rate goes below that level?

Sameer Shah:

There are few moving parts and we are awaiting clarity in terms of the quantum of excise exemption which will originate in GST. While there is enough clarity on units in Himachal as well as Northeast and Jammu continuing to enjoy excise exemptions in the GST but what will be the quantum is open in terms of more clarifications awaited. I think the simpler way of looking at this stage is our gross rate is close to around 22 - 23%. And hence, one can make an assumption in terms of the benefit or hit depending upon of the known GST slab rate as of now of 18 or 28%.

Percy Panthaki:

Assuming the GST turn out to be 18%, there won't any margin accretion for us, because we anyway are at 16% as of now. Would that understanding be correct?

Sameer Shah:

No. You have to compare gross rate. When we say GST rate comes to 18% that will be comparable to the current gross rate of 22-23%. As I said earlier, even in GST regime there is 100% clarity on units continuing to enjoy excise exemption so that 18 %will be gross GST rate. The effective GST rate will be much lower than 18%.

Percy Panthaki:

How much out of that gain will actually flow down to EBITDA? Because a lot of this might be passed on to consumers or be reinvested in ad spends, etc?

Vivek Gambhir:

Our intent will be to try and pass on as much as we can to consumers or to try and drive demand creation. The intent of GST lower tax rate is to be able to drive demand. If consumption goes up, the operating leverage will lead to profit improvement. But from our perspective, the focus of any reduced tax rates ought to benefit the consumers. But higher sales will lead to profit improvement over time. We are quite clear that it is not intended to improve EBITDA. It will just happen naturally as a second-order effect.

Percy Panthaki:

Given the FY17 EBITDA is almost close to all-time high and if you do not have any GST benefit on your margins, why are you so confident that you will be able to hold or even expand margins from here on into FY18, especially when the input costs are going up?

Vivek Gambhir:

We will have to wait and see how FY18 evolves, which is why our efforts will be to sustain margin and then see if we can try to improve margin. The margins are quite high but we do believe that given the kind of cost improvement program that we are running, along with the kind of innovations that we are launching which leads to higher gross margins, along with better overheads and better marketing cost management, there is an opportunity. But we have to try and see how best we improve our EBITDA margin. Also, on aggregate basis, there are opportunities to improve Africa margin, there are opportunities to improve Latin America margins. And so from our perspective, while we might see some variations across geographies, at a consolidated level the effort will be to try and sustain margins. Ideally we will like to try and grow margins ahead of sales growth. But, we will have to wait and see what ends up happening.

Sameer Shah:

At this stage, we are a little bit more optimistic in terms of scale leverage. If you look at FY2017, if you further look at India and Indonesia sales growth, they have been mixed and a little bit soft. In this case, we expect baseline for FY2017, FY2018 to be a better year in terms of sales growth, and that will also give us lot of leverage when it comes to fixed overheads and expenses like that to have more or less margin maintenance on a full year basis.

Vivek Gambhir:

Again, it is not as if every quarter you can see an improvement in margins. A couple of quarters, we may increase our advertising spend, so you might see some margin erosion for a quarter or two, but on a full year basis, we still believe that we want to try and at least sustain, if not increase, our margins.

Percy Panthaki:

Your cash balance might increase by Rs. 700 – 800 crore over the next year which would be almost twice the current size. Just wanted to know in that case how would that impact your other income? Secondly, could you tell me if your consumption cost for your entire cost basket for Q4, how different is it from the average spot rate of those inputs for Q4?

Sameer Shah:

I will address the second question first, in terms of commodities at this stage, for palm oil, we have stock as well as future covers at rates much lower than the replacement rate; however, our in-house view is that going ahead we would see prices coming down. On crude, it is not something that we directly purchase. There are indirect materials dependent on crude. Normally you have a little longer lag to the price range which we have seen on crude over the last six months and will get reflected in terms of packing material prices over the next couple of quarters. Coming to your first question, we need to bake in some assumptions in terms of what FY18 margins/profits and hence what the cash flow will be. As we shared earlier, that its bit of fine balance between dividend payout, providing for M&A as well as maintaining very healthy balance sheet position in terms of net debt to equity ratio. So, there are just too many moving parts, but it will boil down to how you fine balance across all of this during the course of the year.

Moderator:

The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

On the Household Insecticides business in Indonesia, is the competitive issue completely behind and given the low base now, should we start seeing growth in FY18? The Indonesia margin, however, has continued to do very well despite no operating leverage on the topline and possibly commodity tailwind also going up. How do we look at both these things?

Sameer Shah:

We did see bout of high competitive intensity in Household Insecticides category in Indonesia, but that is behind us. The competitive intensity is coming down. Hence, we should start seeing gradual recovery in Household Insecticides in Indonesia. In terms of margins, last year many of our businesses were mid to relatively soft on sales growth. We do expect gradual recovery in many of our markets, India as well as Indonesia. So we would continue to see growth ahead of category, and we would also want to grow profitably by ensuring that we have adequate investments both on core as well as on new product launches. To add to this, in Indonesia, late last fiscal year, we cross-pollinated our Project PI, which is a profit improvement cost saving project very successfully run in India. We expect Project PI will be a meaningful contributor to fund NPDs as well as core investments. And keep us close to the historic high margin in Indonesia during the course of this fiscal.

Arnab Mitra:

Is it right to assume that if the topline recovers and you get the operating leverage, there is no costs which are exceptionally suppressed this year which needs to come back in a very big way next year when the top line recovers?

Sameer Shah:

Yes.

Arnab Mitra:

On the other set of brands within India, this portfolio is quite sizable at about Rs. 500 crore, and this year has grown almost 40 - 50%. Do you see that this was a year of lot of new launches, and can this growth rate be sustained? Between Hair Care, Deos, Handwash, which of these segments do you think has the potential to grow at such high rates?

Vivek Gambhir:

It is not been as if we have had a huge number of launches in this Others category. There has been early traction in aer, which has done very well over the last three years and it has seen about six or seven months since deo sticks were launched. There is a lot of potential in driving deo sticks. It requires some investment along with a very nice scale-up that we are seeing in it. For Handwash, early days but the potential is there. So these should be quite sizable over the next three to five years.

Arnab Mitra:

In your working capital, there has been a very good reduction this year, especially receivables at the consolidated level. Is it a sustainable reduction? Which part of the business has actually driven this reduction?

Sameer Shah:

We had a good year on working capital and while we have seen reduction in reported working capital, if we see it along with the recently acquired business, which came with a relatively higher working capital norms, the improvement is even more meaningful. The reduction in receivables has been broad-based. India as well as Indonesia and Latin America, to some extent, were the key contributors to it. We expect this is very much sustainable. This could improve further during the course of this fiscal year.

Moderator:

The next question is from the line of Vivek Maheshwari from CLSA.

Vivek Maheshwari:

On the advertising spends in the domestic business, there is a 9% increase in the A&P, could you elaborate the reason why there is such a good increase as compared to when we look at your peers there is actually a sharp decline in their spends?

Vivek Gambhir:

For us, the strategy has been to maintain a competitive level of advertising spends. If you look at some of the innovations that we have launched, whether it is personal repellants, HIT gel stick towards the end of the quarter and Cinthol deostick, the idea has been that along with investing in the core, we have been investing competitively in all of these brands as well. So, we will continue to invest competitively in creating new growth vectors for the future and driving our core to full potential. In the interest of building the business for the longer term, because we have such differentiated and unique products, it deserves an adequate level of investment.

Vivek Maheshwari:

Would it be fair to say that a good part of the increase in A&P spends would be on newer interventions or innovations?

Vivek Gambhir:

It is a two-third, one-third kind of a mix. So two-thirds of the investment go into the core and one-third of the investment has been going into these extensions or new products i.e. new growth sectors.

Moderator:

We will take the next question from the line of Rahul Maheshwari from IDBI Mutual Fund.

Rahul Maheshwari:

Can you give us the category growth during the quarter for soaps, hair care business and the home insecticides in domestic and in Indonesia region?

Sameer Shah:

As part of our policy, we do not share most of the Nielsen numbers whether it be the market share or the category growth. So we regret on the same.

Moderator:

We will take the next question from the line of Chetan Thakkar from ASK Investment Managers.

Chetan Thakkar:

What is the addressable market size in the products that we are already present in Africa? Also, while we shift base and start local manufacturing in Africa, how will that help in terms of fastening the growth over there and also the implications on the margins?

Omar Momin:

From a primary focus perspective, we are looking at three categories in Africa. We are looking at Dry Hair, Wet Hair, and Home Insecticides. Our estimate is that both Dry Hair and Wet Hair in Sub-Saharan Africa are about $1 billion each at consumer prices and Home Insecticides is about $0.5 billion. In terms of the benefits of localisation, it will come from two levers. Firstly, we will get a much lower cost structure because we will be manufacturing locally therefore the import duties, etc., are much lower with localised cost structure and secondly, we will be able to play with product sizes, SKU sizes, pricing etc. We expect margins to improve because of lower cost structure and we expect to drive much higher revenue growth by being on the ground and investing in these brands and creating demand.

Chetan Thakkar:

Out of the current revenue that is there in Africa, what percentage is being catered through exports or are we doing any local manufacturing and how does that change two to three years down the line?

Omar Momin:

In the Dry Hair business, all manufacturing is localised. In the Wet Hair business, we have done localisation over the last six months and by the next quarter we will almost complete our localisation efforts for wet hair.

Chetan Thakkar:

What about Household Insecticides?

Omar Momin:

We are still testing Household Insecticides with the consumers. So that is a space to play. Right now, our focus category in terms of on-ground investment are the dry hair and wet hair.

Moderator:

The next question is from Latika Chopra from J.P. Morgan.

Latika Chopra:

Could you share the price and volume contribution for your Indonesia sales growth, excluding Household Insecticides and including Household Insecticides?

Sameer Shah:

If you look at Indonesia business, we have had more or less flattish volume growth in Q4 and the volume and value growth equation for full year also would be similar. Full year basis we had a flattish value growth and volume growth could be a percentage up or down to that value growth number.

Latika Chopra:

Could you share some colour or feedback on your Hair Colour foray in Indonesia? What has been the learning so far and what is the duration you feel this could start contributing sizably to your revenues there?

Sameer Shah:

So far so good in terms of the launch. The product has been in the markets since the last three to four months. We are doing extremely well in modern trade channel, where this category is pretty big. Hopefully, it should be a meaningful contributor starting this fiscal year. We will also see a lot of investments on this brand as well as this format during the course of the year and if all goes well we could also get into some of the adjacencies in the niche hair care space in Indonesia.

Latika Chopra:

Could you share the market share gains that you have done in India in Household Insecticides and Hair Colours category over the past year or so?

Sameer Shah:

Directionally, we have gained our market share and I would not like to be very specific for each of the categories. We have gained market share anywhere between 30-odd basis points to more than 100-basis points for categories like Household Insecticides as well as Hair Colours. In Air Fresheners, basis the internal data we have, we are the market leaders now in this space.

Latika Chopra:

What is the absolute share in Hair Colours because this is the highest exit share that you have seen?

Sameer Shah:

For competitive reasons, we will not be able to share.

Moderator:

We will take the next question from the line of Sanjay Singh from Axis Capital.

Sanjay Singh:

What is the organic volume growth in Africa in FY2017?

Omar Momin:

Organic volume growth in Africa would be in early double-digits.

Sanjay Singh:

The organic constant currency growth in Africa is around 8% so is the volume growth ahead of the sales growth?

Omar Momin:

Value growth will be higher.

Sanjay Singh:

The inflation would have been quite high given the currency depreciation.

Omar Momin:

Correct. Therefore we have said that in the fourth quarter we are looking at a 16% constant currency growth and of that about one-third is volume growth but for the full year the value numbers will be higher and therefore the volume number would also be high.

Moderator:

We will take the next question from the line of Kaustubh Pawaskar from Sharekhan Limited.

Kaustubh Pawaskar:

The Others category in the domestic business is almost Rs. 500 crore and Air Care is doing extremely well for you. What is the share of Air Care in this particular space in Others and how has the category grown in FY2017? How will it be doing in the coming years?

Sameer Shah:

We will shy away from giving any specific details in terms of size of aer brand as well as other categories in India. In terms of growth, we have more than doubled this category last year and the growth has come behind the aer pocket launch which has been successful as well as the core air care offering of car air fresheners as well as home air fresheners. Going ahead, we will remain extremely optimistic of driving very strong sales growth in this space.

Kaustubh Pawaskar:

Will the strong growth momentum sustain in this particular category?

Sameer Shah:

Comparatively, we are extremely optimistic in terms of plans which we have whether it be in terms of new product launches or in terms of distribution continuing this strong sales growth in this category going ahead.

Kaustubh Pawaskar:

With improvement in cash flows, should we expect the debt repayment on quarterly basis to increase or will you focus on reducing debt to your earlier targets?

Sameer Shah:

It is about fine balance between dividend payout ratio, between net debt equity ratio as well as driving growth through M&A route. It is difficult to call out at this stage how this will shape up quarter-after-quarter.

Moderator:

We will take the next question from the line of Dhaval Mehta from Emkay Global.

Dhaval Mehta:

The Hair Colours of India business was most impacted because of demonetisation out of all the three segments. So, in Q4 FY17, have we seen channel filling in Hair Colours which has led to double-digit growth?

Sameer Shah:

No, if you just look at our secondary and the primary, which gets reported in the Performance Update, there is not much of a mismatch.

Moderator:

As I now like to hand the conference over to Mr. Amit Purohit from Emkay Global for closing comments.

Amit Purohit:

I would like to thank the management once again for giving us the opportunity. Thank you all.

Operator:

Thank you very much. Ladies and gentlemen on behalf of Emkay Global that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.

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