IN CONVERSATION WITH OUR MANAGING DIRECTOR

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Managing Director

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How do you feel about GCPL's performance in the last year?

We delivered a reasonably good performance last year, across all our geographies, despite macroeconomic challenges. In India, we recorded industry leading volume growth. Our business in Indonesia navigated the slowdown well. We continued to scale up our presence in Africa. In Latin America and the UK too, we performed strongly.

Our profit growth in particular, has been robust. While this was undoubtedly aided by lower raw material costs, it was also due to the good work that our teams have done in improving gross margins. Gross margins increased by 440 basis points in India, 600 basis points in Indonesia and 370 basis points for our overall business.

But beyond the numbers - and this is what makes me proud - our performance reflects a great deal of resilience, in terms of how we adapt to and capitalise on changes in the environment. This will hold us in very good stead in the years ahead.

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GCPL was the best performing FMCG stock last year. What is your take on that?

As I see it, stock performance is ultimately, an outcome. If you focus on the right areas and deliver, the market will reward you.

Our stock performance is a good validation of both our business performance and consistent focus on value creation. It also shows the confidence that investors have in us and their high expectations, in terms of future value creation. So, it energises us to work harder to continue to meet the expectations of all our shareholders, who put a lot of faith in us.

How was the year in terms of innovations?

This year has been a mixed bag. While there are some positives that we can definitely take away, there are also some learnings. Some of the innovations that we had launched a couple of years ago, like Godrej Expert Rich Hair Crème (India’s first hair colour crème in a sachet) and Good knight Fast Card (a revolutionary paper-based mosquito repellent), have been runaway successes and continue to do well. We are also very excited by the potential of the innovations we launched in the latter half of last year - Godrej aer pocket (a slim gel technology bathroom air freshener), Cinthol Deostick (a unique cream based deodorant) and Soft & Gentle zero per cent aluminium deodorants (UK’s first aluminium-free anti-perspirant deodorant). Some of our innovations however were also delayed. So, we are learning how to phase them out better and improve our speed to market.

Our innovation agenda for the year ahead looks promising, both in India and internationally. We will continue to invest behind these innovations and drive them to full potential.

How important is digital for you?

Digital is one of the biggest transformations that we are seeing in recent times. This is not just about technology, but also fundamental shifts in how we communicate, connect, share, learn and engage.

While these are still early days for us, we are very excited about the tremendous opportunities that this offers. Digital is a big priority for us, both in terms of how we engage with our consumers as well as how we engage internally with our teams.

In marketing, for example, we are driving focus on understanding the consumer journey, improving digital capabilities and more ‘test and learn’. We are already seeing a significant shift in mindset, for instance, from a campaign led approach to more 24/7/365 marketing.

We recently introduced Facebook at Work, the new social networking platform, to connect Godrejites across teams and geographies. We are using it to chat and comment in real time, share ideas and collaborate much better.

Why did you acquire Strength of Nature? Is the US a new market for you?

We are leaders in hair extensions in Africa. Over the last few years, we have successfully ramped up our presence in Africa. We have a good understanding of the African market and know what it takes to be successful in the region.

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Ethnic hair care is an adjacent category to hair extensions. Our aspiration is to be global leaders in serving the hair care needs of women of African descent.

The market in the US is at the forefront of innovation for these hair care products and shapes global consumer trends. Strength of Nature has a strong track record of serving consumers across Africa and the US for over 16 years. They are constantly innovating and have a robust portfolio of heritage, category leading hair care brands. So, this acquisition enables us to address the complete hair care needs of women of African descent and do so, globally. This makes it a valuable addition to our overall portfolio.

How does the acquisition of Strength of Nature fit into your 3 by 3 strategy?

The Strength of Nature portfolio will enable us to offer a full range of hair care products to women in Africa. Africa is a key priority market for us and hair care is one of our core focus areas. So, in that sense, this fits in well with our 3 by 3 approach - a presence in three business categories (personal care, hair care and home care) in three geographies (Asia, Africa and Latin America).

Having said that, 3 by 3 is not a static definition. It has been evolving over time. For instance, air fresheners was not a big area for us 5-6 years ago. Now, it is 6 per cent of revenues and an important part of our home care portfolio.

Given our focus on serving the hair care needs of women of African descent, we are now adding a consumer overlay on our 3 by 3 approach. This is a very underserved market and provides significant opportunities for us, globally. So, we are extending our focus from hair care for women in Africa to include hair care for all women of African descent.

Can we expect more acquisitions this year?

We don’t have any M&A targets per se. What is more important, is that we pursue accretive acquisitions that fit well with our strategy and where we can add value. So, we continue to look for acquisitions in our core geographies. We don’t know which ones will materialise and when. The good thing, however, is that we have plenty of growth opportunities available organically. We are not dependent on acquisitions for growth. To that extent, acquisitions will be an added bonus. Also, from a funding point of view, we have a lot of cushion in our balance sheet to make acquisitions that help us accelerate our growth trajectory.

How are you changing your operating model and approach, as you get more global?

As we get more global, it is important for us to leverage benefits of scale, while retaining an entrepreneurial, agile and empowered culture. A lot of our focus is on sharing, collaborating and cross-pollination. So, we have set up different platforms for our teams to discuss, learn and leverage strengths. At the same time, we are ensuring that we retain the operational autonomy of our local businesses. We don’t want to become a multinational company, but instead continue to leverage the strong multi-local model that we believe is our advantage.

You have consistently been ranked the best FMCG company to work for. What makes GCPL an employer of choice?

For us, being an employer of choice is a very important part of our overall ambition of being a leading global FMCG player. We want to be able to attract passionate, hard-working team members, who are inspired to give their best at work. So, we take much pride in creating a supportive, enabling work environment with stretch roles and great career opportunities to help people learn and grow. We are fully committed to providing great rewards, aligned with value creation. We are also very fortunate to be able to build on the strong Godrej legacy of trust, integrity and respect for others.

Some people have expressed concerns on your ROCE. What is your take on that?

Clearly, we are very cognisant of this. Given that one of our most important focus metrics is EVA, ROCE is important for us.

Over the last three years, ROCE has gone up by 340 basis points. If you look at operating ROCE versus reported ROCE, our operating ROCE has been very healthy (60 per cent plus), while reported ROCE has been lower due to the goodwill sitting on the books from acquisitions.

Lower reported ROCE is a consequence of the stage of growth we are in and our focus on an inorganic-supported strategy. At this stage, we need to take a call between accelerating revenues and profits or just maximising ROCE. But in emerging markets, given the growth potential, focusing on gaining scale and accelerating profits is equally important. It is not just about maximising ROCE.

Having said that, we are very conscious of improving our ROCE. As we gain more scale, we are focusing very hard on improving profit margins and working capital. This will lead to improved ROCE.

What could you have done better last year?

There are a couple of areas that I can think of, where we could have possibly done better last year. We should have managed our overheads more tightly. On the innovation front, our pace of timely new launches could have been better. I also wish the macroeconomic environment had supported more robust sales growth. The good thing, however, is that our company is stronger than ever before and we have learned a lot. So, we are in a very good position to deliver a stronger performance in the year ahead.

What are your key priorities this year?

Overall, we want to continue to strengthen our market share, across categories, and deliver industry-leading profitable growth. Scaling up our Africa presence, integrating Strength of Nature and making the portfolio a success in Africa, will be a big focus for us. In line with our innovation agenda, we want to accelerate our new launches across geographies. Driving digital more strongly and ramping up capabilities will be key. We want to instill a deeper analytic approach to making key decisions and embed more leading edge technologies and predictive tools to improve performance. We will also continue our efforts to deepen our talent bench strength and improve engagement, to ensure we have the right people in place to drive our ambitious aspirations.