

Investor and Analyst Q2FY19 Conference Call

November 02, 2018

Moderator:

Ladies and gentlemen, welcome to Q2 FY2019 results call of Godrej Consumer Products Limited 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 at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashit Desai of Emkay Global. Thank you and over to you Sir!

Ashit Desai:

Good evening everyone. I would like to welcome the senior management team of Godrej Consumer Products and thank them for giving us this opportunity. Now handing over to Tapan Joshi for the initial introduction. Over to you, Tapan.

Tapan Joshi:

Thank you Ashit. Good evening everyone and thank you for joining us today to discuss the performance of Q2 FY2019. We have with us, Nisa Godrej, Executive Chairperson, Vivek Gambhir, Managing Director and CEO, V. Srinivasan, CFO & Company Secretary and Sameer Shah, Head Finance (India & SAARC) and Investor Relations. Before we start, I would like to share that I would be moving to a different role at GCPL over the next few months and my colleague, Pratik Dantara, who is a part of our M&A team will be filling in my place. We will have now Vivek share his thoughts on our performance and then we can open up for Q&A. Over to Vivek.

Vivek Gambhir:

Thank you Ashit and thank you Tapan. Tapan, who is still a part of the Godrej family, so you can always bother Tapan to answer your questions in the meantime, but we are very excited about Tapan's new role and it is part of career progression and development at GCPL. Great to be talking to all of you, what I will do is just spend a few minutes covering the highlights of our various businesses and then we will keep the bulk of discussion focused on your questions and your feedback. If we start with India, it was overall a 10% growth. What is quite encouraging is that the quality of the P&L, the P&L drivers are very healthy. Gross margins were up 100 basis points, supporting an A&P increase of 190 basis points, leading to also 14% growth in EBITDA. In terms of category, soap, hair colours, and air fresheners continue the strong momentum, but challenge was in our Household Insecticides business, which declined by 2%. A big driver of that was deficient and uneven rainfalls in the south and east of India. As many of you would know, the rainfall across India was at 91% of the long-term average and because our business is quite salient in the south and east for Household Insecticides that adversely impacted us. Beyond this, there was some competitive factors, which we will be happy to discuss during the Q&A and ex-



Household Insecticides, the growth was about 16%, which fundamentally also shows the underlying strength of the portfolio, once the seasonal impacts are taken care of. The focus on innovations clearly continues during the quarter. We launched a very disruptive powder to liquid hand wash Mr. Magic that is seeing very good strong traction.

We have also launched a comprehensive male grooming range under the Cinthol brand and as you know last quarter, we had launched a high efficacy coil, Goodknight PowerChip and Nupur Heena Based Powder and we continue to sustain this investment while launching new products as well. All of these investments are being backed with very strong marketing focus. Overall, demand seems to be reasonably good with a continued gradual uptick and we are definitely seeing rural uptick to be faster. In fact, rural business grew significantly faster than the last quarter and teams are very charged to deliver a much stronger H2.

Turning to Indonesia, the continued momentum in terms of strong performance continues with a 14% growth in topline and a 50 basis points improvement in EBITDA. The Household Insecticides brand Hit continued its strong performance and gained market share. The other brands also are doing well. The overall FMCG market seems to be doing more of the same, but our focus on innovation and strong execution are allowing us to significantly outperform in the market. The focus on innovation continues, we have new ATL campaigns for both Hit and Stella and one particular innovation that we are very excited about is the Hit Expert Magic, a long lasting paper, this is a product more efficacious than coil, it burns for approximately two hours as opposed to a coil, which burns for 8 to 10 hours. It emits out less smoke than a coil with a very pleasant fragrant and as you know we do not play in the coils market in Indonesia, that is a Rs.850 crores market. With this product we believe we will now have a very strong momentum in trade with a very differentiated product to be able to target the coil users.

Turning to our Africa and the US cluster now, this was a soft quarter. West Africa is doing very well, the Kenya business is recovering nicely and the US and the rest of Africa businesses are on track. The challenge was in our South Africa business, which had underperformed for a bunch of reasons, one is as many of you know South Africa is in the middle of recession and the economic environment there continues to be quite challenging. At the same time, we did see a lot of intense competition from low-cost braids and it has taken us a while to be able to react to this low cost competition. We have ramped up investments to tactically respond along with launching new innovations, so performance should improve in the quarters ahead, but clearly higher competitive intensity from lower cost braids and recession made the performance quite challenging. This business has performed exceedingly well for the last five years or so, so we believe it is a temporary blip and we are confident of this business turning around fairly quickly. Ex-South Africa the business grew in high single digit in constant currency terms.

A clear focus for us has been on really dialing up the intensity on new launches. The Darling brand has been re-launched in Nigeria in August, Kenya was relaunched last



month and South Africa relaunch will happen in a few months. The relaunch has new brand architecture, a new look and a very modernized brand imagery. For the first time we are advertising on TV, new digital campaign, salon-like communication and a new website, but what is also quite important about this relaunch, that it actually includes a lot of new products as well and from the response that we saw in Nigeria last quarter, it has been very encouraging, so we are very optimistic that we will see the same kind of response in Kenya in this quarter and in a few months in South Africa also, we should see a very strong response to the relaunch.

Along with the Darling relaunch, which also includes new product introductions as well, we have also been focusing on some very significant launches in the wet hair side of the portfolio as well. Moisture Miracle range was launched in the US to target the naturals consumers, there is a new kids range of products, naturals product again that will shortly be launched in the US. TCB Naturals has been launched both in Kenya and more recently in Nigeria. Even in South Africa in the hair coloring range, there have been a couple of very interesting launches and a couple more that have been planned in the quarters ahead, so there has been a huge focus on new launches, improving salon engagement and enhancing our go-to-market approach. Consequence of this unfortunately has also led to margin erosion in this quarter, one reason for the margin erosion clearly is the impact of devaluation which really hit some of our input cost quite badly and as we know there is a lag between the cost going up and the price increases that are taken.

Some of the price increases have already been taken and those are going into the market as we speak and that should help with the situation. The second really has been our investment in A&P. We clearly made the call that given the kind of differentiated and unique products that we have, this is the right time to really dial up our investment in launches in both dry hair and wet hair and it is a conscious call that we have taken to dial up this investment. The third reason for the margin dip clearly was the South Africa performance, because of operating leverage, it led to very poor profit growth as well. Having said that, we feel very confident that both Q3 and Q4 should be much stronger for the Africa cluster on both topline and bottomline and that is what we are working towards. So overall, it has been a mixed performance in Q2, in an overall H1 level the performance was quite reasonable, but the teams are very charged up to deliver a much stronger H2 on both topline and bottomline. Let me stop here and we will now be very happy to address any questions you have and take your feedback.

Continue: - Q&A...



Questions and Answers:

Moderator:

Thank you Sir. We will now begin the question and answer session. We have the first question coming from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

My first question is in the household insecticide segment, we understand the seasonality effect, but apart from that, is there any other structural issue, which we are missing? Regions having seasonality issue, now we are hearing about these incense sticks that is one structural issue as of now. Then there is *Swachh Bharat*, I do not know if that at all is reducing mosquito incidence. What is the medium to long-term growth prospects of this category? Is this category as sought after, is there still a big problem that needs a solution and do we need to revise our growth estimates for this category?

Vivek Gambhir:

Let me first of all address the question around *Swachh Bharat*. Clearly, there is absolutely no evidence which says that programs like these, which are quite limited in scope have led to lower mosquito infestation, so from the data that we collect and the consumer feedback that we get on a monthly basis through our U&A studies, household panels, the desire for actually more efficacious products, for products that work actually have gone up significantly because awareness levels about dengue, chikungunya and malaria are increasing by the day.

Nisaba Godrej:

Which incense sticks are sort of prove because they are using illegal pesticides and stuff which are effective against mosquitoes. To conclude, there is no data to say that mosquito infestation is coming down.

Vivek Gambhir:

Till a few years ago, this was a business focused on just protection against malaria, but with things like dengue and chikungunya, those have been actually more recent phenomena as far as India is concerned. So therefore, at least our point of view is quite clear that we do not believe that there is any change in terms of how consumers perceive the category and the importance of the category. In fact, they are getting more important by the day. To your second question on incense sticks, let me just recap our Household Insecticides strategy and fundamentally we are on the right track, on the strategy, but certainly, we will talk about the incense sticks as well. See from Household Insecticides strategy perspective, we have had three big growth vectors, it is about driving Household Insecticides in rural and urban including creating new occasions. Second is driving optimal usage and third is



developing non-mosquito category. The focus has been on both penetration and consumption and actually developing the category and a lot of our efforts have been to create higher efficacious product, new formats and also more affordable products. If you look at the kind of products we are creating even recently whether it is PowerChip or whether it is more, high efficacy liquid vapouriser, the idea is to be able to create all products at all kinds of price points to address different needs of consumers. If you look at incense sticks, it is an interesting format and in some way, it plays in the same space as Fast Card does. It is just that it burns longer and it is a format that Indians are quite used to, but ultimately a lot of these formats are in line with the direction of providing a better solution than a coil, whether it is a Fast Card, whether it is a PowerChip, whether it is an incense stick - these are all different formats to actually upgrade and find better solutions to the coil format. We had an incense stick in the pipeline, but as you know, registration takes time through the CIB and so it will take its time for us to be able to launch an incense stick with an active. In parallel for the last few years, we have been working on a full range of natural products and there is maximum amount of focus going on plant research in the R&D team, the fabric roll on was the first product that we had launched in that range a few months ago, with citronella and eucalyptus oil and that has been doing quite well. Our intent is to also launch a natural incense stick soon, but as you know, the focus for us is on launching very differentiated unique product, so what you will see from us even in this naturals range, will be products that are very disruptive in efficacy and formats as well.

The third leg of the incense stick piece is that we did start seeing this phenomena emerge about a couple of years ago. At that time, a lot of incense sticks were being imported from China. The incense sticks actually were being laced with a banned pesticide in India, but the incense stick was coming separately, the pesticide was coming separately from China and those were being dosed in India. The industry associations went after these players and managed to actually get a few factories shutdown. What you have now seen is that we have seen players reemerge again, different local brands and most of these brands actually do not even use the mosquito on the packaging. Most of these brands have just got herbal incense stick with no mention of the mosquito at all, these are very harmful, they have banned chemicals in them, these can be extremely harmful particularly to children. We are working at an association level with the state government, we are pursuing legal actions, we are pursuing PR actions, these as you can imagine take time in India, but clearly, we are taking the appropriate action to be able to ensure that consumers, particularly children do not have these harmful products in their hands. In parallel what we want to do is provide alternative, in the short-term it will be a naturals play, over the long-term, you will find us continuing to provide more efficacious formats across all of these various products.

Percy Panthaki:

On Africa, just wanted to understand two issues, one there is some inventory write off of Rs.52 crore, can you elaborate on that? The margin drop of 710 basis points even before providing for this Rs.52 crore, can you provide bridge so to understand if there is certain



sort of phasing or one-off issue? What kind of margins can come through for the next two to four quarters on Darling?

Sameer Shah:

The inventory provision as well as to some extent, the receivables provision which you had in LatAm is part of our balance sheet item provisioning policy refresh. Basis the trigger of evaluating shutting down of the Kinky stores is inventory, which at this point in time the team felt it would be hard to sell off or liquidate as well as there were few raw materials and packaging materials related to fancy colours in some of our other clusters. So to begin with this is more of a conservative prudent provision which we have taken at this point in time, if we had actually stuck to our traditional policy, this would have come over a period of next four to five quarters. Having said that, there is a team, which is going to work in terms of selling this off, reusing it as well as liquidating it, so we will see some part of it, which is difficult to quantify at this point in time, coming back to the P&L over next maybe four to six quarters. Ditto is the case also in LatAm, however what is provided right now looks to be more of a one-time settlement with the customer and that may not come back.

To answer your second question in terms of bridge for the drop in Africa clusters margins, roughly around 300-350 bps is behind advertisement spends and sales promotions. Rest of 300-350 bps is driven by mismatch in increase in input cost because of currency depreciation to the price increases, which we have taken as we mentioned earlier at the flag end of quarter, in terms of passing it on to the consumers. I think going ahead while the margins will be much better, gross margins to begin with and also perhaps EBITDA margins of Africa cluster is, one, we do expect favorable category mix, the wet hair scale up is happening at least in the market as we had planned out and that as a category or formats has much richer gross margins as compared to what rest of the portfolio has.

We are also working on a cost-saving initiatives across the board whether it be sourcing, whether it be SG&A expenses. Also we expect there will be a scale leverage, so we do expect that sales growth will be much better than what we have seen in H1 in Africa, so combination of all three of these factors give us the optimism that we should be much better margin performance in H2 as compared to H1.

Moderator:

Thank you. The next question comes from the line of Abneesh Roy of Edelweiss.

Abneesh Roy:

On the hair colour, the growth has accelerated here, so 25% growth on a two years basis in Q2 versus 17% in Q1 on a two-year basis, so your market share is also on a highest ever exit, so who has lost market share?



Vivek Gambhir:

Part of it is I think our henna based powder is doing quite well, it is a fairly fragmented category, but from our understanding I do not think any of the major players have lost a significant share. Smaller regional players is our guess, but we do not get that data. So I would not be able to answer that question, but the top players have all been pretty relatively stable as far as the market share is concerned.

Abneesh Roy:

In Soaps, you are doing quite well - double digit sales growth for now five quarters, so in both soaps and hair colour, is it that the bigger players like you are winning and is this consolidation because of GST?

Sameer Shah:

I think for competitive reasons, we will shy away in terms of the market share movements and the so-called share gain/loss analysis Internally for us our performance both in soaps has been quite consistent in terms of double digit over last five to six quarters and also in hair colours as we have seen over the last three to four quarters, the intention is to continue with this relatively strong performance with our internal initiatives over a period of time.

Abneesh Roy:

On Household Insecticides this PowerChip innovation, any down trading you are seeing from liquid and any success from up trading from coil have you seen? Also, this new paper-based innovation in Indonesia, does India have any potential for that?

Vivek Gambhir:

On the PowerChip question, clearly it is still very early days, but we are definitely seeing up trading from coils happening. The launch was done fairly selectively in terms of few areas, so we are not seeing any cannibalization from liquid vapouriser, but again still too early to say and honestly even if that happens, end of the day it is about growing the consumer franchise and making them use multiple products and so on our future pipeline, I would not want to comment at this stage.

Abneesh Roy:

One follow-up on the soaps, so this Rs.15 innovation in the hand wash looks very disruptive, so you have mentioned Rs.8,000 crores as a category, how much is liquids already here and since you are a bit late entrant here, just by the Rs.15 price point is it enough in terms of efficacy and in terms of usage is it matching with the much more premium liquid hand wash?



Sameer Shah:

The category size is around Rs.700 crore - Rs.800 crore. Rs.8,000 crore is more of a potential in terms of how big this category can be if there is disruption in terms of price points as well as in terms of formats and eventually the usage behavior by the end consumer.

Abneesh Roy:

By which year can this potential be realised?

Sameer Shah:

This is the potential as we see over a period of time. We wish this would be very close by, but in medium-long-term, if there is a disruptive innovation like what we have in terms of powder to liquid hand wash, we do expect categories like this to be relatively big over a period of time.

Moderator:

Thank you. The next question comes from the line of Amit Sinha of Macquarie. Please go ahead.

Amit Sinha:

On the Household Insecticides business, do you think that the success of incense sticks in the last few years is in a way a failure on the part of the organized players to come out with an effective solution and what is your kind of confidence on the new product, which you will be launching to solve this issue because you will be competing against product, which is illegal and is completely different?

Nisaba Godrej:

If you say is there a failure of not coming up with something as efficacious? Yes and no, we have seen that demand was stronger for products addressing the issue of mosquitoes and this is driving penetration in rural. I would also say no because they are using materials like fenobucarb, there has been a lot of Chinese stuff coming in unregulated, so would we do exactly this sort of a product? No. Does this hint towards us to do more efficacious stuff? Yes. There is a reason that you have a registration process. All we want is that people do not overdose and do not use chemicals that have not been tested for health inside home, if you wanted to kill any animal, mosquito, human being, there are enough poisons out there to be able to do it. A responsible industry is one that it does it in a very, very safe manner for human beings and pets at home, so definitely there is nascent demand out there. People do want more efficacious product, so that is a failure to say, but is it a failure not to do product such as this, then we would not do something like this. They are crossing a lot of lines on this, and one of our reasons to have an answer to this is not just for our business but to make sure that consumers have a safer solution.



Amit Sinha:

Will you go back to the innovator company for a different kind of active is there a limitation on the active part itself, which is not able to compete with these kind of illegal products?

Nisaba Godrej:

I do not think there is limitation. There are two parts for it. One is what the active is and what is the dosage that you go for in the active. In terms of active, the problem is that they are using actives that are not registered to be used at home. Before registering the product, there is a previous step where the active has to be registered with proper safety data and which takes multiple years to do. None of this has been done in their case. For example, we know some other players have also done natural base, but we have been working on a plant-base for multiple years. We are working on a full range of plant based products, some of these products are in fast track. We have already got the roll-on in the market, so we have to build efficacious safe, value for money product that has always been our goal sometimes we might miss out on something sure but we have a lot of things that we are doing and you have seen some of them, recently like PowerCchip, we have upped our efficacy in liquid vapouriser by 50%, so there are multiple things happening.

Amit Sinha:

Just wanted some perspective on the cost savings program in the India business, it looks like both on the employee cost side and the overall other expenses side, there has been a significant savings in the last few years.

Sameer Shah:

The cost saving program – Project Pi is very much on track. We look at close to 2% of our savings of sales to come in from Pi project and we are very much on track on that front in India. The drivers remain the same in terms of strategic sourcing, manufacturing efficiency and it very much continues. Our pipeline in terms of initiatives is extremely robust, which gives us the confidence that again this is not just going to be this year phenomena, but also something, which will continue to contribute next year also. The change which we are seeing in employee cost is not driven by a very stringent cost saving program. It is largely to do with the delta EVA and we can look at delta EBITDA as a close surrogate to delta EVA for this quarter at consolidated level, which in turn has resulted in lower performance linked variable remuneration in this quarter and that is the reason why on an year-on-year basis, we are looking at relatively lower employee cost as compared to what we had in the corresponding last quarter. Other expenses as a percentage of sales are more or less intact. In terms of movement, there is hardly any movement in other expenditure. If I look at standalone, it is also very much on track and also driven to some extent by the cost saving program which we are running at this point in time.



Moderator:

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

Vivek Maheshwari:

My first question again is on incense stick - how different is incense stick from coils that consumers are moving to that format?

Vivek Gambhir:

A coil typically works for 8 to 12 hours, whereas incense stick will typically burn for one hour or two hours, so in that sense, it does mean lesser amount of smoke that gets emitted. Indians are quite used to the format as well. The smoke also tends to be a little bit less thicker than the kind of smoke from a coil, so lesser duration of smoke and a format that Indians find quite appealing.

Vivek Maheshwari:

On Africa, your capital employed in the business is around Rs.6,000 Crore and the returns effectively are between 1% and 3%, what is your aspiration, where do you want to take the return ratios in the medium term in this business?

Sameer Shah:

The returns on annualized basis would be around 5% to 6%. Much below what we would sort of desire for, but there are two, three things over here. One is very consciously we have taken the call of continuing upfront investments whether it be sales promotions or advertisement spends not just for this quarter, but perhaps over the last couple of years and the trend will continue. We will also look at multiple cost saving projects. Now we have rolled this out in India, rolled out in Indonesia quite successfully so that we sense would be a strong driver to overall margin expansion over there. We also expect a strong scale leverage over a period of time to come in our Africa business and there is a big improvement on working capital front, so all of these factors put together will result in expansion in ROCE, even if baseline with what the ROCE has been say for FY2018 or even annualized FY2019 over a period of time. Definitely, we would want to reach to double digit over the next couple of years and also we would want to see the journey of ROCE as we saw in Indonesia business. We got in Indonesia business in 2011-2012, we nearly doubled or more than doubled the ROCE over a period of five to six years, the journey is going to be little elongated in Africa, but we are quite committed to ensure that the ROCE does improve over a period of next two to three years from hereon.

Vivek Maheshwari:

In that context, this Rs.189 crore liability that you have written back, if I recall correctly, Q4 FY18 also had Rs.195 crore, so in total a little less than Rs.400 crore have been written back.



When you acquired SON, where has been this gap and why Rs.400 crore has been written back?

Sameer Shah:

At a time of going in on SON acquisition and also the way we had structured this, we had kept the profitability target at a very ambitious level knowing that there will be some gaps and holes, but this was done to ensure that the promoter who also became sort of partner has enough skin in the game over a period of time. So the reversals which you were seeing at this point in time in the P&L is in line with the kind of performance, which we had kind of anticipated for, which is more or less in line with our internal expectations, may be marginally down, but definitely the overall EBITDA, the profits which we had from payout point of view, is not what we had also sort of anticipated, it was done to kind of keep enough skin in the game for our partner at that point in time.

Vivek Maheshwari:

On macro, about rainfall deficiency, does that worry you from a rural market perspective, from agri perspective and its implication on the broader FMCG markets?

Vivek Gambhir:

We are seeing this very good upticks far as rural is concerned, in fact rural grew for us 600 basis point ahead of our urban growth. So we are definitely seeing a lot of good growth in rural and while the demand environment is not as rosy as what one would have thought three or four months ago, but generally what we are seeing is good continued recovery. So the teams are actually feeling quite optimistic on the ground that this recovery will continue to sustain over the next three to six months. Now obviously in metros, the big question is what happens to crude oil prices, rupee rates, etc, but if things get more steady, it should augur reasonably okay for the next few months for the economy.

Moderator:

Thank you. We will take the next question from the line of Abhishek Jalu of VT Capital Markets. Please go ahead.

Abhishek Jalu:

Why do you prefer to launch powder to liquid hand wash and not the liquid hand wash straightaway, what is the advantage in it?

Nisaba Godrej:

Firstly, we do have a liquid hand wash. The advantage of powder to liquid handwash is two-fold, one is the penetrative pricing, so the refill for this product cost is Rs.15 and a per-usage basis, it is at a low price point than even a bar soap. Two, its more sustainable as, this is a very green product with less packaging and less fuel than bar soap. Our experience in



India creating high quality, but low price products is that it drives a huge amount of penetration, consumer delight and up-trading to the product, so we think this is a pretty disruptive product.

Abhishek Jalu:

If we compare the margins between liquid hand wash and powder to liquid hand wash, is it a lot of better?

Sameer Shah:

I think for competitive reason, we would not like to share the margin profile across categories and formats.

Moderator:

Thank you. We have the next question coming from the line of Zececa Doshi of Sharekhan.

Zececa Doshi:

There was a 590 bps dip in the margin that we have seen in the other segment, which includes LatAm, Europe, and SAARC. I understand that we have a divestment of European business which has come into effect, but apart from that what are the reasons of such a big dip in the margins in the others segment also?

Sameer Shah:

It comprises of LatAm, SAARC and the UK business, this is the last quarter of the UK business, because the same has got divested. This was largely driven by drop in LatAm business, the reason why this has happened is largely again driven by Argentina. We did see a very sharp currency depreciation and which in turn resulted in significant mismatch between increase in input costs and final consumer prices; however, we are passing on the price increases in October. The other change which also came in because of this very high inflation was the increase in fixed overheads or manpower cost, which was in line with inflation rate, but there was no equivalent pass through in the sales. So there was a bit of scale deleverage and there was a bit of mismatch both of which resulted in overall drop in LatAm business, which resulted in the drop in 'Others' cluster.

Zececa Doshi:

Could you quantify the margin drop because of the LatAm business?

Sameer Shah:

This is a disclosure we would shy away from decomposing LatAm, SAARC and UK.



Zececa Doshi:

How do you see the business panning out across LatAm and SAARC, do you see any new launches?

Vivek Gambhir:

Argentina is going through very significant turbulent time, economically, but having said that, we do believe that we will see significant opportunities in Argentina as well. The reason is that we are a value player in hair colors, we are the market leader and we manufacture locally. Most of the other players have imported products there, so I do believe that there is going to be a significant opportunity as consumers will downgrade to value brands. Our focus on Latin America over the next six months will be to drive profitable growth. The focus will be far more on profits than on topline, so we will manage our operations, our overheads, our working capital to be able to drive profits more than topline just give us the uncertainty that we see in that environment. On the SAARC side Bangladesh, Sri Lanka and Nepal are doing quite well. We do expect continued strong performance from them in the second half of the year as well.

Moderator:

Thank you. The next question comes from the line of Deepan Mehta of Elixir Equity. Please go ahead.

Deepan Mehta:

Over the years, you have been acquiring business in overseas and a lot of learning would have come through there, but from our perspective, overseas business has brought in a great deal of volatility and uncertainty in your earnings - they contribute almost half in terms of revenue. So given that your experiences have been mixed in overseas acquisitions, can we expect that at least going forward you may go extremely slow on overseas acquisitions and unless it is an absolute screaming buy, you would not want to expand on the overseas side and may be try and grow the India business in a more steady manner?

Nisaba Godrej:

If you look into the acquisitions, if you look at something like Indonesia, it is according to us, been a resonating success. We had a few quarters where things slowed down, but it bounced back. The other big acquisition is African Hair Care and I will agree with you that we have seen some amount of ups and downs. We also feel that the category and the continent is definitely a very exciting long-term play for us. That being said, we have communicated that we are actively in more of a consolidation phase in Africa, because what we also want to be is to be like 200% on top of the business before you start acquiring any further brands there. That being said, if we get something extremely strategic, we will go ahead with it.



Deepan Mehta:

Then are you not worried about the volatility that it brings into your earnings and the associated uncertainties?

Vivek Gambhir:

At the end of the day, it is about playing the portfolio. If you look at our performance over a 3, 5, 7 to 10 year period, there is always volatility on a quarter-on-quarter basis that happens in any business that can happen even in India as well. In some quarters, you will find two categories doing well, one category is not doing that well, now which is always the part of reality, but the idea is first of all is are we seeing massive opportunities to be able to cater to a new class of consumers, with differentiated consumers, with amazing spending power and emerging middle class over the next 20 years? So strategically, these are all significant massive opportunities. If you look at our performance over multiple years and if you take a look at a 3, 5, 10 year period, you will see that the way we have actually delivered profit growth has been actually one of the best in the industry. So while there will be volatility, this is about playing the portfolio. As Nisa was saying, there have been some learnings, which will keep on enabling us to recalibrate how we think about our acquisitions. There will be phases, but from our point of view, the strategic rationale for growth in this geography is certainly a thesis that we believe quite strongly.

Moderator:

We have the question from the line of Kunal Vora of BNP Paribas. Please go ahead.

Kunal Vora:

Among the other brands in which you have seen 36% growth, can you talk about what has worked well and what has not and has something become big enough to categorize as a large brand instead of clubbed under 'Others'?

Sameer Shah:

The 'Other' brands for us in India comprises largely of air fresheners, liquid detergents and toiletries and at this point in time, all three of them are firing on all cylinders. We have been seeing very strong growth rate in air fresheners consistently over the last two to three years now and this is also start of season for liquid detergents and looks like we are off to a great start again and also a lot of new product launches like male grooming as well as powder to liquid hand wash is something, which get bucketed under toiletries and 'Others' space. So it looks like it will continue its strong growth momentum in near future also.

Kunal Vora:

On goodwill, it has increased by approximately Rs.400 crore between March and September, can you explain this?



V. Srinivasan:

Goodwill gets restated on the basis of rupee, because goodwill is in dollars and it is to be converted for consolidation purpose into rupees, so because of the rupee depreciation, the amount has gone up and the corresponding impact will be in the foreign currency translation reserve, so this has no cash flow implication. It is simply a restatement.

Kunal Vora:

On incense sticks, are there any large suppliers who can be targeted or they completely operating under the radar and restricting them might not be possible?

Vivek Gambhir:

At this stage, we would not want to comment about specific players, because we are at the middle of our legal and PR strategy against these players.

Moderator:

The next question is from the line of Vicky Punjabi of JM Financial.

Vicky Punjabi:

The inventory provisions of Rs.52 crore and the receivable provision of Rs.3 crore, which part of the P&L are they impacting? Is the inventory provision being reversed in the COGS itself or are you taking it below the gross profit level?

Sameer Shah:

In our performance update, we have shown it as one-off and you can read this on page number 4. In P&L, they are in different line items like other expenses as well as material cost.

Moderator:

The next question comes from the line of Arnab Mitra of Credit Suisse. Please go ahead.

Arnab Mitra:

The Indonesia business has done quite well this quarter in the first half, but you were lapping up a relatively low base of decline last year, so as you go ahead, once that situation goes away, how much confidence do you think you have that the business has now fundamentally gone on a decently good growth path and also in that context, any comments on how you are viewing the macro situation there as well as the competitive situation in Household Insecticides?



Vivek Gambhir:

The team is very optimistic and confident that they will sustain this momentum, going forward partly because of multiple growth vectors that they have in place. One is on innovation, certainly the innovation agenda is looking quite exciting in terms of further launches. Second of all, some of the work that they are doing on the general trade transformation, Project Rise, that is also beginning to show some good results and third of all, the Project Cermat, which is the cost reduction project is also beginning to show some good results. With the devaluation in crude oil, one of the challenges will be on the gross margin front, but the team is confident in terms of being able to handle all of these areas. The team is actually quite confident that this momentum should be sustained in the second half of the year. In terms of the macros, honestly no new news, the FMCG sector still continues to be more of the same; it is a little bit steady. We are not seeing an uptick nor have we seen significant downtick as far as macro is concerned.

Arnab Mitra:

Anything on the competitive environment – is the pricing or the promotional battles kind of behind us or is it still volatile?

Vivek Gambhir:

Generally, while the market is competitive, it is not as irrational as it was a few quarters ago, the season has been quite good from a mosquito infestation point of view, which is why there is enough growth in the market as well.

Arnab Mitra:

On the India standalone margins, so your gross margin continues to expand sequentially and on year-on-year basis, so I know palm oil is still relatively low, but given the currency and other parts of the portfolio which has seen inflation, do you see any pressure points there going ahead on the India gross margin?

Sameer Shah:

It would be difficult to estimate it at this point in time how the margins profile would be for the rest of the year, because there are too many moving parts, one is category mix, how it has shaped up and the other is how do we scale up the cost-saving program and third is the impact of increasing crude as well as currency depreciation, and normally it will come with three, four months lag, but having said that today again we are sitting on crude at 70. So let us see how all of this kind of gets played out, but having said that, as we have shared earlier also that we are very optimistic of driving profitable growth in India, which means that margins will expand in the rest of the year.

Moderator:

The next question comes from the line of Deepan Mehta from Elixir Equities.



Deepan Mehta:

On the exceptional item, which we have booked in the current quarter and the half year, what would be the tax provision or tax liability for the exceptional item?

V. Srinivasan:

On the exceptional item, there is no tax liability. One is profit on sale of UK business, which is again overseas and there is no element of tax on that and similarly on the earn out write in, there would be no tax.

Moderator:

There are no further questions from the participants, I now hand the conference over to the management for closing comments.

Vivek Gambhir:

Thank you very much for the questions and your feedback. While we had mixed performance in the last quarter, given the kind of innovations that we have and the focus on strong execution, we are looking forward to a much more improved second half of the year in terms of delivering both stronger topline growth and sustained profitable growth. Happy Diwali to all of you.

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

