“Godrej Consumer Products Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Godrej Consumer Products Limited Earnings Conference Call hosted by SBICAP 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 after the presentation concludes. 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. Nitin Gupta. Thank you, and over to you, sir.

Nitin Gupta: Thanks, Nirav. Hello and good evening, everyone. On behalf of SBICAP Securities, it is my pleasure to welcome you all to first quarter fiscal 2020 earnings call of Godrej Consumer Products Limited. I would like to thank the management team of Godrej Consumer to have given us this opportunity and let me hand over the call to Pratik from the Investor Relations team at GCPL. Pratik, over to you.

Pratik Dantara: Thanks, Nitin. Good afternoon, everyone and apologies for the delay. Thanks for joining us today to discuss the quarterly performance. 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'll now have Vivek share his thoughts on our performance, and then we can open up for Q&A.

Vivek Gambhir: Thank you very much, Pratik, and it's great to be talking to all of you and sharing the highlights of performance and also getting your feedback. I'll just quickly walk you through our performance update presentation, following which we would be very happy to address your questions and get your feedback.

So, if we turn to the presentation on Slide 3. For the quarter, consolidated constant currency sales increased by 4% year-on-year. The India business sales grew 1% year-on-year with 5% year-on-year in volume terms, the International business grew at 9% year-on-year on a constant-currency basis. For the quarter, consolidated constant currency EBITDA increased by 8% and the net profit without exceptionals was Rs 291 crores with an EPS of Rs 2.85 per share. The Board has also declared interim dividend of Rs. 2 per share.

On Slide 4, we just show the exceptional and one-off items. In this quarter, there was an exceptional item due to a deferred tax asset in the international business on sale of the brand..

On Page 5, we show the bridge between the reported to the EBITDA margin for all of our businesses. And on Page 6, we capture our key balance sheet data. As you can see, from the balance sheet data, the balance sheet key metrics are all trending in the right direction. So, versus the corresponding quarter a year ago, our working capital has come down from 22 to 14 days, net debt/equity has come down from 0.54 to 0.35, return on capital employed has gone up by 140 basis points and operating ROCE has seen a very significant jump from 43.8% to 59.1%. So, all the key balance sheet metrics are trending in the right direction, and we hope to further improve on these over the quarters ahead.

I'll now spend a little bit of time walking through each of our individual clusters, starting with India. So, in India, the volume growth was 5% for the quarter. The base quarter had a 14% volume growth in the base, so this was off a very high base and the 2-year CAGR volume growth has been about 10%. As we all know, overall consumption has been under pressure for the last 9 months or so, but we remain confident that the quarters ahead will be better.

So, compared to Q4FY19, where our volume growth was about 1%, sequentially, we have been seeing volume growth improve this quarter to 5%, and our hope is that this will improve further in the quarters ahead. Even within this quarter, if I compare our performance across April, May and June, we did see April was actually slowest month, and June performance was actually much better than April and May, which again gives us a hope that this momentum will continue going forward.

And I think, there are 2 indicators that we've been watching closely. One is what happens to monsoon and the monsoon clearly has been picking up over the last few days, what was a 16% deficit about 2 or 3 days ago, it is now 9% deficit and the indications of some of the weather forecasting services is that the rain should further improve in August and if we are lucky, we may end up with no deficit at all. But let's see how August progresses. But so far, I think if the monsoon picks up, that should at least alleviate rural stress and the government is also giving a lot of push to get the rural growth back on track.

The second challenge that we discussed before has been some of the liquidity pressures in the channel, and I think given the government efforts to loosen liquidity and perhaps with the RBI doing some further rate changes, I think that should, again, help in terms of liquidity in the channel, and so based on these reasons, we feel optimistic that the quarters ahead should be better. Our focus clearly is on volume growth and I think on new product launches and effective marketing campaigns and also consumer offers. And so if you look at our plans for the remaining quarters, we feel quite optimistic that the outlook should actually improve going forward.

If we have to take a quick look at our categories. So, on Slide 10, on the Soaps segment I think the sales growth was 3%. It was led by strong volume growth. We continue to gain market shares, driven by effective micro marketing initiatives and very impactful consumer offers and both Godrej No. 1 and Cinthol have been doing well and have been gaining share.

For Home Insecticides, this was definitely a very difficult quarter. The extended summer has impacted the entire category as a whole. And if you look at some of the Nielsen data as well, they have been showing a significant slowdown in the category for this quarter. And the second impact, obviously, has been incense sticks, but here again, I think we feel hopeful that the performance has bottomed up in this category and numerous measures to be able to reverse course and regain a momentum back in the category. On the incense stick side, we have launched our natural neem incense stick. It has now been scaled up in 6 states and we'll be taken national soon. It's very early days but so far the feedback we have gotten from our consumers has been positive. Along with this, I think we have a very strong New Product Development pipeline. Some of these New Product Developments are quite disruptive, which is why they're taking some time for us to scale up. For instance, things like Power Chip have a lot of potential, but there again we have changed the marketing mix, we're changing the communication, we've made some product changes but we feel very confident that the product portfolio is very strong. Later on this year, we also have some very exciting new launches that are being planned. And along with this, I think we've also stepped up our consumer offers and promotions as well. So, you should see better performance from Home Insecticides in the quarters ahead.

On Hair Colors, the performance was largely flat on the back of a high base of about 12% and the general slowdown because this category tends to be a little bit more discretionary in nature. Godrej Expert Rich Crème continues to perform well. We have launched the Godrej Expert 5-minute shampoo hair color in the southern states. And so as we look forward, we do see better growth prospects for Hair Colors in the quarters ahead of us as well.

Turning to the International business on Page 14 onwards. The performance was mixed, it was a constant currency sales growth of 9%. The adjusted EBITDA margin increased by 40 basis points year-on-year. If you look at the P&L, both gross margins and EBITDA margins have expanded in this quarter. And so there again, we feel quite happy that the P&L is heading in the right direction. Obviously, we have a lot more work to do and there are more opportunities for us to improve the P&L. But if you look at again both gross margin and EBITDA margin expansion that augurs well for the business going forward.

If you take a look at the International businesses starting with Indonesia on Page 17, Indonesia delivered sales growth of 4% in constant currency terms. It was lower than our expectation, but I think, this is just a phasing issue. If I look at the inputs that we're putting in, the sales growth was partially impacted by the slowdown in the hypermarket or the supermarket channel. But I think if I look at our market share position, our New Product Development focus, the work that we are doing on general trade distribution, the team is very confident that the remaining quarters would show a much better performance. And along with delivering strong sales growth, the team is doing a very nice job, ensuring that profit growth is in line with sales growth and in fact EBITDA margin expansion of 140 basis points led by gross margin expansion in this quarter.

In Africa, it was a mixed performance. Constant currency growth was 2%, which includes the U.S. as well. The Africa growth was 4% in constant currency terms. What was comforting was that South Africa is back to a good start with double-digit sales growth. I think our challenge was some of our smaller markets in Africa experienced some adverse macro conditions. What we've also cautiously been doing is broadening our portfolio. So, dry hair is about 52% of our overall sales and the non-dry hair part of the portfolio is 48% of our sales. The strategy is actually paying out quite well. We have been gaining market share in wet hair in Kenya and in South Africa, even in dry hair across both markets we've been holding our gaining share.

The EBITDA margin decreased by 140 basis points because of some of the upfront marketing investments that we had to make for the Darling relaunch in both South Africa and to a certain degree in Nigeria as well. We relaunched Darling in Ghana as well, the wet hair scale-up across multiple countries because it involves a huge number of new product launches is taking on right level of marketing investment, but I think our expectation is that, as these new launches start scaling up in the remaining quarters, you should see improvement in terms of more sustainable, profitable growth in the coming quarters.

So, the rest of the slides is just an appendix, not much to add there. So, I'll just take a pause here, and our team will be very happy to address your questions and get your feedback. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the neem incense stick. So, in the 6 states where launch has happened, in some of those states you would have been there for a bit more time. So, is there any data wherein is some share gain now happening from the illegal? Or is there some cannibalization from your existing products?

Vivek Gambhir: It's still very early because we really haven't had even 1 full quarter of data available. And so we have our internal data where we are relatively happy to see the progress we've seen in terms of share gain. But before we share it, I think we would need to be able to wait for some time. The only market that we've had data more than 3 months after launch has been in Andhra Pradesh where I think in a few months our share was in the mid-single digits with fairly good repeat rates as well. I think in the next couple of quarters we will be able to share more granular and more specific data, it's too early at this stage.

Abneesh Roy: And you have taken this to 6 states, what is the thought process in these selections and when does it happen Pan-India, if at all? And in terms of the New Product Development, which you just talked about, strong New Product Development in the second half. So, will it be more directed towards the illegal incense stick or it could be across Home Insecticides?

Nisaba Godrej: To answer your first question, I think which is based on incense sticks. We base our launches and its sequencing on two things. In Home Insecticides, we always sequence launches depending on seasons and that obviously differs state-by-state so that would be one reference point of when the launch. Two, would be saliency to that market to use that as a push back to the illegal incense stick. At the moment, we might not launch Pan-India, but we will see how it will go. I think your second question is around what innovation are we talking about in the portfolio. So, I think in Home Insecticides obviously this is an important category for us, we're the category leader, so we are looking at it from all angles. So far as the incense stick is concerned, these illegal incense sticks is the same format as the Fast Card which initially grew very strongly and drove penetration for us, especially in rural markets. Incense stick gives me quick relief, it's a good evening format and actually, given that they're dosing it with pesticides and other harmful chemicals, it's very effective in at least getting drop down impact on mosquitoes though impact on one’s health is a different question. But the thing is, other products, like our Liquid Vaporizers or electrics solve the all-night purpose where the whole theory of upgrades for people is that they don't use burning formats as they don't last longer. If you actually look at volume growth of actives, it has been 20%-plus, so there are people who actually want more efficacious and stronger product. So, I think as we relooked at our full portfolio, and I think you will see product innovation, not just in the burning format, but also in electric format based on efficacy. We have already seen that in incense sticks, we've done a natural incense stick. We also have a full natural's portfolio in Home Insecticides. So, we are obviously looking at it across formats and we are more looking at it from the aspect of what does the consumer need and how do we service that need best.

Abneesh Roy: That was useful. So, my second question is on Indonesia, So, FY '19 was a good year, all 4 quarters good growth. So, is the base catching up because you have mentioned that this is a one-off and because the next quarter your base is higher, it's 13% base versus this quarter it was 9% base. And if you could dwell a bit more on the modern trade issue, which you highlighted what exactly happened, was it just a competitive issue wherein promotions more by the competition was that the issue?

Vivek Gambhir: No, it wasn't a competitive issue. The hypermarket or supermarket channel has been going through a fair amount of a slowdown, as sales have been migrating more towards some of the other channels, and so it was a little bit more of I think an issue in terms of the slowdown we saw in the hypermarket channel. But it is a temporary issue, Abneesh. The team is very confident that given the agenda that they have for new products they've launched new products, as you know, like the Long Lasting Paper in Home Insecticides and Stella Twist that have been launched, so the amount of launches has been extremely active. We started the general trade transformation project right last year. This year, we should start seeing actual gains in terms of expansion in general trade as well. So, the team is very confident that the performance should be much better in the remaining quarters and it should be sustained over the remaining quarters.

Abneesh Roy: One follow-up yet, would you be over-indexed in hypermarket versus say rest of the industry?

Vivek Gambhir: I don't think so.

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

Percy Panthaki: My first question is on Africa. As you mentioned, even excluding U.S. continent, the Africa continent constant currency sales growth is 4%. And I'm sure you are not happy with this kind of growth. Few years back we were double-digit kind of constant currency growth rates on an organic basis. So, just wanted to understand from you, which are the problem areas in terms of geographies as well as product segments that you need to fix to accelerate growth in Africa?

Vivek Gambhir: I think for us in Africa, as I was mentioning, I think we are pleased with the way we are seeing a recovery in South Africa in spite of the very difficult macroeconomic environment. West Africa has also been holding steady. I think in terms of areas where I see more growth potential, I think Kenya needs a little bit more work, and we do export a lot to other African markets like Angola etc. So, some of the export markets have actually been going through a fair amount of economic turbulence. The rest of Africa is almost 20% of our portfolio for sales, because largely a distributor-driven export model. And I think some of those markets have been seeing some challenges, which I think affected the performance in this quarter. I think overall also if I look at the portfolio, we have been pleased with the scale up on our wet hair portfolio, but its early days. And I think as we are putting in more marketing investment as we're learning in this category, we do see significant opportunities to ramp up wet hair, but it's taking us a certain amount of time. And within the dry hair portfolio, I think you are seeing some of the non-braid segments also showing a certain amount of growth. And so we are getting our New Product Development pipelines and launches also intensified in the non-braid portfolio. And within the braid portfolio as well, we are coming up with some lower-cost braids, particularly in markets going through economic turbulence. And so I think our perspective is that we are doing all the right things. If I look at input metrics like market share, they are all increasing and trending in the right direction. Having said that, there are multiple African geographies who are going through a certain amount of macroeconomic turbulence. And so, at this stage, while we are focusing on driving the right level of topline growth, I think there is a greater emphasis we are putting on actually improving profits. Let's see how much improvement we can make in topline growth. My expectation is that quarter 2 you may not see that much improvement in topline growth, quarter 3 and quarter 4, you will see more improvement in topline growth just given our New Product Development calendar. But certainly, I think the level of confidence is much higher, that we should start seeing much better profit performance starting in quarter 2 onwards. The topline actually might take some more time for us to fully get right, just given the macroeconomic challenges some of these geographies are facing per se.

Percy Panthaki: Understood, Vivek. If you could just help me with one data point, if you have it handy. In Africa, what percentage of your total sales has actually been able to grow at 10% or higher in constant currency terms?

Vivek Gambhir: Over what period, Percy?

Percy Panthaki: For this quarter or if it's convenient some other period, I primarily wanted to know for this quarter, but if that's not available some other period would also help?

Nisaba Godrej: A large part of the portfolio.

Sameer Shah: Yes, so Percy I think it depends I mean the way you're looking at the business. One is geographically which I think Vivek did share that South Africa which is off to a good start. West Africa has also been consistent.

Vivek Gambhir: Even last quarter, South Africa and West Africa have double digit growth.

Percy Panthaki: Okay, understood that's very helpful.

Nisaba Godrej: In wet hair care, relaxers and hair colour the growth is very high. Even in our dry hair things like braids which is the core of the business the growth is very high. I think there is some amount of down trading because of economic situations happening where people are using sometimes cheaper formats.

Vivek Gambhir: So, I think Nisa was saying West Africa and South Africa were double digit growth. In our portfolio, hair colors, braids, wet hair, all have done more than double digit growth.

Percy Panthaki: Very helpful. Second question on Indonesia, there is this modern trade down stocking. And I'm sure a lot of modern trade partners share with you exactly what is the end consumer sales growth. So, if you adjust for the destocking impact, this 4% constant currency growth would turn out to be how much in Indonesia?

Sameer Shah: So, Percy directionally, we will not share exact data points, but what we can share is the growth rate in terms of secondary and tertiary is much higher. And this is going back to what Vivek mentioned earlier that this is more of a phasing. So, to some extent, what you also saw between Q3 and Q4 of last fiscal year is, again, what we think is happening between Q1 and Q2 because lot of these modern trade players keep adjusting their inventory levels, but again, sort of move upon it, keeping it normative levels over a period of time, and that is what we sense is going to happen in Q2. So, I think although H1 should be good steady as expected performance in Indonesia on sales growth, and equally expect the growth also will be a profitable one.

Vivek Gambhir: The point you're mentioning about down stocking, which has primarily been happening with the mini marts, it's been carrying for the last 3 or 4 quarters Percy, so it's a calibrated down stocking, so we keep on working with both Alpha and Indo mart to manage this reasonably well I think.

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

Nikunj Doshi: Just wanted to know most of the companies that we are speaking to they are saying that April was better, May was worse and June was even worse whereas you were saying something different. So, what is driving our sales or where do you see the improvements coming from?

Vivek Gambhir: A little bit depends, again, on category and some of the strategies we're employing, right? So, for instance, for us, generally the onset of monsoons actually helps categories like insecticides. And so because April and May were very hot, those are particularly more challenging for insecticides than June was. Second of all, also in something like Hair Color, if you recall the previous quarter, we had a promotion going on in Hair Color for Expert Crème at Rs. 25 and that offer was withdrawn starting in April. But because there was some stock in the market and unusually these transitions take time, April and May were much softer for hair color. But as the stocks were adjusted and new price came into effect, June became better for us. And so during the beginning of this year, we began launching a lot of, I think, very strong micro marketing initiatives. For the first time, we've been doing micro planning at a very granular sub-district to district level in India. So, this new approach of micro planning began from April 1st onwards, but the team took a couple of months to really get used to this new way of operating, but each month as we are implementing this, what we call conquering micro markets approach, each month as the team is getting better at doing it, our agility and execution is getting better, which is why you're seeing more impact and I am very hopeful that going forward as well as our teams get used to a different way of working, it should allow us to actually execute much better on the ground. So, Nikunj, some of these are company-specific reasons, which I think, probably are execution-related, the second could be category difference that biggest companies might be facing in terms of how categories behave more than anything else.

Ravi: Vivek, this is Ravi. I just wanted to understand one thing, in the note section you said that there is a deferred tax asset created of Rs 110 crores, some brands within the group entity, so what is that, I just wanted to understand how has that number come in?

Vivek Gambhir: I will ask Srini just to explain this to you Ravi.

V. Srinivasan: So, Ravi, what happens is, we were holding the intellectual property in a company based out of Dubai where there was no tax. Now the operating company which actually manufactures and sell these brands has acquired some part of this brand right. And therefore, when it moves from a nontax-paying geography or taxable geography, you get tax depreciation on these brands. And in terms of the accounting standards, we are required to recognize the future tax benefit that will get on the brands because they're now being relocated to a geography where there is a tax depreciation available and that is the reason we need to recognize this deferred tax asset. This has happened even in the last year, in the earlier year in Q1.

Ravi: Second question I had was on the difference from the flow from PAT to total comprehensive income. So, if you look at this from last year June '18 to June '19, I think it's close to 180-190 crores, so explain what is exactly happening? Why is there a financial statement of foreign operations, so translation difference, what is that exactly?

V. Srinivasan: So, what happens is we have to translate all the numbers, which are in different currencies and different geographies into Indian rupees. So, because of the exchange or translation differences, whatever is the variation in the rupee number of these figures, they get reflected here.

Ravi: Wouldn't that get accounted in the topline numbers itself, topline and the COGS.

V. Srinivasan: Yes. But this is the balance sheet impact.

Ravi: Okay, got it.

V. Srinivasan: All the assets and liabilities.

Ravi: This is adjusted in the results which is what you're saying?

V. Srinivasan: Yes, correct.

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

Vivek Maheshwari: Just continuing from the earlier question. So, this IP in Dubai which you mentioned which was relocated to other geography, what was the reason for the relocation?

V Srinivasan: So, largely, the IP is getting used in Indonesia. Godrej Indonesia is a company, which actually manufactures and sells the brands, which are locally sold. So, what happens is, generally, it is better to hold the brand in the geography in which the sales happen because then from a tax perspective, there are no questions on the royalty payouts. So, from that point of view, we said that it would be better to hold it in the geography where the actual manufacturing and sales happen. We acquired the business in a certain structure and therefore we couldn't do anything in the earlier stages and as and when it is possible, we are kind of correcting the structure to ensure that there are no tax issues going forward.

Vivek Maheshwari: So, this is with respect to Megasari?

V Srinivasan: Yes.

Vivek Maheshwari: And when you transfer to Indonesia, there is a deferred tax asset which gets created?

V Srinivasan: That is because, as I said, these brands will be eligible for tax depreciation and therefore there is a future tax benefit that will happen in terms of lower tax amount that you would pay out on the profit that is generated in these geographies.

Vivek Maheshwari: So, basically from next quarter, whenever you will start amortizing these brands then?

V Srinivasan: So, it has already started because we have started acquiring these brands from last year.

Vivek Maheshwari: Second on the Indonesian part, can you just clarify the supermarket/hypermarket, what exactly happened there?

Vivek Gambhir: If I look at the way the categories, the channels are growing, Vivek, the hypermarket/supermarket channels are going through a lot of slowdown And those as channels still remain quite important to be able to display and market your entire range and New Product Developments, but there is a shift happening towards mini-mart and general trade. So, during the particular quarter, I think we were having some discussions on trade terms, and negotiations which just ended up taking longer as a result of which as we were negotiating trade terms and figuring out optimal way to actually work with the channel this ended up affecting our sales in this channel. That's now largely behind us, and I think all of this has now been settled. And so going forward, we should start seeing better performance in the channel. Having said that, I think you are seeing a structural change where mini marts and general trade are growing faster than hypermarts are, but that's something we have known for a while and so accordingly, our marketing mix and our channel focus has been changing far more towards mini mart and general trade as well.

Vivek Maheshwari: Okay. And general trade, mini marts, would you have the growth rate handy for first quarter?

Vivek Gambhir: I don't have it handy, so I think offline we can discuss it.

Vivek Maheshwari: Okay. The next one is on India. While I do understand your 2-year volume CAGR of 9%, but there was a GST implementation 3 years back. So, if you take a 3-year CAGR, that volume growth comes to just about 2%. One, what is your sense for rest of the year because 2% doesn't look that impressive? And also the promotions that you have had in this quarter, there is a like a 35% jump that was led by you mainly or that is how competition also behaved and you kind of either you saw in the market or it was in response to how competition was in the market?

Sameer Shah: I think, Vivek, to begin with if we dissect the overall volumes growth, it has been led by soaps as well as other categories have sort of pitched in right, because we did have price-offs in terms of consumer offers across almost all the 3 categories. I think in Soaps, our belief is that we are leading price changes very dynamically, but this is not the sort of one size fits all across Pan-India play. It is very state-specific, which is all about capturing micro markets with which we are getting into each kind of state and playing on the price/mix architecture, which has worked very well for us and we expect it to sort of continue also going ahead. To answer your earlier question, at this point in time, Vivek, we do expect better than Q1 volume growth rate in India in short term. As Vivek mentioned earlier, we've seen good onset of monsoon, so hopefully Home Insecticides compared to Q1 should do better. And the transition impact of hair color Crème is no more I mean in Q2 as it was at least for some weeks in Q1. So, yes, at this point in time we expect in short term to have better than Q1 level of volumes growth.

Vivek Maheshwari: And the last question on Africa. I mean adjusted EBITDA margin or rather GAUM decreased to 140 basis points mainly driven by upfront marketing investment. The only observation I have is this upfront marketing investment was there in the past also and one, it is not showing in A&P line item when I see. So, where is it hitting exactly? And second is, if there is an upfront marketing investment, it's because of launch, relaunch or higher advertisement, shouldn't it transfer into better growth then?

Sameer Shah: So, I think the point here in terms of it being sitting in, it still sits in A&P line item in the overall International business once you sort of just to consolidated minus standalone. To be precise, I think around 115bps of EBITDA decline is largely driven by ad spend. What is happening, Vivek, over here is the ad spends are going in those markets like where the wet hair care scale-up is happening as well as Darling brand is getting relaunched. Obviously, there will be some spends, which will be incurred a little ahead of curve where you will see sales growth in coming quarters, it's happening in a few, it's also not happening in a few other markets to be honest with you. So, that's the way it is kind of evolving at this point in time.

Vivek Maheshwari: But consol minus standalone advertisement is actually down quite a bit. So, is it ATL or is it BTL?

Sameer Shah: This is largely A&P, which is advertisement spend, because the BTL portion, Vivek, anyways now gets stripped off from sales, right?

Vivek Maheshwari: Exactly. Which is why I'm saying that if that is the case, it's declining a quite a bit unless otherwise Indonesia saw a sharp decline because if I reduce standalone number from consol, I actually see a decline of 20% in advertisement and unless I'm getting my numbers are wrong?

Sameer Shah: It's largely directionally. I mean, Indonesia, the A&P spends in terms of absolute values have come down.

Vivek Gambhir: As you look at the numbers here, Vivek, because I'm looking at the subclass numbers, Indonesia's percentage to sales A&P has been flat, it hasn't come down. And the team has tried significant savings in terms of marketing spend optimization. As Sameer was mentioning, there's been a 115 basis points increase in advertising spend for the Africa cluster, the other one is the others have come down significantly, actually that's where you see the gap, but there's no drop in investment in Indonesia. And Africa has gone up.

Sameer Shah: Reported numbers also what you are seeing is including U.K. business in the base.

Vivek Maheshwari: Yes, but I mean I was just thinking it's a 21% decline, so U.K. will not have as a big delta for you to move from negative to positive, but anyways I'll connect with you after the call.

Sameer Shah: U.K. business was close to Rs 16 crores of advertisement and promotion. This is season for U.K. Last year first quarter was the season for their sunscreen.

Moderator: Thank you. The next question is from the line of Surbhi Prasad from Cogencis Information Services. Please go ahead.

Surbhi Prasad: Actually, I wanted to ask that you talked about new products. So, how many new products you are planning to launch in this financial year?

Vivek Gambhir: First of all, we wouldn't want to share the exact details. But suffice it to say that what we typically end up doing Surbhi is we end up getting a lot of products in a launch ready. So, across personal care, insecticides, hair color, air fresheners, laundry, and also some very specific e-commerce launches that we are planning, so we do have a very active pipeline. The exact number of launches will again depend on how the P&L is shaping up, what the consumer demand is looking like. So, I think at this stage we are very excited by the kind of launches that we have and as Nisa was mentioning particularly on the Home Insecticides front, but I wouldn't be able to give you more details on the number of new launches at this point.

Surbhi Prasad: But there will be some?

Vivek Gambhir: Absolutely.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Most of my questions have been answered. So, one bookkeeping question. Sir, interest cost this quarter has gone up by 15% to 55 crores. So, anything to read into this?

V. Srinivasan: What has happened Kaustubh is that the LIBOR on an average has moved up year on year. And also last year, in Q2FY19 we've raised some more finance for buying the stake for our U.S. business, both of these have kind of moved up the interest number.

Kaustubh Pawaskar: Okay. So, should we expect it to remain in this range at Rs 50-55 crores going ahead?

V. Srinivasan: Yes.

Kaustubh Pawaskar: And sir, just coming back to the Hair Color question, is slowdown the only reason for soft quarter or is competition also hurting you?

Vivek Gambhir: No. If I look at our market shares, they've been holding up quite nicely. I think as I was mentioning also there was a transition in this quarter from Rs. 25 price point which was a consumer offer last quarter to Rs. 30 price point. And typically whenever a price transition happens, given the amount of stock in the market etc., we do see a slowdown and this has happened in the past as well. So, whenever price change has happened, sometimes the quarter gets impacted. So, that's what ended up happening here. And I was also mentioning, the transition actually affected our performance largely in April but May and June were much better for Hair Colors, and so I think it is behind us, we should see improved performance going forward as well. From a competitive point of view, now that we have launched shampoo Hair Colors as well, we have one more growth vector. We had recently also launched henna-based powder with Nupur, that's also now scaling up. So, we do have enough growth vectors along with Expert Crème to be able to drive better growth going forward.

Kaustubh Pawaskar: And is Crème growing in double digit for you?

Vivek Gambhir: Yes, it is.

Kaustubh Pawaskar: And, sir you just mentioned that you have taken some price changes in some of the categories. I believe that you have taken price decline in soaps as well because growth in Soaps were just 3%, so I guess, volume growth would be higher than the value growth. So, what kind of price decline have you taken in soaps and in any other category you have taken any price cuts?

Sameer Shah: Kaustubh, we'll shy away from giving very specifics on the volumes growth, which we are seeing in soaps but as we mentioned earlier, I think the growing in soaps has been quite good growth in terms of value, volume growth as well as value market share gain, also its very dynamic, right. I mean, places in states, and do it also like every 3 to 4 months depending upon one, the benign commodity environment and also, I mean, responding to at times competition or leading actually our own growth through price drops.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: First question was on Africa, so you said that you will see an improvement in profitability from the second quarter. Is this is largely driven by the fact that the upfront marketing investments that you've spoken about in the past are pretty much in the base or is there anything else to kind of look into it?

Vivek Gambhir: I think there will be 3 or 4 drivers to this. One is the favorable category mix because the higher salience of wet hair, better is the gross margin profile and hence better is the profit profile. The other is those, onetime cost as we call it out whether it would be talent or more or less in the base, I mean to a larger extent there are also the incremental ad spends. There will be incremental ad spends but, hopefully, they should not be sort of resulting in margins decline. So, that will be the second vector. The third is a cost saving project. So, we've done this in India, we have done this in Indonesia, it is sort of getting cross-pollinated at this point in time in multiple countries in Africa, that should also start contributing to the profitability piece.

Harit Kapoor: And do you see this kind of migrating more towards your erstwhile margins of about 15%-16% that you were enjoying maybe about a year and a half ago?

Vivek Gambhir: I think it will be gradual and that we will also want the margins to kind of evolve because we will also want to parallely invest more growth. I mean Africa is not just a profit kind of portfolio for us. I mean it is profitable sales growth sort of portfolio for us. In parallel, we want to invest some part of the savings, some part of the gross margin expansion back for growth. But yes, I mean also get margins up and moving and also in a consistent way over the next 2 to 3 years.

Harit Kapoor: The second part again was on Africa. If you could just help me understand this between the wet hair and the dry hair portfolio growth, not for us but for the category in general, is wet hair growing significantly faster than dry hair in Africa, is there a major deviation there?

Vivek Gambhir: Not in terms of the market for us. Clearly, wet hair is growing much faster because we are investing in and base is lower for us, Harit, but the category growth rate for dry and wet actually tend to be fairly similar at the overall industry level.

Harit Kapoor: Very clear. Last one was on India advertising spend. So, we have seen a slight decline on the advertising spend part. I am assuming the consumer offer bit has taken care of the balance which is netted off from sales. But just wanted to understand whether given the fact that the situation of the categories we are into right now, do we expect this kind of a trend only to continue that our ATLs in India are tad lower and it's largely driven by consumer offers?

Vivek Gambhir: No. I think it will be quite dynamic and little bit change depending on what launches we have in each quarter. So, that's the part we have to see. The second is, we have gone through a zero-based budgeting exercise on our marketing spend. And so while our GRPs actually have improved, our costs have actually come down similar to what we saw in Indonesia last year. So, we're seeing some benefits of just better marketing spend optimization. I think the mix between ATL and BTL as you are asking will be very dynamic, it will be based on what the competitive landscape is looking like, second of all what new launches are there. But we will not shy away from making the right levels of marketing investment, Harit, to support our brands.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.

Krishnan Sambamoorthy: Can you just highlight whether Power Chip was launched during the quarter and if so what's been the scale-up like since then?

Vivek Gambhir: Power Chip was launched about last year.

Krishnan Sambamoorthy: It is the relaunch that happened, right?

Vivek Gambhir: No. We haven't done the relaunch yet. The relaunch will actually happen later on, probably in quarter 2. What we have done is, I think, there were some product issues that we had to address which have been addressed. There is a new marketing campaign and the marketing mix has been relooked at. And as I was mentioning before, through our conquering the micro markets, this was a far more micro approach. The product is a brilliant product and sometimes some of these new products do take some time to build consumer awareness and acceptance, but we do believe the product has tremendous potential particularly to upgrade coil users and second of all as we start seeing electrification go through rural India, this product will have a lot of, I think, opportunities. It's just taken as a little bit longer to get this right, but we still remain quite confident about this product.

Nisaba Godrej: I think we had messaged in terms of what the problem in the product was, it's the chip and there's a plastic coating on it and they were peeling it off, even though we do not peel. So, now we've just made such that so you can't peel off the chip. So, unfortunately, we had amazing results in our research, and we saw a little bit of peeling in the research, but actually what's happened in the market was that 70% were peeling it off, then the product is not effective. So, that's the correction that needs to be made.

Krishnan Sambamoorthy: So, just when the product was originally envisaged, this was expected to be a huge driver of penetration, somewhat similar to what Fast Card did a few years ago. But at that time you did not have incense sticks planned. Now that incense sticks are also there, is there some rationalization of expectations from this product?

Nisaba Godrej: No, I wouldn't say so because, again, I think if you look at it from a consumer point of view, multi-usage in the category is very high because in the evening when there are lots of mosquitoes I feel that I want extra, I want something strong, so I burn an incense stick or a coil. But while I'm sleeping in the night, I want an electric, because that's safe. I don't want something burning in my house, these things don't last, and there is smoke from the things. So, I mean the idea is that the Power Chip is a great upgrade for someone who has not upgraded to an LV, to a liquid vaporizer, because of cost but does have the smoke, doesn't last long enough, it's burning format with a coil and incense sticks. And the Power Chip formula is quite fast and quite efficacious also.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Just one follow up was on your Ind-AS 116 impact at the consolidated EBITDA level, how much would that be?

Sameer Shah: It's close to around Rs 4 crores at consolidated level, in India it's around Rs 1 crore.

Moderator: Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: I just had 1 question on the sort of Soaps category at a whole if you can talk about how's the volume and the value growth in the category, and also the input cost trajectory and also along with that, is Godrej No. 1 growing faster, or is Cinthol? Or both are in the similar range?

Sameer Shah: So, we'll shy away from sharing category-level details in terms of value and volume growth. For us, we have mentioned historically that Cinthol is a value growth driver and Godrej No. 1 is more of a volumes growth driver and we continue with that strategy in the medium term as well as something, which we have been working on over the last I think 6 to 12 months. In terms of commodity cost, it is benign, it has been on a year-over-year basis also on the lower side. Yes, I mean, we do see it's benign, expected also to be in this range at least in medium term.

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

Percy Panthaki: Just wanted to clarify some data points I picked up from the market on the LV pricing. So, I believe in certain North and Central states the pricing was cut from Rs 72 to about Rs 65-66, so is that cut is still continuing? And secondly, in Bombay, I also saw for the same 45 ml quantity, the Rs. 72 has gone up to Rs. 81, so now we have a very wide band between Rs 65 and Rs 81 for the same product in different geography?

Nisaba Godrej: I think you might have seen a 60 ml refill or an express refill. So, we have a number of different products in the market.

Vivek Gambhir: There are only 2 price points, Rs 72 and Rs 65.

Sameer Shah: Rs 65 is prevailing Percy in North and central India and Rs 72 is the price point for 45 ml liquid vaporizer.

Percy Panthaki: So, the Rs 81 price point is for some other product, is it?

Vivek Gambhir: Could be for Express, if I am not mistaken, so there is also GoodKnight Express refill whose price point I mean could be Rs 81, but definitely not for the Activ Plus which is the hero SKU in the electrics for us.

Percy Panthaki: Understood. Just one follow-up on Indonesia as well, is there any call-outs on the macroeconomic situation or the competitive intensity in any of the 3 or 4 product segments that you are present in Indonesia?

Sameer Shah: No. I think the macros continue to be more of the same and competition wise also, it continues to be quite intense like it has been over the last 12 months, but no significant change there, Percy.

Percy Panthaki: Okay. But there is no sort of like 2 years back, there was a Home Insecticides competitive intensity issue and that I believe has gone. So, no such issue has cropped up in either air fresheners or in baby wipes, right?

Sameer Shah: No, not recently, no. Not what was seen 2 years ago, I think, yes.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.

Pratik Dantara: Thank you everyone for joining.

Vivek Gambhir: Thank you.

Moderator: Thank you very much. On behalf of SBICAP Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.