Godrej Consumer Products Limited

Q2 FY27 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Godrej Consumer Products Limited Q2 FY27 Earnings Conference Call. 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 this conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference call over to Mr. Vishal Kedia. Thank you, and over to you, sir.

Vishal Kedia: Good evening to all. I welcome you to the conference call for GCPL. We have with us Mr. Aasif Malbari, MD and CEO; and myself, Vishal, Interim CFO for the company. We will start with opening remarks from Aasif, post which we will move to the Q&A segment.

I hand over the call to Aasif now.

Aasif Malbari: Good evening, everybody. FY27 has been a quarter of strong broad-based performance for Godrej Consumer Products Limited, fully aligned with our expectations and strategic priorities. We delivered strong broad-based underlying volume growth across India, Indonesia and Africa despite subdued monsoon conditions in India, while being supported by tailwinds in Indonesia.

At a consolidated level, revenues grew 19% year-on-year, 15% in constant currency terms with underlying volume growth of 8%. EBITDA grew 12%. Net profit grew 14% to INR523 crores. This marks our second consecutive quarter of high teens revenue growth with high single-digit underlying volume growth and double-digit profit growth.

Our stand-alone business delivered 13% sales growth performance, driven by 7% underlying volume growth. This is despite an estimated 150 bps impact from trade inventory correction in the quarter. While this has been a modest near-term impact in terms of the correction we've done, we believe that maintaining healthy channel levels is important for operational excellence and sales team to remain focused purely on offtake. Stand-alone EBITDA was mildly impacted due to this correction.

In Home Care, we delivered 19% value growth led by strong performance in air fresheners and home care liquids. Alongside that, we gained market share in Household Insecticides. This is encouraging and indicates that the actions we have taken across brands are beginning to deliver.

Our electric portfolio delivered sequentially improving performance, supported by the new 6 minutes campaign, while incentives continue to scale strongly. Godrej Fab maintained a strong double-digit growth trajectory and continued to strengthen its market position. Godrej Spic, which was scaled nationally during Q1, continues to witness healthy consumer repeat and sequential growth with significant distribution headroom still available.

During this quarter, we launched Godrej Rizz in selected markets across West and South India. We also launched Godrej Zap, our entry into stain removers online. Both these new launches have been received well.

Personal Care delivered value growth of 8%. Soaps remained stable despite significant price increases and grammage reduction. although with a favorable comparator. Our premium liquids

continue to do well. Cinthol body wash continues to scale sequentially, while Muuchstac face wash progressed in line with our business plan. Actually, it progressed beyond our business plan.

Hair colors maintained its growth momentum and continues to gain market share across our key bets. Perfumes and deodorants delivered strong double-digit growth, supported by healthy underlying volume growth in deodorant and continued momentum in perfumes and EDP.

Our international portfolio delivered strong growth. In Indonesia, sales grew 20% with underlying volume growth of 8%. EBITDA grew 12% with LPG prices doubling. However, we have benefited from El Nino tailwind in Indonesia, leading to increased mosquito infestation. With our future portfolio of LV, Pocket, etcetera, we have seen tremendous success with double-digit underlying volume growth sustained.

GUAM delivered another outstanding quarter. Sales grew 40% in INR terms and 23% in constant currency terms, supported by underlying volume growth of 16%. EBITDA grew 43%. This performance was broad-based across categories and geographies.

More importantly, GUAM has now delivered 7 consecutive quarters of double-digit top line growth and 11 consecutive quarters of double-digit bottom line growth. This reinforces our confidence that the improvements in the business is structural. We continue to be focused on the larger opportunity that the continent offers. The launch of HI incense stick was well received and is having good early traction.

The input cost environment remained significantly challenging through the quarter. Inflation intensified across crude-linked derivatives, palm oil and commodity inputs. This led to one of the highest inflationary impacts in the last many years.

Due to the nature of our portfolio in India and Indonesia, the impact of such inflation has been approximately high single digit. Despite a significant portion of our portfolio being price point pack, we have taken stringent pricing actions combined with large cost savings program and media and trade level investment optimization. We strive to keep the share of voice range bound.

We have also increased the salience of our digital investments, which has given us much higher ROI. We will continue to take calibrated pricing actions significantly in soaps and liquid detergents, where the cost impact is large and the margins even today are below normative levels.

With continued cost savings and future pricing, we will ensure that we continue to invest behind our growth drivers while managing to deliver on our stated profit growth guidance. We continue to hold our FY27 guidance, high single-digit underlying volume growth in stand-alone and double-digit revenue and EBITDA growth at a consol level. With revenues running ahead of plan through the first half, we remain on track to deliver with the confidence to exceed it in certain areas.

We remain confident in the resilience of our portfolio, the strength of our brands and our ability to deliver sustained profitable growth going forward. Our measure of outperformance remains double-digit UVG and profit growth. Thank you.

Vishal Kedia: We now open the call for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Abneesh Roy with Nuvama.

Abneesh Roy: My first question is when the recent management transition happened, a lot of imperatives and priorities were shared with us quite candidly. I understand when any management transition happens, change in numbers will take time. So my question is not at all on numbers. My question is on the slightly softer aspects which you had mentioned. First, of course, was the digital advertising capability where Nisa in the analyst meet had said that you are quite low in terms of percentile. What are the initial changes which have happened without getting into numbers if you don't want to?

Second is in terms of the hustle to get daily targets, market share, etcetera, what has changed? Again, no numbers needed. And third is in terms of HI new molecule in the advertising message or overall communications, is there any change? I haven't seen it. And I may not have noticed the ad, so that I'm not the right person. But you could address these 3 aspects. That is my first question.

Aasif Malbari: Yes. Thanks, Abneesh. I did share the direction and strategy. I did share what are the multiple changes which we are looking at. And all of them have been changes which are well thought through. Over the next few months, at regular interval, we'll kind of share as to what progress we are making against some of them.

Some of these changes, which we spoke about are structural, they result in, I would say, change in the ways of working. It does require rebooting in terms of certain teams kind of coming on board. And they are all being put in place as we speak.

The first one in terms of digital advertising, I think this is a clear direction which we've taken. We understand that we do a reasonable amount of stuff when it comes to digital advertising, but we are not top percentile. Again, it doesn't happen overnight. But building in those capabilities, making those shifts, ensuring that we move significantly to the world of influencers, digital, etcetera, is something which we started.

And I do see ourselves kind of moving and getting into a top percentile over the next few quarters. But it's again not to do with what percent of spend moved. It is more to do with capabilities and do we believe that in each of the categories, we are in the top percentile. And we know what is best-in-class and how to get there. So I do see in a few quarters getting there, but it's not about percentage and spend. So I think that's the first one.

When it comes to operational excellence, we are decisively moving and we understand where the rhythm should be built, what should be corrected and how it should be corrected.

And I think some of the corrections which we've started to kind of take in terms of trade inventory, etcetera, is purely with that in mind because you need the engine to kind of fire where the entire sales team is focused on offtake and primary is completely run without any human touch.

And for that, you bring down the inventories to completely system-defined inventories and move that way. So we are making decisive shifts on this, and I do see ourselves getting into a rhythm of operational excellence quite soon.

Coming to the new advertisement on HI, the product is the RNF product, the ad also kind of calls it out in the ad. The ad is an ad, which is significantly clutter-breaking and we do believe that this will give us a bigger impact in terms of reach.

Abneesh Roy: Sure. In India CEO, is there any update you want to add, any time lines you're looking at? I know these very…

Moderator: Sorry to interrupt Abneesh sir, your audio was not clear in between, if you can repeat the questions.

Abneesh Roy: Is the audio clear now.

Moderator: Yes, sir.

Aasif Malbari: Yes. Abneesh, I think you are referring to India CEO is just what.

Abneesh Roy: Yes, yes. are you looking for any specific skill set, for example, digital advertising, currently, you think that there is a gap, daily sales achievement, there is a gap. So are you looking at specific skill sets also, of course, at senior levels, it will be well grounded. But if you could update on time line and any skill set you're looking at?

Aasif Malbari: No. So I think we are on to the process to bring in the India CEO. This is an important and a key hire for us and hence, to ensure that we get the right person, both in terms of Godrej values and second in terms of entrepreneur mindset is what I would kind of call out. And yes, frankly, I'm not too kind of worried about a few weeks here or there in terms of appointment to get the right person is more important. And yes, we are running through that process in a fairly robust manner.

Abneesh Roy: And the last quick question. Any update on milestone where you have reached in terms of your new product in the bathroom cleaning space and pet food, any further progress? I understand still in pilot mode. But if more success you have seen in any geography and how many states you have expanded, if any, beyond Tamil Nadu?

Aasif Malbari: Sure. No. So we've gone national on Spic. So we were quite happy with the success which we had in TN. We reached our milestones in terms of repeat. We do believe the brands kind of actually met its action standard in TN, and we have moved the brand to national. So quite happy with Godrej Spic, which is the toilet cleaner.

When it comes to pet care, I would say there has been a lot of learnings in terms of how this category works and initial acceptance of product, etcetera, has kind of been observed. I would kind of possibly, Abneesh, take a quarter, next quarter when we speak, I would kind of, I think, be in a better position to kind of give you exactly how are we thinking of this business and what kind of milestones I would be looking at.

Moderator: Our next question comes from the line of Siddhesh Deshmukh with IIFL Capital.

Percy: This is Percy here. My question is on the Personal Care category. The growth there in value terms is 8%, volume probably significantly lower than that. So what is really sort of stopping us to perform better in this category? first of all, is it that a larger part of the trade inventory correction was in this category? Is that one of the reasons? Or if there is some other reason? I mean, why is it that, I know it will always be a slower growing category because soaps is well penetrated. But given that there is a pricing also probably into this, any color on where sort of are the gaps or where sort of what parts of the portfolio are weak, which can be plugged over the next few quarters?

Aasif Malbari: Yes. Thanks, Percy. So I think, Percy, you're right. I think directionally, typically, soaps is something which has seen a correction in terms of trade inventory and that has had an impact. And normally, trade inventory does kind of build more in terms of the large SKUs. So I think that has been one of the reasons.

Having said that, soaps is also kind of going through its fair share of, again, price volume recalibration with what's happening in terms of commodities. As I mentioned, both in soaps and detergents, I think there has been a reasonably aggressive price increase, which the entire industry and we have taken. And we still are not at normative levels in terms of margins. So normally, when this kind of cost increase happens, you see rounds of price increase happening. These are the times when you start seeing even wholesale and other inventory kind of go down. So I think both these factors have kind of contributed to it.

When it comes to hair color, we've kind of had a very good quarter in terms of market share gains. So yes, I think that part of the portfolio has kind of done really well. Yes. So I would quite happy with the way the numbers have kind of fallen in place in Personal Care because of these reasons.

Percy: Understood. And detergents also, I mean, I didn't exactly understand you mentioned detergents also in the same breadth as soaps. So has there been kind of a slowdown in the detergent sales also versus the earlier trajectory?

Aasif Malbari: No, sorry, if that got picked up that way, I didn't kind of mean that there has been a slowdown in detergents. I think soaps is where there has been a recalibration price, etcetera, and there has been that kind of shift happening.

Detergents growth has been as strong as the trend lines have been. So we continue to do extremely well in terms of fab. And again, Ezee, we are entering the season. I'm seeing good early traction when it comes to Ezee. I think it's a point which I was making more so in terms of where are we in terms of normative margins on soaps and detergents. And fundamentally in both these categories, there will be some more pricing, which will kind of comes in.

Percy: Got it. Which leads me to my second question, which is that typically any FMCG company will have sort of a consumption cost, which reflects the spot prices maybe a month or 2 ago. And therefore, Q2 might not have seen the kind of consumption cost that you would be clocking as of today, given where the prices have sort of moved up in the last couple of months.

So in light of that, although you will take some price increases, how do we look at margins for the India business for the next couple of quarters? I don't know what's the best way to look at it, either look at margins, EBITDA margins overall for the India business or look at EBITDA growth for the overall business for Q3 and Q4, whatever is your sort of comfort the way you internally look at it? Any kind of color on that would be useful.

Aasif Malbari: No, if one had to look at commodities, is the commodity inflation likely to be mildly higher in Q3 versus Q2? I think the answer will be yes. Yes, commodities did kind of give a bit of a relief in between and has again kind of increased. So I think we are at slightly higher elevated levels in Q3 compared to Q2.

The second one is when it comes to EBITDA in these kind of very, very drastic commodity increases, it's important to kind of price for profit growth rather than to price for margin. And hence, we kind of focus on EBITDA Y-o-Y rather than EBITDA percentages, and that's really what we would do. We would try to kind of maintain growth in EBITDA at a consol level. And yes, that's where the focus should be.

Percy: So the EBITDA growth would continue in this high single-digit kind of a level and mainly I'm talking about the India business. I mean, whatever we have done in Q2, would that same kind of growth continue in your view?

Aasif Malbari: Yes. I think, Percy, we would want to deliver in terms of double-digit EBITDA growth at a consol for sure. I mean that is something which we would kind of want to hold the shape in. Obviously, in India, there are multiple moving parts. We are kind of taking care of some bit of the inventory, we are kind of taking care of some bit of recalibration of pricing, etcetera. But yes, I think the broad shape of what we've delivered, we would want to kind of definitely continue even when it kind of comes to India. A few bits up and down, it would kind of happen.

Moderator: The next question comes from the line of Harit Kapoor with Investec.

Harit Kapoor: Just 2 questions on India. The first was if you look at the significant level of inflation in soap and in home care, especially in detergents and probably the early part of the season, at least of Q3 looks like may not be exactly conducive for HI. Just wanted to get your thoughts on maintaining this level of volume growth. Do you see any kind of risks in the H2 on account of the sharp inflation-led impact or a season-led impact? That's my first question. And I'll ask the second after you can go ahead.

Aasif Malbari: Sure. No. So I think, thanks for kind of posting the question. I think there are always some headwinds and tailwinds Again, I think detergents doesn't really get as impacted. I think we've not seen the impact in terms of inflation impacting the volume growth.

What we have seen in the last couple of quarters on detergents is that actually you get the benefit of formalization of the industry because there is still a bit of the local formalization and hence, there is also a reasonable amount of movement from powders to liquids. So the detergent trajectory of growth is very strong, and that should continue.

Soaps obviously goes through its own turmoil, but we have, as part of the portfolio been able to kind of offset that with gains in the rest of the portfolio.

HI looks fine from a season perspective. I'm not really kind of worried in terms of HI, even the El Nino impact was a little bit more towards first half and second half was looking fine. So not really kind of worried from that point of view. So yes, I think we should be kind of able to sustain our trend lines on growth.

Harit Kapoor: Fantastic. And second was just on the advertising spend. So it's been about 7 quarters that the India stand-alone ad spend has seen decline 7 consecutive quarters. I would say some part of that has obviously been due to media agency change, etcetera. But even lapping that up, the A&P spends have come down.

I just wanted to kind of understand whether in your view, this is just a category thing, where because of inflation, overall category media spends are coming down. We've seen that in home care. But I just wanted your thought on is this some kind of recalibration out of advertising spend into something else or it's just that you've been competitive, but the category spend itself has come down and that's reflected in this 7% and 17% declines in Q1 and Q2, respectively.

Aasif Malbari: Sure. No. Thanks, Harit. Harit, I think it is clearly both the factors. I think in largely in terms of soaps and detergents, we are seeing category come down. And hence, we are also kind of optimizing and balancing given the strong inflation, we are also optimizing and balancing out the spend and ensuring that our share of voice stays at the target level. So it's playing the price and ATL in these 2 categories, where we are seeing largely the industry also kind of operate that way.

When it comes to the rest of the portfolio, it's more about ensuring that we get higher reach with lower cost, we benefited significantly from year 1 on changing the media agency. This year, we are benefiting by putting in significantly better practices and working more closely with the agencies to deliver that. So we have been able to deliver much, much better reach at lower cost on that. So I would say, hence, it's a combination of both. You could pretty much give an equal weightage to both these parameters.

Moderator: The next question comes from the line of Jay Doshi with Kotak Securities.

Jay Doshi: My questions are on international business. Indonesia, the current year is shaping up better than what your beginning of the year outlook was. And GUAM has also delivered very strong growth. So how sustainable is this when we think about growth beyond this year?

And in Indonesia, you called out it's because of El Nino. So does this mean that this is more seasonal in nature and not structural or sustainable? And likewise, for GUAM, how should we think about growth trajectory beyond the current year, current year is definitely clocking very strong?

Aasif Malbari: Thanks, Jay. So I think, Jay, firstly, on Indonesia El Nino, we really called it out that while El Nino had a mild negative impact in India, it did have a positive impact in Indonesia. We're seeing

it in the HI space by virtue of how weather conditions impact a country which is an island nation with that kind of rainfall. And we have kind of broadly, I would say, modeled it that way.

So we are not fully surprised with the way the season kind of turned out there. So we have some benefit on to the weather conditions there. So yes, I would kind of say that's something we need to call out.

Having said that, I'm quite confident in terms of, firstly, the larger international business. I think in terms of the larger international business to outperform and deliver double-digit volume growth, I think we have multiple levers to do that. And I would believe that we should be able to sustain that kind of delivery.

In Indonesia, again, we are looking at more flywheels for getting the growth and sustaining growth at higher levels. I think the plans which the team have are quite encouraging. So we will need to see with time how we are able to sustain growth at these higher levels. But yes, I would call out a few bps of growth this year is actually attributed to better weather conditions.

When it comes to GAUM, I think it's been a structural shift which we've been able to kind of deliver by virtue of ensuring that the core grows at a particular level. And on top of it, we are able to kind of incubate and grow disproportionately in a lot of other categories. We believe we've got the flywheel going there. We have the organization bandwidth. We have the execution muscle and we have a lot of the mixes, which we can introduce to the continent and beyond in terms of exports to the larger region. So yes, I think we should be able to sustain, I would say, an outperformance volume-led growth for a while.

Jay Doshi: Is it possible to further elaborate or break down your GUAM growth a little bit in terms of what the core portfolio growth and how much of growth is coming from incubation and new categories, let's say, air freshener? And effectively, what's the structure of the business there, the way you have speed boats in India about 20% of sales and 80% is core? What is the future structure at this point of time? How do you see that shaping up?

Aasif Malbari: Yes. No, Jay, actually, frankly, fundamentally, we've taken an approach because there are a lot of categories in which we were earlier operating in GUAM. Let's take the entire space of wet hair, FMCG products for hair. Now this technically is not bringing in a new portfolio, but we've seen that we can serve the needs of the consumers in Africa with so many other products and our R&D capabilities in hair are extremely strong.

So we have launched a range of new products, there is Mega Growth Mousse, which has been launched. There are various styling products, which we have launched now under the Darling brand. So there are lots of new products which are coming through.

We are operating with actually, frankly, very, very high capacity utilization on some of our existing businesses. These are businesses, which have been there with us for many years. And we've reached capacity utilizations, which are now kind of constraining our growth. There are expansions in capacity which are happening in the next few months.

So the growth is fairly broad-based. It is not in one category. It's broad-based across various categories. Even the hair color business, which we have has been growing double-digit volume over the last last like 7 to 8 quarters. So yes, I think it's broad-based, and that gives us a better confidence. It's not on one category that the growth are coming in.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference back to Mr. Vishal Kedia for closing comments.

Vishal Kedia: Thank you, everyone, for the wonderful questions. We hope you had a chance to get all your queries resolved. In case of any further queries, please reach out to us on our Investor Relations contact details. Thank you, and good evening.

Moderator: Thank you. On behalf of Godrej Consumer Products Limited, that concludes this conference. Thank you, everyone, for joining us, and you may now disconnect your lines. Thank you.

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