



“Godrej Consumer Products Limited Q2 FY2020 Earnings Conference Call”

November 06, 2019



ANALYST: MR. ASHIT DESAI – EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT: MS. NISABA GODREJ - EXECUTIVE CHAIRPERSON - GCPL
MR. VIVEK GAMBHIR - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - GCPL
MR. V. SRINIVASAN – CHIEF FINANCIAL OFFICER & COMPANY SECRETARY - GCPL
MR. SAMEER SHAH - HEAD OF FINANCE (INDIA & SAARC) & INVESTOR RELATIONS - GCPL
MR. PRATIK DANTARA – ASSOCIATE VICE PRESIDENT, MERGERS & ACQUISITIONS & INVESTOR RELATIONS - GCPL

Moderator: Ladies and gentlemen good day and welcome to the Godrej Consumer Products Q2 FY2020 Earnings Conference Call hosted by Emkay Global Financial Services. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashit Desai of Emkay Global. Thank you and over to you Sir!

Ashit Desai: Thanks Janice. Good afternoon, everyone. We would like to welcome the senior management team of Godrej Consumer Products and thank them for giving us this opportunity. I am now handing over to Pratik for initial introduction followed by opening remarks from Vivek and team. Over to you!

Pratik Dantara: Thanks Ashit. Good afternoon everyone. Thanks for joining us today to discuss the quarterly performance. We have with us Nisaba Godrej, Executive Chairperson, Vivek Gambhir, Managing Director and CEO; V. Srinivasan, CFO and Company Secretary; and Sameer Shah, Head of Finance (India & SAARC) and Investor Relations. We will now have Vivek share his thoughts on our performance and then we can open up for Q&A.

Vivek Gambhir: Good afternoon everyone. It is great to be talking with you. I will share a few highlights of our performance and then we will be very happy to answer your questions and take your feedback. It was a relatively mixed quarter for us, though there are lots of positives that we can take away in terms of the outlook for the next two quarters. In terms of what worked well for us, our volume growth in India was strong. We delivered the highest volume growth in the last five quarters in our India business. What was also encouraging was that the volume growth was broad-based across categories.

The second highlight was a continued strong performance in Indonesia on both topline and bottomline with a 13% constant currency sales growth.

The third encouraging part of our performance in this quarter was the recovery in our Household Insecticides business. As you know that this business has been facing some challenges over the last few quarters, but it was very encouraging to see a recovery in performance and more importantly our optimism that this recovery should only accelerate over the quarters ahead.

The fourth highlight that we were pleased about was our profitability improvement in Africa. I think that journey has started and will only improve in the quarters ahead and overall we have been pleased with the expansion that we have seen in gross margins and EBITDA margins across the board.

What could have gone better for us, I think, a lower sales value growth in India. It was a bit of a conscious call to drive volume growth, but certainly we will look to see how we can improve on our value growth in India going forward. The sales challenges in Africa, hopefully the worst is behind us as far as Africa sales are concerned and you will see better performance in Africa sales going forward as well.

The third was a relatively soft performance in Hair Colours in India largely because of a high base, but there are also corrective actions that we have taken to be able to get a growth start strongly in Hair Colours. So overall a mixed quarter in terms of lots of positives to take away, but also some areas where we need to execute better.

As far as going forward is concerned, we are hoping for a gradual recovery in FMCG in India across both rural and urban, and our efforts will be to improve on the volume growth momentum that we have seen over the last couple of quarters. In Q1 volume growth was 5%, this quarter was 7%, our intent will be to actually further improve on this volume growth momentum in India.

The second will be intensifying our thrust on innovation. There is slew of products that are being launched, which are very disruptive starting with Goodknight Gold Flash, which is probably the biggest innovation in the Liquid Vapouriser category over the last decade or so, a very disruptive launch that is being scaled up.

The second is continuing momentum on our launch in incense sticks and Godrej Expert Easy 5 minute Shampoo based hair color. The initial momentum on all of these is quite encouraging and the fourth launch to get excited about is the refresh of Godrej Expert Crème to be able to address some of the challenges that we faced over the last quarter or so.

Beyond these four major launches, there are lots of other launches that are in an experimental stage, some of them are e-commerce launches, some of them are modern trade launches. So across the board you will see a continuing thrust on innovations from us.

The third from an outlook perspective is Indonesia, where we are hoping to sustain both the strong topline and bottomline trajectory that you have seen in the first half of the year.

On Africa, the focus will be to improve the topline while building on the profit improvement that we saw in the last quarter and finally you will continue to see profit improvements as far as Latin America is concerned.

Those are the quick highlights of our performance. I will quickly walk you through some of the key slides in the presentation and then we will be happy to answer any questions that you have.

On Slide 3, we have listed our financial performance key highlights in terms of 3% constant currency comparable sales growth at the consolidated level and 9% growth in EBITDA at a comparable level. In India, the net sales growth was lower at 1%, but margin expanded and in international it was 7% constant currency comparable growth rate with a healthy 30% increase in constant currency EBITDA basis.

Slide 4 lists our exceptional one-off items. Nothing to report here, but we can answer any questions you have about this later on.

On Slide 5, we show the bridge between reported and operating EBITDA margin. Again, not much to report here and as you can see here the reported EBITDA margin for India and Indonesia continues to be very healthy and has improved significantly and the journey has started to further improve the margins as far as the Africa cluster is concerned.

On Slide 6, you can see our key balance sheet data. On all the areas whether it is in net debt-to-equity ratio, return on capital employed, operating return on capital employed, all the ratios are trending in the right direction and we are hoping to further build on those in the quarters ahead.

Now turning to a quick overview of our various businesses starting with India on Slide 8. As I mentioned it was a strong 7% volume growth and we have seen a sequential pickup in volume every quarter for the last few quarters. So every quarter you are seeing an improvement as far as volume growth is concerned.

The growth was led by new product launches, strong marketing campaigns and consumer offers. In terms of EBITDA we have continued to expand our EBITDA margin by about 40 basis points year-on-year.

On Slide 9, we detail out our growth across all the various categories. The good news is that across the board as far as volumes are concerned we have seen a very balanced growth across all the categories.

Starting with our category reviews on soaps, soaps delivered a mid-to-high single-digit volume growth, a strong volume growth and we continue to gain market share. There are lots of micro-marketing initiatives with specific SKUs being launched for specific markets and so the momentum in soaps continues in spite of a challenging environment in the category.

In insecticides, on Slide 11, you are beginning to see a recovery with sales growth of 4%. Some of the price offs in Liquid Vapourisers have been driving our growth and we are seeing good market share gains in the Household Insecticides category. On the insecticides

front, what we have been seeing is illegal incense sticks have been plateauing at the 11% to 12% mark over the last few months and a lot of actions are being taken at the Industry Association level to be able to safeguard consumer interests. Our own Naturals Agarbatti is also scaling up well. We have also recently launched our Goodknight Gold Flash, which is a very disruptive innovative next generation Liquid Vapouriser. We are starting with the South first and as the season picks up, we will scale this up in other markets of India as well. We have also launched the HIT Anti Mosquito Racquet in e-commerce and a HIT Rat Glue Pad in select markets. This is part of our journey to continue to expand our presence and play in the broader pest control category.

In Hair Colours, the performance was relatively softer on the back of a high base and a bit of a slowdown that we saw in discretionary category and a somewhat weaker performance in Godrej Expert Rich Crème. As a result of that we are relaunching Expert Crème hair color across markets with a new proposition.

Our Godrej Expert Easy 5 minute Shampoo based hair color in the southern region has been scaling up well, and we are now taking it nationally across other markets in India and we have also launched Godrej Anoop Ayurvedic anti-hairfall oil on e-commerce as an experiment to see how this does and then depending on the success of that we will scale it up further.

We are also taking strong actions on the e-commerce business. Our e-commerce business continues to grow very strongly and along with that we have also launched our direct-to-consumer websites for Godrej Aer and Cinthol. Further category launches will happen in the quarters ahead. That is the quick overview of our India business.

Turning to international. As I mentioned, it was a mixed performance with about a 4% growth in sales, but a healthy expansion in EBITDA. Indonesia delivered a 13% growth in constant currency terms. The growth was again very broad-based across insecticides, air fresheners and baby wipes. We have continued to gain market share in insecticides. A lot of the work on expanding our distribution footprint (Project Rise) and having a stronger presence in General Trade (GT) is working very well, and our EBITDA margins have continued to remain healthy with the expansion led by strong growth margin and a prudent management of costs.

In the Africa cluster, the performance was mixed with strong growth in profitability, but some challenges that we experienced on the sales side. South Africa and the Rest of Africa cluster have performed very well. We saw a temporary slowdown as far as our West Africa cluster was concerned largely on the basis of a slowdown in the overall macroeconomic environment. In terms of share, our share gains continue across the board particularly in Nigeria and Kenya for dry hair. The scale up of our wet hair business continues and we will

see further momentum going ahead. As I mentioned earlier, the outlook for us is to be able to improve our topline while being able to also sustain the profitability improvement that we saw in the last quarter. So that is a quick snapshot of our overall business. Our expectation is to ride on the gradual recovery that we have seen in India and improve our volume growth momentum. The thrust in innovations will continue across the board both in India and across all our markets. In Indonesia, we are looking toward sustaining both the topline and bottomline trajectory and in Africa we will be working towards improving the topline while building on the profit improvement. We will be very happy to now answer your questions and take any feedback that you have.

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

Abneesh Roy: Congrats on a good recovery in the India Household Insecticides business. My first question is related to Household Insecticides, Illegal agarbatti have been stagnant for the last 8 months. What is the key reason here? Is it the agarbatti launch by the legal players or is it the consumer ads because consumer ads have been happening for a fairly long time, right?

Vivek Gambhir: I think it is a combination of 2 or 3 things, Abneesh. One is, some of the actions that the Association has taken in terms of factory raids, also educating wholesalers and consumers largely about the challenges with this particular category. I think in some ways that is beginning to show an impact. As you know these things take some time before we can work with the governments to be able to launch these actions. The actions will get further intensified because the Association is now launching an ad in movie theaters and also in news channels initially starting with Andhra Pradesh and Maharashtra. So that bolster advertising on television and in theaters will also hopefully further build on pushing back the impact of these incense sticks. Second is as you were mentioning I think a couple of players have also launched incense sticks. To a certain degree it is also now beginning to take and show an impact. We initially started in Andhra Pradesh, but they have now scaled this across 6 to 8 most important states as well and then the third of all each format has a certain amount of relevance in a consumer's life and so after an initial amount of adoption some of the formats do reach a natural state as far as a certain salience is concerned and that is the natural thing that we are also seeing in this category as well.

Abneesh Roy: On the new launch, which happened recently on the Gold Flash, it has got visible flash vapours, so can that be a concern because consumers may feel that this is too much of potent and now in North India we are seeing anywhere all this pollution-related issue so is that a consumer behavior which has also suggested some pushback can happen because of this?

Nisaba Godrej: So as we know our learning has always been with Liquid Vapouriser, but Liquid Vapouriser was loved for 2 reasons, one that there is no burning going on, so there is nothing that can catch fire, and you can knock a coil down very safe from that way, very safe from a health perspective and also there is continuous protection. The other thing that we know from various sort of sources including the amount of dual usage that goes on in the category, the growth of incense sticks, which are very highly dosed with all sorts of illegal pesticides, is their efficacy is also very important. So when it comes to these visible vapours, vapours are visible because what we figured out and the dosage that is coming from the Liquid Vapouriser over the full night is the same as it would have come in the past, but mosquitoes get really knocked down or really pushed out if you can blast for the little while and then come back to normal. We have not technically been able to figure out how to do that in a Liquid Vapouriser before. This is a project that we have been working on for a long time. I think some of the heating technologies, some of the plastic foils, we have been working with vendors from Germany and America for a long time. So from a consumer perspective, the vapours are very, very light. So if you put it on, sometimes in a white background you do really have to look at it, but consumers really appreciate it, saying that it is not just the smell, but we can see something during this flash time and they are also saying we are seeing mosquitoes knocked down, which we did not really in other vapours. So the trick really here is that every 4 hours you do this blast and that really takes up the efficacy.

Abneesh Roy: Thanks and one more follow up on Household Insecticides. On the anti-mosquito racquet, the pricing is much more expensive than the unorganized and second, currently, your product is available only on e-commerce. So obviously the bigger market is in the physical distribution. So there I see that you need new distribution because the shops, which sell these racquets, are the stationery kind of shops so are you planning a physical distribution also in this product?

Vivek Gambhir: Yes, I think, Abneesh, what we will do is initially launch it in modern trade. Depending on how modern trade does certainly the next phase could be in premium general trade and some other outlets. We have been quite happy with the initial success that we have seen and certainly the plan is to be able to scale this up across other channels as well. With regards to your question around pricing, this is a product with a much longer warranty, and it is a much superior product versus some of the unbranded private labels that you would see and our hope is that with the kind of trust and equity HIT commands, we should be able to sustain this kind of a pricing at this more premium level.

Sameer Shah: And just to add Abneesh, the effective pricing on e-commerce at this point in time is around 399, which is like 25%, 30% higher than other available products.

- Vivek Gambhir:** It is a much more superior product, Abneesh.
- Abneesh Roy:** Okay. My second and last question is on hair care there are two sub-questions, one is the Godrej Expert Easy 5 minute Shampoo based hair color, now that you are planning to take it pan-India do you foresee cannibalization given this is at Rs.25 versus Rs.30 for the crème sachet and second one the anti-hairfall oil, you want to relaunch this in a quarter wherein hair oil has seen one of the slowest growth so what is the thought process behind relaunching the hair oil?
- Nisaba Godrej:** We are not really a big hair oil player, but we have this very potent formula that we have sort of had in our portfolio for a long time, but we were not really doing anything with it. There is not only category growth but there is also channel growth in terms of what we are seeing happen in modern trade and on e-commerce. So right now, this hair oil launch is just premium oil, it is a launch on e-commerce because we think there is a big opportunity therefor something like this. If it does well there we will take it to other channels.
- Sameer Shah:** In Godrej Expert Easy 5 minute Shampoo based hair colour there is a differential pricing, which we have in states in India. So in southern markets, the pricing is Rs.25, where crème salience overall is relatively lower, in the rest of the country the pricing is Rs.29, which, compares quite close to Rs.30 price point for the crème.
- Vivek Gambhir:** And you have seen this also, if you look at penetration rates for crème it is low penetrated category today Abneesh, so there are tremendous opportunities to upgrade powder users to other formats, which are more value added. So some will gravitate more towards our shampoo hair color, some will gravitate more towards crème. The propositions are quite different, but given the headroom for growth, I think there is plenty of opportunity for multiple formats to thrive.
- Sameer Shah:** And also perhaps the potential frequency of purchasing shampoo hair colors, it would be far superior as compared to crème hair colors.
- Nisaba Godrej:** There is different usage pattern between the two products.
- Abneesh Roy:** Thanks a lot. That is all from me. Thank you.
- Moderator:** Thank you. Next question is from the line of Samir Gupta from India Infoline. Please go ahead.
- Percy Panthaki:** Sir, Percy here. I have a few questions on the Gold Flash product. So firstly, if I see the composition label let us say is 1.6% translucent, so on the face of it, it looks the chemical composition is the same as Goodknight Activ+. So is there any difference at all in the

chemical composition or not that is question one, question two on this is I understand the way it works is that there is something different in the refill and something different in the machine so the machine has a higher heating capability and a refill has a different type of coil, which is more absorbent, so it therefore pulls more liquid, which can therefore be heated by the machine and disperse faster. Now if someone uses the new refill in an old machine the efficacy will be lower because you are getting the benefits of the new wick, but not the benefits of the new heating system so just wanted to know to what extent the efficacy will be lesser, will it be lesser by 20%, 50%, 80% by how much and thirdly you have not mentioned the number of nights that this will give which you usually mention so what is the reason for that and since this is giving out a burst, is there a chance that the number of nights will be lower?

Nisaba Godrej:

Okay. Thanks Percy. If you want to join our R&D department, you are welcome. He has summarized it quite well. So you are right that we have actually not changed the chemical composition in the refill. I think you must remember that Liquid Vapouriser works as a system between the machine and the refill so there is a lot that we can do between that. As I mentioned when I answered the earlier question, the trick that we were trying to get in our work in mosquitoes and how in aerosol or a fast card or an incense stick work is that they are not continuous, so they are not spraying it continuously or the burning of fast cards is just for 3 minutes, but what it does is it gives you the initial blast. So basically say if you have 10 units in a Liquid Vapouriser and you are giving out 1 unit every half an hour and I am not giving you actually exact numbers, you were giving out 1 every half an hour, what we are actually saying give out 4 in half an hour and then give 0.5, 0.5, 0.5 and then give out 4 because that is really what gets knocked down and efficacy to happen with and because you have done so much knockdown the 1 going to 0.5 in the rest of the time works really well. So that is not the exact formula there, it is a formula which I do not want to be really exact about on this call, so that is how that really works.

Percy Panthaki:

But does it still work for 60 nights?

Nisaba Godrej:

This will work for 25-30 nights. The longevity is the same as the earlier one, because it is higher at one point and then lower at the other points and we love to have your feedback, please do use the product because we really feel that from an efficacy point of view this is quite a breakthrough, but I think the proof in the pudding is people using it. I think your second question was about the refill and the machine. I think one of the things even with advanced our earlier machines is that we used to have this lock system, which eventually people sort of broke. I think here we have a few advantages, one is that we are in the process of patenting this system so people will not be able to copy their refills and put it in here. I think this system and technology is quite hard to copy this, but there will be a patent. In the Gold Flash machine only our refill fits in as of now, another refill per se would not fit

in, but even if you fit it in an ordinary refill it would not flash because it is the heating system with this special wick that needs to work together. In the same way, the flash refill can fit into other refills, but it would just give you the normal efficacy that you got from, say, our Activ+ refills, it would not be very different. So say if someone has an old machine and they do happen to buy a Flash refill, it will give them the same sort of performance but you are not going to get the flashing. You need to have the system for it to work, but people want to still buy our refills and put them into other machines, that works just great for us too so it has been designed that way.

Percy Panthaki: Understood. Very clear. Secondly, just wanted to touch upon Indonesia, your growth at 13% constant currency is a really good growth. So if you could, I know you will not share the exact numbers, but if you could just give some flavor on what is driving this, is it the new hair care launch or is it even in the old portfolio you have 3 main products, your household insecticides, baby care and air freshener, so is it almost equally led by all 3 sub-segments or is it clearly one of the sub segments that is growing faster.

Vivek Gambhir: Percy across the board the growth has been very broad-based and it has been strong across insecticides, across baby tissues, air fresheners as well as hair colors. On the margin, the growth in insecticides has been slightly higher, but that is driven by very favorable insecticide season. So some growth has come through the benefits of a stronger household insecticides season, but what is encouraging is that along with that the growth more than double-digit growth for all the 4 categories. The reasons for the growth are again, multiple. One is the benefits that we have seen from Project RISE and the amount of additions we are seeing in active outlets, some of the work we are doing to reconfigure distribution system in general trade. The second is a lot of innovations have been launched while it is early days some traction we are seeing on innovation continues to provide us with a good growth trajectory.

Percy Panthaki: Understood. Just one follow up on this. I think last quarter you had mentioned that there is inventory pipeline run down by some modern trade players, etc., so would there be any reversal of that this quarter and you would be getting sort of a pipeline fill in this quarter or no?

Vivek Gambhir: Very negligible, Percy. Not material at all.

Percy Panthaki: That is all from me Sir. Thanks and all the best.

Moderator: Thank you. Next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question was on the Gold Flash. Just one specific question that because this is a machine change that a consumer has to do, given your past experience of express and dual switch, does it take a lot of time and sustained advertising effort for consumers to junk their existing machine which is working and actually go for a new machine and does this slow down the time it takes to create an impact and the time period you have to advertise for this. I just wanted your thoughts on that?

Nisaba Godrej: So I think in any sort of machine and refill system, whether it is Gillette or other systems, you present a higher version to the consumer and what we have done is that we have kept the pricing at the same level to what we are in the market versus taking a premium for this, so that conversion on choice between this and the old machine is much easier. We are actually going to focus on this main machine for all our advertising and manufacturing. The renewal rates for machines happen every one to one-and-a-half years so the renewal rate is quite fast. We also feel that one is our own renewal rate of our machines, but we feel that this proposition against competitors' machines is pretty strong and there is going to be big advertising investment and once word of mouth also kicks in at this really is the more superior Liquid Vapouriser in the market we hope to go faster than the usual renewal rate, but even at the usual renewal rates this should do pretty well.

Vivek Gambhir: Arnab, definitely, the plans are for us to be very aggressive as far as backing this with strong investment is concerned. Initially, we started with the South because that is where the season is right now, but by Q4 this will get rolled out nationally as well, but certainly because the product we believe is very disruptive we are going to aggressively back it with the right level of marketing investment.

Nisaba Godrej: I think one more point to this is that a large chunk of the upgrades comes from burning format and one of the issues with incense sticks has been very high efficacy, very highly dosed knockdown. So we really feel that this should drive more growth in upgrades because from a value proposition to someone they are now getting all that safety and now a new level of efficacy I think some of the burning formats with some of the stuff that has been going on in the market for the last 3, 4 years has restaged the benchmark for efficacy and this Liquid Vapouriser has come in and said okay we have understood the consumer, we need to give you the best sort of system in the category, the most preferred large format, but we are taking the efficacy up in, and the way it was and also to add to that it is actually visible you can see it.

Arnab Mitra: That is quite clear. The second question I wanted to ask was on the 'Others' segment. Now this has become a large part of your business in India, has been growing very fast this quarter there seems to have been a slowdown is it just that the business has achieved a certain scale where it is not possible to grow that fast like a 20% plus, which you have been

doing or is it not something to be read at a quarterly level and you do expect growth here to be much ahead of the current levels?

Sameer Shah: This is Sameer here. No, first of all growth normalized to the growth rates, which you have seen historically in other categories. However, what we are seeing is a little bit of sluggish demand and hence impact on the overall growth due to car air fresheners. Also in the base specifically in this quarter we had male grooming launch, which at this point in time is largely B2C as well as an e-commerce play so that is the reason for the 10% growth in this quarter, but it should go back to relatively higher growth levels in the coming quarter, but car air freshener remains a little bit of a watch out in the overall air freshener portfolio for us.

Vivek Gambhir: Also some of the categories in 'Others' are a little bit more discretionary in nature and some of the consumption slowdown, I think, has impacted these discretionary categories a little bit more I think, but as Sameer was saying, the growth rate should hopefully be much better in the quarters ahead.

Arnab Mitra: Thanks. That is it from my side. All the best.

Moderator: Thank you. Next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: My first question is on Household Insecticides segment again, and going back to your starting commentary on optimism in the segment going forward. Just wanted to understand where is the more confidence coming from, is it based on your own initiative, the new product launches, which is expected to give you higher market share gains or is it to do with the category revival itself?

Vivek Gambhir: See, at an overall level, if you look at category growth rate, and Nisa has mentioned this before as well, if you look at the basic growth rate of active consumption, which is basically the chemical goes into Household Insecticides, that has been relatively quite healthy over the last 3 or 4 or 5 years, right. We have had a couple of bad periods as far as drought is concerned, but fundamentally this category still has a significant amount of growth potential. So our confidence is stemming from the fact that the category growth rates have been quite strong, we were a little bit behind the curve as far as incense sticks is concerned, that area has been addressed. We have now a next generation Liquid Vapouriser that has been launched as well. We are launching a slew of other products to expand the category and go into the other pest area as well and there will be a bunch of, new launches that you will also start seeing. Some of them might be experiments that we do in modern trade or online first, but clearly from a product perspective, as far as consumer needs are concerned and various price points are concerned, our confidence is coming from the fact that this is

actually a fairly attractive category and our product initiative should enable us to capitalize on that growth potential in the category.

Amit Sinha: Okay and basically there is also a big optimism, which is based on the new product, which is Gold Flash because that will supposedly become your main Liquid Vapouriser product in the segment, right?

Vivek Gambhir: Yes. it will take time to scale up, but certainly the optimism is very high that, this should be a very disruptive game changer.

Amit Sinha: Sure and secondly on Africa business would you like to share any outlook for the rest of the year because you mentioned that you expect some turnaround in the second half just wanted some details out there?

Vivek Gambhir: I think we are not happy with the growth that we saw in Africa in the second quarter certainly and a lot of innovations and new product launches are in place right now in braids, in non-braids, in the wet hair segment as well. Q3 tends to be the biggest quarter for the business and so as we look at the pipeline of new products that we are launching along with the work that the teams are doing as far as improving distribution are concerned, I think, our hope would be to show a much better topline growth than what you saw over the last couple of quarters and be able to sustain the profitability improvements because if we get the kind of topline growth we are aiming for through operating leverage certainly there is opportunity for further expansion as far as markets are concerned.

Amit Sinha: Any particular geography you would call out for where you are doing most of amount of work, and which can turnaround in the near term?

Vivek Gambhir: No, across the board, I expect the geographies to show an improvement, whether it is East Africa, South Africa, the U.S. business as well and Rest of Africa. The one area of concern that we are still navigating is our Nigeria business because we are seeing a certain amount of a consumption slowdown, but there again we have launched some more affordable braids, and some more premium products as well to participate in all the various segments there, but I think in terms of the watch out the one that we still see how it evolves is mainly our Nigeria business. Now the good news is that over the last 2 or 3 years, it has been a tremendously strong performer for us. So I am hoping that we see stronger growth in Nigeria, but that is the one concern area that we do have in our Africa portfolio.

Amit Sinha: Thanks.

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

Harit Kapoor: Just had a few questions. Firstly, given the fact that you have a slew of launches planned in India, do you expect the mix of ATL versus BTL to change a little bit for the second half of this year because even the promotional intensity or sales promotion has been quite high and advertising growth has been a little low so I just wanted to get your thoughts on that?

Sameer Shah: Yes. So I think the overall pool the way we look at it internally, which is advertisement spend, trade promotions and then consumer offers, even in Q2 actually has moved up significantly on a year-over-year basis. Now depending upon category, we will play dynamically, we will want to press on 2 of the 3 levers to drive stronger growth rate, but yes, agree with you directionally in second half of the year with the number of new launches whether it be in Household insecticides or scale up of Godrej Expert Easy 5 minute Shampoo based hair colors nationally as well as the Crème refresh, we will see higher advertisement spend. We have been relatively tight on trade promotions, sales promotion spends even over last kind of 6 months the consumer offers and price offer are largely in force, which completely depends on the competitive intensity.

Harit Kapoor: Got it. The second question was on Africa. So the weakness that we have seen in the first half of this year is it more to do with the geography-specific thing or is it either dry hair or wet hair where you have seen a category growth issue?

Vivek Gambhir: I think it is definitely geography-specific, it is not across the board and obviously there are certain macroeconomic challenges that one experiences in these geographies that we are learning how to deal with it better. Having said that, I think our learning has been that we need to really intensify our new product launches particularly from braids to non-braids, and that has taken us some time to be able to actually have a very compelling set of products in the non-braids segments as well. Those are now all in the market as we speak and then second of all I think the scale up of wet hair took us longer than what we would have probably expected, but there again if I look at the kind of launches and the work that is happening on the ground it gives us enough confidence now that at least we should start seeing improvements in topline because a lot of the building blocks are now in place in terms of our product pipeline on both dry hair and wet hair.

Harit Kapoor: Got it Sir. Third thing was on the India business. If you could just give some sense on what you would have done on the distribution side for the first half, is there anything to call out there in terms of either in rural or outlet addition, etc.?

Vivek Gambhir: It has been a continuous journey for us, a huge amount of work has been going on in terms of both outlet expansions both in urban and rural and also what we call middle India. The second part is also a lot of work continues to happen in terms of improving productivity of the channel and the third area is I think stronger efforts are happening particularly on the modern trade and e-commerce side as well to have a much more differential segmented

channel strategy. So, across the board, there are initiatives happening on how to better use technology, how to train our salespeople better, how to use more powerful analytics along with continuing to expand our coverage.

Harit Kapoor: And last thing was more bookkeeping, if you could just help us with the consolidated tax rate expectation post the changes on the tax cut side so how do we look at it this year and for the next year?

Sameer Shah: So to begin with, the recently announced tax rate which as such do not impact us because we continue to remain in exempted tax locations and effective tax rate is more of the same. So for this fiscal year my sense is on a consolidated basis we should be in that range of 20% to 22%, very close to the fag end of this fiscal year we will refresh what will be our effective tax rate for India as well as international business and hence consolidated for next fiscal year.

Harit Kapoor: That is it from me Sir.

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

Kaustubh Pawaskar: Sir, my question is on the Africa region. In the call you just mentioned that some of the regions are working good for you, in fact, South Africa and rest of the Africa and Middle East, that region has grown, while West Africa has slowed down so can you just give us the bifurcation how much quantum of revenues is coming from these 2 regions and what kind of growth you have seen in this region in past few quarters?

Sameer Shah: So roughly, Kaustubh, all these 5 sub-clusters are close to on an average 20% saliency to the overall Africa and U.S. business for us so there is nothing much to pick and choose in terms of saliency with each of the sub-clusters have to do with overall Africa and U.S. business.

Kaustubh Pawaskar: Yes, but going ahead, as Sir mentioned that we will see a better growth in the coming quarters so obviously South Africa and Rest of Africa is doing good for you, the only issue I see is in West Africa where there is a consumption slowdown so there whether we can see some kind of improvement or that will continue to remain under pressure and the rest of the business will see improvement in terms of growth?

Vivek Gambhir: No the issue is we have fairly high expectations from the West Africa business. So going forward, you will still see a reasonable amount of growth in West Africa as well, but those are expectations. I think if it falls short then our hope is that South Africa, East Africa and the Rest of Africa will make up for that gap.

Kaustubh Pawaskar: And we have seen at consolidated level strong expansions in the gross margin especially in the international business, India we have seen operating margins going up by about 50 bps, now going ahead you have mentioned that there would be increase in the advertisement spends and promotional spends would be higher so in terms of margins would you be able to maintain the margins at the current level or there would be some kind of a dip in the margins?

Sameer Shah: I think going ahead for international business at this point in time we remain very confident of margin expansion holistically for the rest of the year. In India we have stated this even at the beginning of the year the entire focus is on driving volumes growth and if in that journey we have to revisit our margins temporarily, we are very much geared up on that front and it is very dynamic also actually at this point in time.

Vivek Gambhir: Our margins in India are very strong and given the kind of launches that we are planning, if there is a bit of a margin pressure that we face over a quarter or two, I think it is the right call to take for the business over the longer term. I think that call will be fairly dynamic on a quarter-to-quarter basis, but the priority clearly is for us to invest in driving volume growth.

Kaustubh Pawaskar: And any further pricing action can we expect in soaps or this will help you to see a better volume growth in the coming quarters?

Vivek Gambhir: See, our strategy in soaps has largely been a follower strategy as far as pricing actions are concerned. So we will have to wait and watch. We are quite clear that we will not initiate any pricing actions on our own. We have not done that in the past either, but depending on the competitive scenario we will take a call in terms of what kind of pricing actions to follow if it makes sense to us, but we will not necessarily lead with any pricing actions on the soaps front.

Kaustubh Pawaskar: Thank you.

Moderator: Thank you. We take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: I had just one follow-up question that you kind of alluded to the fact that incense sticks kind of stabilizing at that level of share so is there enough data points that you are picking up from your sales force as well as data that you think that this is now not an incremental risk to the business and other than the fact that you have launched your own incense sticks, is there any effort to address the lower-end segment of this Household Insecticides market while the Gold addresses the premium-end segment?

Vivek Gambhir: I think, Arnab, our hope is that you are seeing this segment plateau at 11 to 12, but honestly, it has been only the last 6 to 8 months, so we will have to wait and watch because some of these players can be quite notorious as far as illegal actions are concerned. We continue investing heavily at the industry level whether it is television ads, educating consumers, etc., so there is no let down as far as countering and working with the government constructively to be able to counter this menace. Along with that, for the time being the focus on more bottom of the pyramid products is the incense sticks. There are a couple of other interesting products that we have in the pipeline, but we will wait to make a decision on launching them till we figure out how well incense sticks does, but there are clearly more things that we can do from a product perspective, but we will hold off on that till incense sticks are scaled up further.

Arnab Mitra: Thanks. That is it from my side.

Moderator: Thank you. We take the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: My question is essentially on there is a change in strategy as far as the business is concerned clearly in India in favor of volume growth could you discuss a little bit on what should we change in terms of the culture, the incentives to the salespeople, what has really changed for you to be able to sustain this growth going forward and how far are you willing to go in terms of this endeavor of margins versus volumes over the course of the next let us say 2 years or so?

Vivek Gambhir: Nillai, to your question, the fundamental building block as far as incentives is concerned is still delta improvement in EVA. So that still remains a backdrop of the system. However, we have now put in additional mechanisms in place to be able to reward our employees to drive volume growth. So it is a combination, which is driving between keeping the philosophy of EVA intact, but certainly provide more incentives to be able to achieve this through volume growth is concerned.

Sameer Shah: Yes, just to elaborate on that, Nillai, what we have done is historically we never had any sales filter, in fact last fiscal year for the very first time we added a value sales filter and this fiscal year actually we have graduated from a value to a volume sales filter so it checks the delta EVA, which is completely driven by, say, operating profits delta, but now there is a slab and a sales volume filter, which incentivizes as well as penalizes depending upon the volume growth performance.

Vivek Gambhir: That is why I believe that is the right way for us to try and balance all these multiple objectives. With regards to your second question, I think it is an evolving situation, certainly given where commodity costs are today, which are relatively benign Given the

current demand situation where we are, seeing some slowdown, the focus on volume growth definitely is the right one for the next 2 to 3 quarters. Post that we will have to take a call again in terms of what the demand situation looks like. Second of all, what the input cost environment is looking like and alongside obviously from our perspective there is a fair amount of work that is happening looking over the next 2 years, beyond the next couple of quarters to try and premiumize the portfolio and even because of revenue growth management, strategic pricing, a lot of work has been happening to be able to see later on down the road how are we going to be able to drive further value growth. In the near term the focus is far more on volume growth, but certainly over the longer term we will find the right balance to drive both volume growth and ensure that it is close to value growth as well.

Nilai Shah: Thank you very much.

Moderator: Thank you. Next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: My first question is how do you see this year's monsoon for the Household Insecticides category, would you say it was a good season with high mosquito infestation and how does extended monsoon impact Household Insecticides in the third quarter?

Vivek Gambhir: The monsoon season was relatively okay. Definitely, I think, in certain areas rainfall was very good, but in some areas we actually saw less-than-adequate rainfall. Similar situation should happen in Q3 as well I think the season should actually not be bad. Because of the overall consumption slowdown, there is certain amount of discretionary in this category as well, which is why the growth rates were not as high as they should have been because it impacts the overall consumption slowdown, but setting that aside it was not a bad season from a monsoon perspective and Q3 our expectation should also be relatively okay as far as monsoons are concerned.

Kunal Vora: Okay. Second one on Africa margin. How much of an improvement is driven by the base effect and how much improvement is sustainable, going forward can we extrapolate these kind of margin gains or partly it was just because of the low base, which you had last year?

Sameer Shah: We have stated this again at the beginning of the year in terms of our thought process that we would avoid expansion in Africa cluster margin anywhere between 100 to 150 basis points so on a continuous basis year-after-year for the next 4 to 5 years I think if you look at the trend it is very short trend, but Q1 we had close to 11.9% margins, this last quarter we have close to 12.5% we should continue with that range. Structurally, there are a lot of initiatives getting rolled out in terms of cost saving programs, favorable category mix, which gives us the optimism of this unit expansion. So we are very much on track in terms

of this continuous margin expansion on a full year basis, not necessarily every quarter, but on a full year basis, in Africa cluster for the next 3 to 5 years.

Kunal Vora: That is very helpful. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that is the last question for today. I would now like to hand the floor.

Vivek Gambhir: Thank you very much for your questions and your feedback. As I had mentioned before, we are looking forward to a gradual recovery in FMCG in India and improving our volume growth momentum. Certain innovations will continue. On Indonesia we are hoping to sustain both our topline and bottomline trajectory and in Africa the focus will be on improving topline growth while building on profit improvement. Thank you very much.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services, we conclude today's conference. Thank you for joining. You may disconnect your lines now.