



“Godrej Consumer Products Limited Q1 FY-22 Earnings
Conference Call”

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MODERATOR: **MR. ANAND SHAH - AXIS CAPITAL LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY22 Earnings Conference Call of Godrej Consumer Products Limited hosted by Axis Capital Limited. As a reminder, all participant lines will be 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 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. Anand Shah from Axis Capital. Thank you and over to you sir.

Anand Shah: Thanks. Good morning, everyone and on behalf of Axis Capital, I welcome you all to the Godrej Consumer Q1 FY22 Earnings Conference Call. Without further ado, I will just hand it over to Pratik Dantara – AVP (M&A & Investor Relations) to do the introductions and take the call forward. Thanks, and over to you Pratik.

Pratik Dantara: Thanks Anand. Good morning, everyone. We hope that you’re saying safe and healthy. We will be covering today the results for the quarter ended 30th June, 2021. On the call from GCPL, we have Ms. Nisaba Godrej; Mr. V. Srinivasan and Mr. Sameer Shah. As is customary, we will start with Nisa sharing her perspective on the business and overview on how we are navigating the current environment.

Nisaba Godrej: Thank you Pratik. Good morning everyone, I hope you and your families are safe and healthy during these times. Thank you so much for being with us on this call today.

We have had a strong start to the year delivering double-digit profitable sales growth. Specifically, in quarter one, we saw broad based double-digit growth within the homecare and personal care categories. Our overall sales grew by 24% with a two-year CAGR of 11%. EBITDA grew by 29%, with a two-year CAGR of 15%. And PAT grew by 38% excluding exceptional items. Homecare delivered a strong growth of 14% led by Household Insecticide. Air Fresheners continued to witness sequential recoveries. The overall category continues to face headwinds due to its discretionary nature. Our portfolio of home hygiene is scaling up well.

Personal care continued its strong growth momentum growing by 29% led by Personal Wash and Hygiene and robust growth in our Hair Care portfolio in Africa, USA and the Middle East. We look forward to building on these categories in the years ahead. From a geography perspective, India grew at 19% with a two-year CAGR of 12% led by broad based growth within the homecare and personal care. In homecare, Household Insecticides delivered strong double-digit growth, with the two-year CAGR also in double-digits. Home hygiene witnessed strong demand amidst the second wave of COVID-19. Air fresheners and Fabric Care witnessed growth on a low base. In personal care, Personal Wash and Hygiene continued momentum with strong double-digit sales growth, two-year CAGR were also in double-digit. Hair Color also witnessed very high growth, but on a low base. Our innovation rate was in the high teen, the scale of our e-commerce business continues well.

Indonesia delivered a weak performance with flat constant currency sales growth on a base growth quarter of mid-single digit. Recovery has also been impacted by the second wave of

COVID-19 and adverse macro-economic factors. Our Africa, USA and Middle East business continued its strong growth momentum and deliver a profitable double-digit sales growth of 60% in constant currency terms, I'm pleased with strategic focus and growth mindset of the team.

Our consolidated EBITDA margins at 21.3% increase by 90 bps year-on-year driven by improvement in Africa, USA and the Middle East and Latin America and SAARC margins.

In India, margins decreased by 110 basis points year-on-year driven by the lag between an increase in input cost, and end consumer price increases. This was partly mitigated through scale leverage in employee benefit expenses and other expenses. We continue to have a very healthy balance sheet. Our return ratios continue to move up year-on-year while the net debt to equity ratio continues to come down. We remain confident of leveraging growth opportunities to drive sustainable profitable sales growth across our portfolio in fiscal year 2022. I'm very proud of the exceptional agility and resilience with which our team is navigating the challenges of COVID-19 across geographies, ensuring seamless supply chain deliveries and responding to shifts in consumer behavior.

We also continue to adopt a safety-first principles across our ecosystem supporting our team members, their families and business partners across to get fully vaccinated. As always, our values matter the most at this time. We remain committed to doing our best to truly live the Godrej way and serving our people and communities. 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 from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on Household Insecticides and there are two parts to this. So one is you got good benefit of the pandemic in India. And now Indonesia in some parameters is even ahead of what India saw in May in terms of the pandemic. So, any benefit you're getting either in Q1 or Q2? Second is on Maharashtra, what you have done in terms of the Jumbo Fast Card. So, earlier there was an efficacy issue versus illegal incense sticks. So, what is different this time and any timeline you can share on the disruptive products which are going to come against incense stick?

Nisaba Godrej: So, let me answer that Abneesh. Hope you hope you and your family are well. In Indonesia, because of the second wave we've definitely seen very high pickup in the hygiene space especially in Saniter. In Household Insecticides, we didn't see as much of a pickup in Indonesia, like we saw in India. There's also some amount of destocking going on in many markets. So, we will wait and watch to see what happens in quarter two. July was a bit better in Indonesia. On your question on Jumbo Fast Card, we believe this is an effective product against illegal incense stick. Fast Card burns in three minutes, it works like an economic aerosols, so it gives you a lot of active immediately. But what we found was that what consumers like about the illegal incense sticks is that it burns for about 30 to 45 minutes, and then there's some residue effect. So, the Jumbo Fast Card also burns for 45 minutes to an hour and then you have residue

effects for about four hours. So, it is directly against illegal incense stick in terms of the job to be done for the consumer.

Abneesh Roy: So, just one follow up on this. So, weaker Household Insecticides in Indonesia versus India, that's because of the weaker FMCG sector performance there because of the GDP or in India the new products are doing well or the base is favorable in India that's why India is growing faster?

Nisaba Godrej: Abneesh, the base was very high in Indian at 26%. Indonesia does have its own struggle of the macro impact, so I don't think you can directly compare to India in terms of what exactly is happening and the portfolio is also relatively different between India and Indonesia.

Abneesh Roy: Sure. My second question is, in the Annual Report you mentioned FY21 was the busiest year in terms of digitization and digital native brands launch, etc. So, two questions here. One is some of the FMCG companies are doing their own e-commerce site and second, they are also investing in digital startups. So, what would be your thinking on this, from a medium, long-term perspective?

Nisaba Godrej: So, we have a dedicated e-commerce P&L. We have also got an entrepreneur in residence. We launched, Goodness.Me, which is a digital first brand and we have other brands also like Bblunt, which are very digital. So we really feel, this is an opportunity. The priority number one is to double down in your core on this but also to build new consumer franchises through this.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I wanted to understand the gross margin comment. You pointed towards a lag between input cost pressures and price hikes. Could you help give some sense on the inflation levels and what price hikes are still required to be taken. And a linked question, if you could help us understand, from a cost control because that's been one of our traditional specialty, you have been able to offset these pressures. How would you look at EBITDA margin and operating margin on Y-o-Y basis?

Sameer Shah: Hi, Avi this is Sameer here. The input inflation is largely coming in from palm oil prices, as well as crude prices, which are up on a Y-o-Y basis. We continue to take calibrated price increases. If you look at last quarter, the overall price increase in India was close to around 4% to 5%. And if we double click across some of the subcategories, in categories, like Personal Wash and Hygiene, the price increases would be in high single digit to even double digits. So, we would continue this approach of taking calibrated price increases. It has worked very well for us. If you look at our Personal Wash and Hygiene growth over past few years, they have been very strong, market shares also have been very robust in terms of gaining market share in this category. We would in parallel evaluate pricing opportunities and rest of the portfolio, as well as work more hard on cost saving projects. And to answer your question on cost saving projects historically, they have contributed anywhere between 2% to 3% of sales. And part of that has got reinvested

back for growth, and part of it flows to the bottom line. So, that's the approach which we will have and we expect inflationary pressures to continue.

Avi Mehta: Okay. And second was essentially on the Household Insecticides. Would it be fair to look at Jumbo Fast Card now as the key warrior for incense stick, and hence the active based incense stick, active ingredient incense stick kind of takes a backseat. Is that a correct read through?

Nisaba Godrej: I think that's a bit hard to comment on, obviously we have a fewer strategies, but I don't think we want to give out exactly on what we're planning on that.

Avi Mehta: Okay. And lastly if I may on the Indonesia side, could you give us an update on how the situation has been on ground as of now and how are our growth rates? Have you seen some recovery?

Nisaba Godrej: We have definitely seen a better July, although it depends on the base. If you see the FMCG numbers, the macro economic situation hasn't been particularly strong. But we definitely feel, our hygiene brand Saniter has been a big success and continues to do well. We are really focused on deep diving because our categories are strong even during a pandemic in terms of really focusing on growth and if Sudhir comes in also it will be a big focus area for the rest of the year in terms of getting Indonesia to grow strongly.

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

Harit Kapoor: The first question is on the Africa portfolio. So, obviously, we've seen an improvement on a year-on-year basis. But, if we look at sequential margins at EBITDA level, we've not seen a material improvement there for this quarter. So, I just wanted to understand on the Africa side, we're still obviously much lower than what we were in quarter two. Is there a gross margin led pressure here because your international gross margins are a bit lower. So, just wanted to understand what's happening or is it higher spends on brand investments, impacting the overall margin improvement?

Sameer Shah: Hi Harit this is Sameer here. Sequentially the major event for drop of close to 100 bps margins in Africa is because of higher marketing investments. And that's the only reason. Also we have to note the seasonality in our Africa business in and around quarter three coinciding with the festive season, there is significant scale which comes to play in terms of driving the margin. We are very much on track in terms of our journey actually for Africa cluster, which will get played out over the next three, four years in terms of us reaching to mid to high teens margins. So, there is inflation pressure over there, but we are mitigating it through pricing, we are also mitigating it through cost saving programs, and we are very much on track in terms of our desired margin, which will be higher on a Y-o-Y basis on a full year basis.

Harit Kapoor: So, Sameer if I understood you correctly, the two key reasons for this quarter would be higher inflation and the upfront investments right for this quarter specifically?

Sameer Shah: Yes, if you are base lining it with Q4, I would attribute it more to the higher upfront marketing investments and little less to inflation because we had inflationary pressures even in Q4, it's not that inflationary pressures kick started within Q1.

Harit Kapoor: Got it. And the second question was on the India business. So, from a homecare perspective, you have big plans in home hygiene. Just seen some of the competitors who got in this segment about anywhere between 6 to 12 months back kind of retraced a little bit in certain categories. So, just wanted to understand how are you looking at that space specially on the home care side, your commitment to the space, etc. , product categories which you are going to look at etc. So, just wanted to know, given the start versus now how are you thinking about it?

Sameer Shah: So, Harit this continues to be very strategic portfolio for us, the entire hygiene space. One of our most innovative product, Magic powder to liquid hand wash has been a big success, over the last 15 to 18 months and we continue to invest in terms of creating awareness for the product, as well as creating a stronger brand equity. The rest of the portfolio beyond hand washes also are steady. I'm sure you are aware, we also launched somewhere during the middle of last year, the whole cleansing range under brand ProClean and that is also off to a good start. And we will see a lot more, from our end in this space. It's not just a tactical strategy from our end to get into this category, but more structural in nature and which in turn is part of our larger ambition of expanding the total addressable market strategy over a period of next four to five years in India.

Harit Kapoor: Got it. The last thing if I may was on the sequential increase in working capital days, anything to read into that, or not much?

Sameer Shah: We need to dissect working capital into two components. One is the reported working capital, which is what we have shared and then there is core net working capital, the difference between both of them being the structured vendor financing. Two things, one is directionally we are taking call to reduce down our structured vendor financing because it's no longer EPS accretive especially in this low interest rate regime. So, we are, going to pull down and that's going to be the big reason for drop in overall net working capital. However, the core net working capital continues to be extremely robust. In fact, even in Q1 on a Y-o-Y basis our core net working capital has come down by five to six days. The other piece also which got played out from net working capital perspective in Q1 was higher buildup of inventory, because of second wave and a lot of related uncertainty, we were very upfront in terms of ensuring that we have adequate inventory right from raw materials, packaging materials, to even finished products. So, directionally, the inventory values also moved up. So, it was kind of driven by both lower structured vendor finance as well as buildup of inventory.

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

Vivek Maheshwari: Two things, first on the A&P spends, what is your outlook on the A&P spends which have gone down quite a bit?

Sameer Shah: So, Vivek, hi this is Sameer here. If you look at A&P spends in India as a percentage of sales in Q1 they are hovering around 5% to 5.5%, which is relatively lower as compared to our average percentage to sales. Couple of things, one is in the month of May we had taken a pause because the second wave and a lot of uncertainty, so that has resulted in a relatively lower A&P spends. The other piece is to look at A&P spends aggregated with trade investments especially with customers promos and more so, with the pricing investment, because we are also taking calibrated price increases at this point in time, and not passing all input inflation to the end consumer. So, when you look at basket of all three put together which is advertising spends, trade promotion spends as well as pricing investments, the aggregate basket is gone up as a percentage of sales and the increase has been much beyond the overall sales increase. So, it's more of balancing also at this point in time and maybe in medium term, because we are in high input inflation environment.

Vivek Maheshwari: Okay, got it. And second, Sameer can you give exact growth numbers for Soaps, Hair Colors and Household Insecticides in India?

Sameer Shah: So, Vivek we had shared in our disclosure changes last time around that we would be sharing directional growth, and this directional growth are baked in. To give you an idea, Household Insecticides have very strong double-digit growth and even our CAGR was in double-digit, same was the case for Personal Wash and Hygiene in which actually bar soap is bigger contributor and even Hair Colors had a very strong growth although on a low base and its CAGR is also relatively lower but we are seeing sharp recovery in June and July. So largely all the three categories, sub categories have been in strong double-digit and pretty well placed at least on a two year CAGR basis, especially when it comes to Home Insecticides, and Personal Wash and Hygiene.

Vivek Maheshwari: Okay, got it. Sir only one suggestion, if you yourself analyze the last 12 quarter performance, the disparity between the three categories has been or three key segments have been very, very high. It will be useful if you keep the disclosure at the same level, it will allow us to appreciate your performance much better, because when you say double-digit, if everything is double-digit that doesn't really help because the 12% is also a double-digit, and a 25% is also a double-digit. So, my request is, if you can continue with the same disclosure level, at least in the presentation, you have a new segment that's fine, but if can give a precise number that will really help because the volatility in your performance has been very, very high. And that will really help when the three categories are behaving very differently.

Sameer Shah: Sure, Vivek, thanks for your feedback. The intent remains to share a lot of details on our subcategory performance, including a lot of initiatives so that external partners like analysts, investors they had a good flavor of what's happening in terms of building blocks as well as eventual performance. We will mull over it Vivek, thank you for your feedback.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: I have only one question to Nisa and team. See, given the fact that consumers spent much more time at home in the last 12, 15 months, etc. Two sub questions there, one on the insecticides non-mosquito part of the portfolio, how that would have trended and anything directionally which could make this non-mosquito part grow faster. Secondly, the same question, if I can extrapolate to air care also. While I understand that in India, a significant component of air care is still out of home, but again two sub part, was there an opportunity to actually push a little bit of more on air care in the last 12 months, or even in the next three months, six months. And again, any insights which will allow these two segments to grow much faster versus the trend growth rates in the past. Thank you.

Nisaba Godrej: Hi, Manoj, thank you for your question and hope you're well. In our non-mosquito household insecticide growth has actually been very robust and we see great opportunity for this in our portfolio and we see things like cockroach, very highly correlated to advertising, present a problem and present the solution to consumers, and penetration is quite low in these products. So, we see a huge advantage. We could also more effectively compete against things like pest control, because consumers can avoid pest control people coming into their house. So, this is definitely a growth opportunity. Similarly, in air care Manoj, penetration is sub 5% levels. With good products and good advertising, great headroom for growth. Air care obviously is discretionary during the pandemic. We've also seen that people have been doing more cleaning, bathroom with a fragrance and floor cleaner three times a day. And since people are not having guests over, then air care is becoming a little bit discretionary, but we do see it bouncing back and we are very focused with having the right product, right advertising and right level of investment. Both these areas are definitely very exciting growth opportunities.

Manoj Menon: Thank you Nisaba. One follow up if I may, what I was just trying to get is, any incremental insights which you had picked up in the last 12, 15 months or which will include quantitative and qualitative both, quantitative could mean let's say household penetration increase, or anything of that sort.

Nisaba Godrej: So, in Household Insecticides, household penetration has actually gone up across all categories. We are seeing people the need to protect themselves. And we're seeing Household Insecticide also do well, because we have this full portfolio of products. I was commenting that the low penetration in the non-mosquito segment also gives you a lot of headroom and many years of growth. Air care, I explained qualitatively what we've seen happen in COVID, it's become a little discretionary to me. we see that trend reversing as things open up and we have the right product, right advertising. We're quite excited about this re-launch of Aer pocket where we've made it Aer power pocket, which has some germ kills abilities and lasts longer. On air care as travel improves, we have a new launch lined up for cars also at a very interesting price point. So, with the right product portfolios and right advertising and investment, both these categories offer long-term growth opportunities.

Manoj Menon: Sure. And lastly on Household Insecticides launch which you had done in Africa a while back, I just saw mentioned in the presentation about Nigeria, but some commentary would be helpful. Thank you and that's the last question.

- Nisaba Godrej:** So, Manoj, I'm glad to report on that it's doing really well, in Nigeria well beyond our expectations. And, this is something that we do have to really strongly build out on because, the incidence of Malaria and things like that is highest in the African continent, actually. And we have a disruptive product there. So, we're looking forward to good growth and building that category out.
- Moderator:** Thank you. The next question is from the line of Aditya Gupta from Goldman Sachs. Please go ahead.
- Aditya Gupta:** Personally, innovation pipeline generally from product being in a concept stage to a commercial launch, is it a ballpark number you can share with, how much time does it take for a commercial launch, and then maybe to take it national for it to become meaningful in the portfolio?
- Nisaba Godrej:** So, what we saw in the pandemic, we were doing it literally in 46 days and it really depends by category, because something like Household Insecticide, which was one of the issues we also had with combating illegal incense sticks is that you have a three-year registration, your product might be ready, but then it sits with the CIB to get registered for three years. So, from ideation to end date really depends on which category it is.
- Aditya Gupta:** Got it and given that you've been launching new products across the home cleaning segment, and is there a potential for the contribution from this new pipeline to increase from the mid-single, where we are to maybe?
- Nisaba Godrej:** Yes, most definitely, we've seen with Saniter in Indonesia, become a very big brand for us. So, we've seen Magic salience as part of our overall Personal Wash and Hygiene grow. I've been commenting in terms of resurgence of Household Insecticides, one of our key categories, which is about 30% globally and that hygiene is also 26%, 27% overall for us, there are many opportunities to grow this category given the pandemic.
- Aditya Gupta:** Got it, thank you. Just one more on A&P spend again, three years back in the India P&L, this numbers used to be 11%, 11.5%. And even if you leave out the first quarter and fiscal 21 this was a 9-ish kind of a number, Its a play between gross margins and EBITDA margins like you mentioned earlier. But is there a structural savings of 100 basis points, that you guys are squeezed out, or if GMs go back to your early levels again, this number is likely to go back to a 11% kind of a handle again?
- Sameer Shah:** Hi, Aditya this is Sameer here. For our growth vectors which is innovation and creating a strong pull for the product, we will continue to invest very smartly on advertisement spends, and this no way is a measure to reduce on A&P spends to manage quarterly margins because it doesn't work out in medium to long term. What is important to note over here is, it's a bit of balancing especially in Q1, we will see A&P spends moving up, but over a period of last 12 to 18 months, we've also again done very serious kind of cost saving program, especially on A&P spends in terms of reducing down CPRP, in terms of having a healthy mix between traditional channels to digital channels. And also having overall mix between print as well as media. So, all those will

come to play, but we will continue, with whatever is the right kind of quantum of investment to drive our growths in medium to long term.

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

Harit Kapoor: So, I just wanted to understand your outlook for the year for margins, I know it's a tough one because you have several moving parts but, is the thought process that in spite of the sharp price in RM, you can look to maintain the margins in a certain band in the way you have done in quarter one is that the way to look at it correct?

Sameer Shah: Hi, Harit this is Sameer here. So, it's very dynamic at this point in time to call out as to how the margins will evolve, in turn it is dependent on input inflation and how the second wave or third wave eventually turns out to be. Honestly quarter one template is perfect template, in India, we did see a gross margin contraction, scale leverage, cost saving program, mitigated good part of it, and then whatever was the remaining hole got mitigated by leveraging on our international kind. Let's see, on a full year basis where we end on margins. The focus internally is more in terms of driving sustainable, strong, double-digit, sales growth. And my sense is, if that happens, assuming a normative inflationary environment, we should be there on margins. We are not overly worried at this point in time, taking a little longer time period of nine to 12 months, and there will be significant scale leverage also which will come in. So, we are at this point in time, not too overly worried on a full year margin, we'll see how it shapes up over a period of time.

Moderator: Thank you. The next question is from the line of Vishal Gupta from Phillip Capital. Please go ahead.

Vishal Gupta: I have two questions, first question is on Mr. Magic hand wash, if you can throw in some more color, what is the size as of now, a distribution reach and how much more room to be covered, and how is the new campaign of one hand wash equal to three soaps working for you. And second question is on Jumbo Fast Card, pricing of Jumbo Fast Card versus illegal incense stick and your incense stick?

Nisaba Godrej: On Magic hand wash I cannot give you the details for competitive reasons, you asked for, but it is doing very well. We've got very good volume market share and we continue to focus, on the insights that hand wash is more hygienic to use, more comfortable to use than bar soaps and this price point is definitely a disruptor.

Vishal Gupta: Anything you can provide on distribution side, what is the reach as of now for Mr. Magic?

Nisaba Godrej: No, sorry can't share that.

Vishal Gupta: Okay. And second question was on pricing of Jumbo Fast Card versus illegal incense sticks and as well as your incense sticks so, what is the pricing differential that is there?

Nisaba Godrej: The pricing is similar.

- Vishal Gupta:** Rs.10 or Rs.15 for 10 cards?
- Nisaba Godrej:** It's Rs.15 per 10 cards. These illegal incense sticks don't have a very fix MRPs.
- Vishal Gupta:** Margins vary, trade margins are higher.
- Nisaba Godrej:** Yes.
- Moderator:** Thank you. I would now like to hand the conference over to Mr. Pratik Dantara for closing comments. Over to you sir.
- Pratik Dantara:** I would like to thank everyone for joining the call today. With that, we would like to draw this call to end. Stay safe, stay well. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.