

Investor and Analyst Q2 FY16 Conference Call

October 24, 2015

Moderator:

Ladies and Gentlemen, Good day and Welcome to Godrej Consumer Products Limited Q2 FY16 Results Conference Call hosted by India Infoline Limited. As a reminder, all participant lines are in 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, 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 Percy Panthaki from India Infoline Limited. Thank you and over to you, sir.

Percy Panthaki:

Good afternoon everyone, welcome to this results conference call of GCPL hosted by IIFL. On the call, we have with us senior management team from GCPL, Mr. Adi Godrej – Chairman, Mr. Vivek Gambhir – Managing Director, Nisaba Godrej – Executive Director, Omar Momin – Head, Africa and M&A, V. Srinivasan – CFO and Company Secretary and Sameer Shah – Head, Finance, India and SAARC and Head Investor Relations. I would like to now hand over to Mr. Adi Godrej who will take you through the salient features of the results.

Adi Godrej:

Thank you Percy and good afternoon. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the second quarter of fiscal year 2016.

We have sustained the strong and competitive performance in the first half of fiscal year 2016 with sales growth of 12% and EBITDA growth of 26%, in organic constant currency terms. We have grown ahead of the market and gained share in our core categories aided by our continued focus on innovations, supported by competitive marketing investments and strong on ground execution.

In 2QFY16, we continued our double-digit growth in sales and profits. Our India business branded net sales grew by 10% driven by a healthy volume growth of 9%. This competitive performance was delivered despite the softness in rural demand and a deficient monsoon. Our international business (in organic constant currency terms) delivered strong sales growth of 15% and EBITDA growth of 35%. Organic constant currency EBITDA, on consolidated basis, grew by 22%. This was aided by lower commodity costs, stringent cost management and effective leveraging of our brand platforms.



I will now recap our key business imperatives and assess how we have performed on these priorities during the quarter. After this, I will discuss the highlights of our financial performance during the quarter. We will then be happy to answer your questions.

One of our most important imperatives is to extend leadership in our core categories - home care, personal wash and hair care. Our focus remains on delivering superior ahead of the market growth, driving consumption and penetration in our core categories, as well as extending into attractive adjacencies. In our India business, we have outperformed the overall market growth. For the quarter, our India business branded net sales growth of 10% has been driven by a volume growth of 9%.

Our Household Insecticides business continued to deliver a strong performance, with a double-digit, volume driven sales growth of 13%. This was achieved despite the deficient monsoon. We continue to extend our leadership position across formats and have ended the quarter with our highest ever market share. Our focus on innovation, backed by superior execution, has enabled us to consistently outperform the market. We will continue to make efforts to widen this market share gap versus our competitors and sustain our double-digit growth in the quarters ahead. Good knight has made significant progress in improving the overall category penetration especially in rural areas led by superior on ground execution, effective communication and success of innovative launches such Good knight Fast Card, Good knight Xpress and Neem Low Smoke Coil. We recently launched an innovative 'Subah Bolo Good knight' campaign to create awareness on Dengue, to increase day time usage and consumption.

Our Soaps business delivered competitive performance with robust mid-single digit volume growth which was partially offset by deflationary pressure leading to sales growth of 3%. We continue to remain competitive on sales promotion investments to gain market share. Cinthol, our premium soaps brand, continued to lead overall value and volume growth driven by distribution expansion and effective communication. Cinthol's strategy of focusing on functional benefits, supported by 360-degree activations is delivering encouraging results.

In Hair Colours, we maintained our strong performance and delivered a consistent, double-digit volume driven sales growth of 17%. We initiated price increase in Godrej Expert original powder hair colour towards the end of the quarter. Godrej Expert Rich Crème sustained its strong growth and market share gains led by continued initiatives such as festival linked campaigns, large scale activations, salon engagement programs, etc. We continue to increase household penetration for the crème format. The initial response to the recently launched Godrej Nupur Coconut Henna Crème has been encouraging so far.

In addition to sustaining our leadership positions in our core categories, we are also strengthening our presence in our emerging categories.



Our Air Freshener brand, Godrej aer, continues its strong sales and distribution ramp up, aided by our innovative gel format technology and consumer engagement initiatives. Godrej aer continues to consistently gain market share and is now the number three player in the air care market. We will continue to focus on increasing its distribution and driving consumption.

Our portfolio of Godrej Protekt hand washes and hand sanitiser – a foray into the Health and Wellness space – continues to be well received in modern trade. Buoyed by its success, we are introducing Godrej Protekt portfolio in general trade on a pan-India basis. We believe that the hand wash and sanitiser categories have a lot more room to grow, given changing consumer needs and increased awareness of hygiene levels.

Our BBLUNT range of premium hair care and styling products continue to be well received by consumers. We have recently introduced the BBlunt range of products in modern trade and premium general trade outlets. We remain optimistic about the growth opportunities in premium hair care market driven by innovation and leveraging our distribution strength.

The second pillar of our strategy is to drive growth in our international business, guided by our three by three strategy, of focusing on three core categories of home care, personal wash and hair care in the emerging geographies in Asia, Africa and Latin America. We believe these emerging market geographies hold tremendous long-term potential. Estimates suggest that these markets will contribute to close to 36% of the forecasted increase in the world’s population over the next five years. Close to half of the total global consumption is also slated to come from these markets. Overall, our strategy will be to drive growth in the categories where we are leaders and have a competitive advantage.

Our biggest international business, Megasari in Indonesia, delivered a competitive constant currency sales growth of 7%, compared to the flat FMCG industry growth in Indonesia. If you exclude the impact of our discontinued foods business from the base quarter, our growth was much stronger at 10%. Our EBITDA margin of 24%, which is before the payment of a technical and business support fee, continues its strong expansion with an increase of 580 basis points year-on-year in the quarter. This was driven by benefits from lower commodity costs and optimization of marketing investments. Our relentless focus on innovation has led to highest ever exit market share in Hit. Even Stella continues to gain market share in Air Freshener category. This year, we launched a range of compact Hit aerosols, an example of how we are creating more affordable versions of our products, given the overall macro-economic slowdown in the country.

Our Africa business, where we have business presence in countries in East, West and Southern Africa, delivered strong growth led mainly by 41% constant currency growth in Darling business. Overall, Africa business EBITDA margin increased by 40 bps y-y led by



calibrated price increases in hair extensions, operating efficiencies and stringent cost control.

Our Latin America business sustained its strong sales growth momentum with a growth of 24%, in constant currency terms. This was driven by the success of new launches and superior on-ground execution. Our EBITDA margin declined 390bps behind one-off SKU rationalization, adverse channel mix in Chile and upfront marketing investments across businesses. Our hair colour market share, in volume terms, in Argentina is at its two year high aided by strong performance of Issue hair colour while market share in Chile increased behind strong performance of Illicit Ammonia Free Hair Colour. During the quarter, we completed the acquisition of balance 40% stake in Cosmetica Nacional.

Our European business, too, saw recovery during the quarter with constant currency sales growth of 13%. The growth was led by double-digit growth in own and distributed brands portfolio. Our operating margins (EBITDA), improved by 20 bps year-on-year, led by a favourable mix.

Our third strategic pillar is to accelerate the pace of innovation and strengthen our brand portfolio. Innovation is a key driver of our growth strategy and it is our endeavor to delight our consumers with superior quality, world class products at affordable prices. Our innovations address the bottom of the pyramid, as well as provide premium benefits to our mass consumers, and are helping us accelerate our growth. Over the last few years, we have introduced several new products and renovations across geographies and categories. In India, we launched Godrej Nupur Coconut Henna Crème, new shades and packs in Godrej Expert Rich Crème Hair Colour, new fragrances in aer air fresheners, Good knight Fast Card, Xpress and Neem low smoke coil, re-launched Godrej No. 1 and Cinthol soap variants, and are now introducing the Protekt range of handwashes and sanitizer in general trade. We also made a foray into premium hair care with BBLUNT and skin-cleansing, with a Godrej No. 1 face wash.

In our international business too, we had several new launches, such as new styles in Darling hair extensions, an ammonia free hair colour for Illicit, a Pamela Grant make up range extension in Chile, new variants for Stella air fresheners and Hit household insecticides in Indonesia and a new range of Soft & Gentle deodorants and Cuticura hand washes and sanitisers. We have a robust pipeline of innovative products to be launched during fiscal year 2016, which will aid stronger growth and market share gains.

Our fourth strategic pillar is to create a future ready sales organisation for our India business. We have done a lot of intensive on-the-ground work to enhance our go-to-market approach and deepen our distribution, both in rural and urban markets. Rural growth continued to be ahead of urban growth for us. We are piloting Project Rural One and Project E-cube to accelerate growth rates and leverage lower penetration in few of our categories. Project Rural One should lay down the foundation of creating a rural organization structure comprising of sales, marketing, trade marketing, media, research,



etc to focus on rural demand generation and demand fulfillment. Under Project E-cube, we would be focusing on our coverage expansion, extracting more from rural, and go-to-market effectiveness.

Our fifth pillar is to build a global best-in-class supply chain. Leveraging a global, best-in-class supply chain to become more agile, is imperative for us. We have established world-class practices and centers of excellence. We are also working with our different international businesses to strengthen and enhance their supply chain processes. Our strategic sourcing team has helped leverage scale and reduce our procurement costs. We are introducing an advanced technology solution in our international businesses to improve our supply chain planning and execution capabilities. We are also introducing mobile based solution for our sales force in our international markets. On 'Project PI', our cost transformation project, we have made good progress and expect to see continued impact over the coming quarters. I am pleased to share that GCPL has been awarded Platinum Level certification by Theory of Constraints International Certification Organization for sustained excellence in TOC implementation."

The sixth pillar of our strategy is to foster an agile and high performance culture. We take much pride in fostering an outstanding workplace and are fully committed to providing our team members with great careers, great rewards and a great work environment. We are also benchmarking ourselves against best-in-class global perspectives and becoming world-class in our approach to attracting, developing and retaining talent.

GCPL was ranked the number 1 FMCG company to work for in India in the Great Place to Work Survey 2015. This is our twelfth consecutive year on the list. We ranked number 14 on the Great Place to Work - Best Workplaces in Asia 2015 list and were featured among Aon Hewitt's Best Employers in India 2015. Our rankings in these people surveys reinforce our commitment to creating an outstanding workplace that attracts and retains talented team members and delivers superior value to our consumers.

I will now cover the highlights of our financial performance.

For the quarter ended September 30, 2015, our organic consolidated constant currency net sales growth was 12%, led by double-digit growth across geographies.

Our India business reported sales increased by 9% on a year-on-year basis. India's branded business net sales increased 10% on a year-on-year basis, led by double-digit volume growth in Household Insecticides, Hair Colours and mid-single digit volume growth in Soaps.

Our international operations, which accounted for little less than half of our consolidated turnover during the quarter, recorded an organic constant currency sales growth of 15%.

Our consolidated gross margins expanded by 490 basis points, aided by lower input costs and cost saving initiatives. Our consolidated EBITDA margins of 18.2%, expanded by 150



basis points. This was driven by better margins in our India, Indonesia and Africa businesses.

In India, EBITDA increased by 15% and margins expanded by 120 basis points year-on-year. This strong expansion in profitability was delivered along with a branded business volume growth of 9%. In our international operations, organic EBITDA margin of 15%, expanded by 210 basis points year-on-year.

Earnings per share (non-annualised) stood at INR 8.43 for the quarter. The Board of Directors has declared an interim dividend of 100%, which translates into INR 1.00 per share.

We remain optimistic that as the economy improves, the FMCG sector should see a gradual uptick in demand. We are launching exciting new products and investing in several distribution initiatives. We will also continue to manage our costs prudently in the near term, while investing for the future.

The medium and long-term growth prospects in India and our other emerging markets remain robust. We believe that there is still a lot of headroom for growth across these markets, given the low penetration and consumption rates in our core categories. I am confident that with our clear strategic focus, differentiated product portfolio, superior execution and top-notch team, we will continue to deliver industry-leading results in the future.

I now conclude my opening remarks on the quarter's performance and open the floor for questions.

Continue: - Q&A...



Questions and Answers:

Moderator:

The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

On the domestic business, in both categories of coils and soaps, raw material prices are down. Please take us through how local regional players are coming back, how easier is it or tougher is it versus the previous down cycle? Secondly, gross margin expansion has been very healthy in the domestic business but EBITDA growth is 15%. So, the increase of 28% in A&P is a structural change or is it because of the new brands? Also, could you give the split of A&P in the domestic business?

Vivek Gambhir:

With regards to your first question, in the soap segment, we have been seeing the emergence of few of the regional players but the effect is a lot less than what it was in the past. What we are finding is that consumers are gravitating more towards the more established brands. Once regional players have been out of the market for a while, typically it takes them a lot more effort and challenges to be able to secure distribution back. So, while there clearly is some impact from regional players, the effect is a lot less than what it was three or four years ago.

With regards to your second question on A&P spends, A&P spends have gone up but I suggest looking at this on a two year CAGR basis, because on a one year basis, it is a 28% increase but the base was much lower. In Q2 FY15, A&P had de-grown by about 4-5%, so the actual CAGR over a two year basis is about 10%. Also, if you compare Q2 FY16 versus Q1 FY16, the decrease has been of about 80 basis points. So, we feel very comfortable that we are keeping our A&P spends in the broad range of 11% to 13% and that is the range we want to keep it in.

Another important point is that we are maintaining the ratio between advertising and our sales promotion spend; the ratio has been fairly consistent over the last few quarters. Within our A&P spend, a disproportionate amount is going towards our new launches. So we feel the right strategy for us is to strengthen our brand and support our innovations, going forward, which is a right marketing mix for the Company.

Abneesh Roy:

This time, soaps had a lesser impact of consumers down trading, so what has changed in this cycle versus earlier? And for soaps segment, other players are seeing huge margin expansion, so is there a rational competition in soaps currently?



Vivek Gambhir:

It is not unusual for players to intensify sales promotions whenever commodity costs are lower. This is something which we have seen in previous cycles as well. Even in this cycle, we are seeing relatively more intense competition. Clearly, sales promotion is an important part of the marketing mix to try and simulate demand, but, we believe, that indiscriminate use of sales promotion can also be value eroding over time. We are being competitive on sales promotion but we are also trying to maintain the right balance between ATL and sales promotion. So we are enhancing the long-term equity of our brand, while also doing what is necessary to stimulate consumer demand. Players have to be careful to not overdo the sales promotion part because it can figure a perverse behavior in consumers, who then look at buying the brand only when there is an offer. We believe, any of these gains in share can be short lived as consumers are likely to switch once an offer is withdrawn or if someone else gives a better offer. In this softer raw materials cost environment, growth will be volume led, but we are focusing equally on innovations and premiumisation to drive both volume growth and a certain amount of price growth.

Also, we are seeing commodities cycle become a lot more volatile. Some of the commodity prices may have bottomed up, and while they would still be lower than last year, you may not see the similar kind of continued declines in commodity prices going forward. So, we do expect some pricing growth going forward as well.

Abneesh Roy:

Raw materials in coils segment has also corrected, so are you seeing local or smaller players coming back strongly this time?

Vivek Gambhir:

No. In insecticides, it has largely been a four player market, with the four players comprising almost 100% of the market. So, there is no real threat from regional or local coil players.

Adi Godrej:

In all our categories, the major players' share is not declining at all.

Vivek Gambhir:

And as Mr. Godrej said, even in the soaps category, the shares of all the major players have been relatively consistent.



Abneesh Roy:

Are you planning to scale up BBlunt and Protekt advertisements significantly because now you are getting into more distribution channels? Could that be an issue in terms of higher A&P?

Vivek Gambhir:

We will calibrate it. With the current commodity cost environment, there is room to invest adequately behind brands. Actually, it is the portfolio decision. We feel fairly comfortable to keep our A&P within 11% to 13%, that number will fluctuate quarter-over-quarter but, we believe that we can adequately support our new launches and if necessary, redeploy some marketing spend to remain within that range.

Abneesh Roy:

How confident are you on the new concept "Subah Bolo Good Knight"? I understand dengue is a big scare but it can be temporary, so when it dies down how do you really sustain the day usage part?

Vivek Gambhir:

Clearly, it is a journey and any habit change or habit formation does end up taking some time and investment. Having said that, given the huge amount of worries and the fact that a lot of people end up dying because of dengue, actually takes this problem at a totally different level. This is a critical campaign, where we will actually work with schools and local government bodies and establish thought leadership. So this is a long sustained campaign, but we do believe that there is a huge opportunity sitting in front of us here and for the industry as a whole.

Moderator:

Our next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

Jubil Jain:

For Indonesia, the FMCG growth was almost flattish, so what would be the current FMCG growth rate for Africa and Latin America and what would be the outlook for these markets?

Sameer Shah:

In Africa, we do not have a tracking agency like Nielsen, which will provide overall FMCG growth rates. Also, Africa is actually across many countries for us, so there is no such readily available data for overall FMCG growth rates in Africa.



Jubil Jain:

Any comment on key markets like South Africa or Nigeria?

Sameer Shah:

If we compare our growth vis-à-vis some of our peers over there, we are growing far-far ahead of our peers and gaining market share.

Jubil Jain:

What about Argentina and Chile?

Vivek Gambhir:

It is lower to mid-single-digit volume growth.

Jubil Jain:

Tax rate for this quarter for the consolidated results is below 20%, is there any specific reason for this and what would be the tax rate going forward for FY16?

V. Srinivasan:

The consolidated tax rate takes into account the tax provisions required in various geographies, so it is just aggregated, it is not cancelled against one another. These numbers will be around 20%.

Jubil Jain:

Yes, but for FY16, can I assume the tax rate to be around 20%?

V. Srinivasan:

Yes, you can. In the range of 20% - 21%.

Jubil Jain:

This quarter we saw the minority interest falling, is it solely because of the Cosmetica Nacional acquisition?

Sameer Shah:

No, it is on account of the Darling business, wherein we have moved up our stake from 49%-51% to 90%-100% compared to the base.

Moderator:

Our next question is from the line of Latika Chopra from JP Morgan. Please go ahead.



Latika Chopra:

What is the underlying organic volume growth that you are seeing across your key geographies of Indonesia, Africa and Latin America? Any outlook on Indonesia revenue growth and Africa margins for FY16 and FY17?

Vivek Gambhir:

Roughly speaking, combining all international markets, there has been about 60% volume growth and 40% price-led growth. On aggregate basis, if you look at our overall growth of 12% in reported sales growth constant currency, around 9% would be volume growth and around 3% would be price-led growth at a consolidated basis.

Omar Momin:

For Africa, that would be about a third from pricing and the remainder from volume.

Latika Chopra:

Also, could you share any feedback on some of the new category forays that you have been making particularly with hair care products and household insecticides in Africa and some in India? Henna Crème color is encouraging, but any more thoughts there?

Vivek Gambhir:

It is too early to give you any definitive information. We have launched wet hair care products in Kenya in Africa. We are piloting insecticides in Nigeria, we will look at expanding into two more countries in Africa later this year. Nupur Coconut Henna Crème has been in the market for few months, so it is too early to say. We are getting an encouraging response but we will have to wait for few more months before we will have a more definitive view point.

Latika Chopra:

Africa margins of 15%-16% for FY16, is it doable?

Omar Momin:

It would be in line.

Moderator:

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

Arnab Mitra:

On the HI category, you had the benefit of a very weak base in the first half. In H2 FY16, is there a worry that growth rates could come down because you had a decent H2 FY15?



Also, other than the dengue campaign, is there anything in terms of innovation pipeline which you think can help counter the slightly higher base of the second half?

Vivek Gambhir:

The business is on a very strong wicket; ultimately what influences the growth rates to a certain extent is the season. If the season is good in Q3 and Q4, then it should be a very strong performance. With regards to innovation, we have some more plans for early part of next year, we have Fast Card, Good Knight Express, Neem Low Smoke Coil. So, across the three major formats, we have launched innovations over the last 12 to 18 months. There are tremendous opportunities for growth, whether it is rural penetration through Fast Card, urban consumption through Express, also upgrading people, who use coils to low smoke coils. So, we have the portfolio and the growth vectors in place and our share is at an all-time high. But the performance in the second half will depend a little bit on how the season pans out.

Arnab Mitra:

Margins in the Indonesia business have gone up very sharply. Now, economy and consumption has slowed down in Indonesia, so do you think margins are sustainable because typically competition tends to rise during a slowdown in the economy? So any thoughts on Indonesia margin sustainability?

Sameer Shah:

Margins are at an historic high in Indonesia over the last four to five years and a good part of margin expansion is coming behind crude's impact even after offsetting the Indonesian Rupiah depreciation to US Dollar. Definitely, the margins will stabilize once the commodity costs also stabilize. It is difficult to forecast at this stage, whether the margins are sustainable over a period of time. Some part of margins is driven by mix, some is driven by continuous cost reduction program and this driver will continue in terms of margin expansion over a period of time.

Arnab Mitra:

Are you utilizing extra margins to drive innovation in Indonesia? Is it that our advertising spends on innovation is going up there in this lower input cost scenario?

Sameer Shah:

Both advertisements as well as sales promotion as a percentage of revenues are moving up on a year-on-year basis.



Adi Godrej:

Part of the savings in commodity cost is being put into increased growth and part of it into the bottom-line.

Arnab Mitra:

We had a tailwind in Africa in the last couple of quarters, where you tactically took a call to delay the pricing increases. Is the situation, where your competitiveness versus the other players who import, is continuing ahead or since you have also started taking pricing that advantage goes away, because the organic growths are still very high in Africa?

Omar Momin:

It will taper down from the coming quarter onwards, so we will now soon comeback to more natural growth rates. Now, we are in a position, where this is stabilizing in terms of our market share.

Arnab Mitra:

In African countries, especially Nigeria, since there has been crude reduction, have you seen any major impact on basic consumption or is it still a reasonably normal market there?

Omar Momin:

There has been a slowdown in overall FMCG growth, so it is still in the positive territory but compared to a few years ago, the overall consumption growth is lower than what was earlier.

Vivek Gambhir:

Our superior performance has been much more a function of our execution and outperformance. The market environment remains very challenging across South Africa and Nigeria, in particular, and has been like that for the last four to five quarters.

Arnab Mitra:

In Q2 FY16, standalone basis, there is almost a 39% jump in employee cost and it was also very high in Q2 FY15. I know you do follow a EVA-based thing but any reason why the hike is so substantial in H1 FY16, almost over 50%?

Sameer Shah:

This is completely driven by delta EVA, to which delta PAT could be a good surrogate. Even if you look at this quarter, the net profit growth, without exceptional items, has been close to 37%, after providing for this relatively higher performance-linked variable



remuneration. So, it is completely linked to the delta EVA for that particular quarter. For H1, our overall net profit growth would be close to around 30%- 35%, after providing for this higher variable remuneration.

Arnab Mitra:

Standalone PAT growth is not that strong this quarter, it is driven by international. In that context, for standalone, it seems to have driven the bulk of employee cost increase.

Sameer Shah:

While reported wise it is standalone, this also happens to be the corporate office. Many in corporate office have their EVA, which is driven by the overall consolidated business delta EVA and there are also set of employees, who get delta EVA basis India business.

Moderator:

Our next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva:

In Indonesia, 24% margin before technical fee looks to be very good. But contrasting it to India business where the EBITDA margin expansion has been a lot lower because a lot of re-investment has gone in. Is it not that we are investing in a year which is acting as a very high base? In FY17, if the market does not recover and if the commodities stay where they are, then margin has no way to expand further and perhaps reinvestment rate could be higher. So as compared to FY16, are we just falling off the cliff in terms of earning growth next year?

Sameer Shah:

We are passing some part of margin expansion to consumers, we are re-deploying some part of margin expansion in advertisement and sales promotion expenses, which is a driver for future growth and the rest is coming to the bottom-line. In India, there are two drivers in terms of gross margin expansion to EBITDA margin. One is performance in variable remuneration which sits in the employee cost, which is relatively larger as compared to perhaps what it is in Indonesia business. Second is also the investment both in advertisement as well as sales promotion, at least for this quarter, has been relatively on higher side.

Amit Sachdeva:

In Africa, price hikes were delayed so the margin recovery that was anticipated would likely happen as the price increases kick in. Are you not worried about additional Naira's impending devaluation risk, which might need additional set of price hikes than what we



have already planned to accommodate the existing inflation? Are you not worried that margin expansions will be delayed?

Omar Momin:

In terms of our immediate outlook on the major currencies, we are seeing them to be quite stable and therefore we do not expect a significant further devaluation. We are now in a period, where assuming these currencies remain stable, we will be looking at getting business and growth back on track. So we do not see a risk from the currencies in a significant way, going forward, which is why we should now consolidate our acquisition business-wise.

Adi Godrej:

Margin expansion is not only because of commodity cost coming down, we have several cost cutting initiatives across geographies and those will continue into the future.

Amit Sachdeva:

You said there was a one-off in some SKU rationalization in LATAM and also there is some effect to Chile. Can you just give a little bit more color on that?

Sameer Shah:

Let's de-segregate margin expansion profile between Argentina and Chile, where in Argentina business we have expanded our margins and Chile is the business where margins have contracted. There are a couple of reasons: One is we had adverse sales mix and 86% of our sales in Chile is to modern trade, wherein we had a relatively higher on invoice discounting and offers, which have resulted in adverse sales mix and lower realization impacting EBITDA. Secondly, as part of our cost reduction initiative, we had SKU rationalization especially the stale SKUs in the business, wherein we had to take some write-off which has also added to this adverse sales mix, net-net resulting in the margin contraction, which you have seen in LATAM business.

Amit Sachdeva:

What would be the outlook for this going forward, when will we be seeing the impact of this rationalization coming through and when do we see benefit of that flowing in?

Sameer Shah:

For FY16, at this stage, we are quite optimistic and confident that on a full year basis, we will see margin expansion in LATAM.



Vivek Gambhir:

We have taken over operational control of our joint venture in Chile from October onwards, so as our team starts working much more on operational improvements, it might take us a quarter or two but definitely, you will start seeing improved performance from Chile, the way you had seen it in Argentina.

Moderator:

Our next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon:

On the HI business, are we to believe that in the next couple of years say, FY2017 or FY2018, it is more of a low double-digit revenue growth category? I am asking this because this is possibly one category, where the economy or the affluence impact is possibly lower. So in that context, is it just that now you are more than 50% share and the share gains led outperformance is probably lower?

Adi Godrej:

In household insecticide penetration, the number of users who use the product is quite low in rural India, so one of the great opportunities over the next few years will be to increase the penetration in rural India. So we expect that the category will continue to grow, of course, it certainly depends on our own innovations, our own stress on rural distribution, etc., but the opportunities are many, unlike the soap category, which is pretty much penetrated.

Vivek Gambhir:

This category has been growing in low double-digit for the last five to 10 years, so there is no reason to believe why suddenly this double-digit growth should come down. For instance, Mr. Godrej talked about rural penetration providing significant opportunities, even in urban India about 70% of households only use an insecticide when they go to bed at night. So, if you just think about the opportunity to be able to expand consumption, by either encouraging users to start using insecticides say at 6 o'clock in the evening, because the biggest incidence of malaria mosquitoes is evening and dawn or early morning, where the dengue mosquito is prevalent. So if you think about expanding the amount of time a household can use insecticide for just one product or multiple products, we still feel very optimistic that the opportunity is significant for the next few years.

Nisaba Godrej:

Also, if you divide the Indian market into mosquito and non-mosquito product, India is very much a mosquito market even though cockroaches is also a problem. So in innovation pipeline, we are looking at penetration, consumption, better products to



increase willingness to pay and we are looking at non-mosquito market. So even bed bug is a huge problem and people do not actually have a solution. So we have a lot planned coming in the next few years, which we are very confident about.

Manoj Menon:

About the possibility of price growth kicking in as we speak looking into the second half, is it fair to say that you are largely referring to hair color and not HI and soaps in India?

Sameer Shah:

We are evaluating different formats, different brand, which basis our historical trends and our experience is more inelastic but definitely, we are seriously thinking about taking very select price increases as what we have seen in Q2 itself, wherein on Expert Original powder hair color, we took around 6%- 7% price increases. So we could see some very select price increases even in H2 from our end.

Vivek Gambhir:

Value growth along with price increases will come from new incremental variant launches, which could be at higher price points. It could also be mix shifts, for example, even within soap, if we can manage to grow Cinthol faster than No. 1 that will give us additional value growth as well.

Moderator:

Our next question is from the line of Percy Panthaki from India Infoline Limited. Please go ahead.

Percy Panthaki:

In FY14 and early part of FY15, we had a slew of new launches and innovations, etc., and then in the last four quarters, although there have been innovations, the pace has been lower than what we saw earlier. So should we forecast a steady pace going ahead or do you think there will be another very intensive period of innovations like we saw about one, one and half years back?

Vivek Gambhir:

We are getting huge number of very interesting launches ready, our internal pipeline is actually very exciting and is quite packed. What we try and do is, first we look at market conditions, secondly we ensure that whatever innovations we are launching are being adequately supported from both, a sales bandwidth and a marketing investment point of view. So some calibration happens to try and keep our marketing investments or A&P between 11% to 13%. Basis that, we are calibrating some of our launches and in some cases, we pushed a couple launches till we see how the market conditions improve, but



suffice to say, in terms of the intensity of the work that is going on, the work is actually getting more and more over time and we are getting more and more excited about what we have in our stable. The actual number of launches will depend a little bit on market conditions, on affordability and bandwidth.

Percy Panthaki:

The range of A&P spends is about 11 to 13%, which is fair because there is always a volatility on a quarter-to-quarter basis but averaged for the full year, what do you think that figure could be because 11 to 13% is a big range for a full year number?

Sameer Shah:

It will be too difficult at this stage to even narrow down the range of 11% to 13%. Having said that, we would also stick to the earlier given guidance of EBITDA growth ahead of sales growth. So, the range of 11% to 13% of A&P spends, will remain more or less for the year.

Percy Panthaki:

What would be the difference in the value growths for Cinthol and Godrej No.1?

Sameer Shah:

For competitive reasons, we cannot share brand-wise financials, but directionally Cinthol has done better for us compared to Godrej No.1, relatively in this quarter.

Moderator:

Our next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu:

What is the difference in the degree of gross margin expansion seen in the India business and the international business? It is about 680 bps in India and less than half of that in international, below 300 bps, is this because of soaps?

Sameer Shah:

In India business, the expansion as you rightly pointed out is 680 basis points, which comes from different drivers, one being a 1% price-led growth, and then there is mix impact, commodities' impact and cost saving initiatives. International business, Indonesia margins are expanding at a very healthy pace, Africa, LATAM margins are expanding but at a relatively lower pace than India and Indonesia.



Richard Liu:

So this vastly different magnitude of gross margin expansion cannot be attributable to soaps in India?

Sameer Shah:

No, in India, it is not only soaps, it is also household insecticides. Because of the crude impact, there is a very healthy expansion in household insecticide category.

Richard Liu:

So given that it is led by categories, which are more or less comparable between international and India, why would the degree of gross margin expansion be so different in the two geographies?

Sameer Shah:

In hair extension, which is in Africa as well as in larger hair care play in Latin America business, the margin expansion is relatively lower as compared to what it is in India and Indonesia, which is more to do with household insecticides and air fresheners in Indonesia and soaps and household insecticides in India.

Adi Godrej:

Also the effect of devaluation to the dollar is very different in the international business and in the Indian business.

Moderator:

Thank you. I would now like to hand the floor over to Mr. Percy Panthaki for closing comments.

Percy Panthaki:

I would like to thank the management team of Godrej Consumer Products to take time out and answer our questions on this quarterly earnings. Thanks and over to you, Mr. Godrej, for closing remarks.

Adi Godrej:

Thank you everyone for joining this call. We appreciate your joining and if you need any further clarifications, we would be happy to address them.

Moderator:

Thank you. On behalf of India Infoline Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.



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

