

Investor and Analyst Q1 FY19 Conference Call

July 30, 2018

Moderator:

Ladies and gentlemen good day and welcome to the Godrej Consumer Products Limited Q1 FY19 Earnings Conference Call hosted by CIMB Securities Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I now like to hand the conference over to Amit Purohit. Thank you and over to you sir.

Amit Purohit:

Good evening everyone, on behalf of CGS CIMB Securities. I would like to welcome you all to the Q1 FY19 Conference Call of Godrej Consumer Products Limited. We have with us the senior management team of GCPL. Over to the management for opening remarks, which will be followed by a Q&A session.

Tapan Joshi:

Thank you Amit. Good evening and welcome to the conference call of GCPL to discuss the results for the quarter ended June 30, 2018. We have with us Nisaba Godrej – Executive Chairperson, Vivek Gambhir – MD and CEO, V. Srinivasan – CFO and Company Secretary and Sameer Shah – Head Finance (India & SAARC) and Investor Relations. We will start the presentation with Vivek sharing his thoughts on our performance and then we can open up for the Q&A. Over to you, Vivek.

Vivek Gambhir:

Good evening. Thank you very much for the opportunity for us to discuss and talk about our performance in the last quarter, and as we have done in previous discussions as well, we will do a quick walk through of the performance update presentation. Following which, we will be more than happy to answer your questions and take your feedback.

If you turn to the presentation, starting from Slide #3, which summarizes our Q1 financial performance. As you will see, we have had a good start to fiscal year 2019, with profitable, ahead of the market, growth across most geographies and categories. Our constant currency sales on a comparable basis increased by 10%, reported EBITDA increased by 28%, but EBITDA on a constant currency basis increased by 26%.

Our reported net profit increased by 80%, and net profit without exceptional and one-off items increased by 36%.

The Board has declared an interim dividend of 200%, which is Rs. 2 per share and an issue of bonus shares in the ratio of 1 equity share for every 2 equity shares held, subject to requisite approvals.

The next couple of slides outlined the details of the exceptional items, and the one-offs and we can cover this in more detail, with Srinivasan and Sameer in the Q&A. The following



slide shows the bridge between reported to operating EBITDA, again not much of a change there.

On Slide #6, we show you the key balance sheet data and across all fronts, the key balance sheet metrics, looks to be very strong and headed in the right trajectory. If you look at the ROE, ROCE, operating ROCE, across most of the dimensions the number and the ratios are trending in the right direction.

If you turnover to look at our India performance starting on Slide #8, as we had mentioned, in India we delivered a sales growth of 14% on a comparable basis, with a 14% volume growth and EBITDA growth of 44%. We recognized that the base quarter was a weak quarter for the FMCG industry, so if you take a look at the 2 years CAGR of growth as well, that is a 10% 2-year CAGR. So, across all parameters, whether it is volume growth and EBITDA growth, the numbers have been very positive for our India business.

What is heartening if you see Slide #9 is that the growth has been quite broad-based, with a 17% growth in Household Insecticides, 10% growth in Soaps, 12% growth in Hair Colors and a 21% growth in Other brands. And so, across the board we have seen double digit broad based growth across all of our categories.

A quick look, in terms of our categories, starting with Slide #10. Household Insecticides delivered a robust performance with a volume-led sales growth of 17%, which has been the highest in the last 7 quarters. This growth was driven by a better season and some of the new products that we have launched. Both the Goodknight PowerChip and the Good knight Activ+ liquid vaporizer with 50% more power continues to scale up well. We have also had some new low unit packs in the coils market that we discussed and that is also helping drive this growth. The focus continues to be on driving penetration by launching affordable solutions and trial generation SKUs. And we are making strong investments for future growth.

On the Soap business, the next slide actually talks a little bit about the low unit packs that we have launched in insecticides. We have a low unit coil pack for our Green Shakti coil. Our Fabric Roll-On which has done very well, which is priced at Rs. 75, has now a low unit pack priced at Rs.20 to accelerate trials there.

For a Goodknight Cool Gel, the low unit pack is Rs. 10. Apart from these there are couple of other interesting launches, that we are planning for in the next 3 to 4 months. So as far as insecticides is concerned, the focus and commitment to drive the growth through both distribution expansion, innovations and right pricing our products continue to go on full steam ahead.

On Slide #12, which is our performance in our Hair Color business. Here again we delivered a double-digit volume-led sales growth of 12%. Godrej Expert Crème continues to consistently deliver robust performance, with double-digit volume-led growth. We



continue to expand distribution, expand our penetration and gain market share. We have recently launched a new campaign to recruit new users into the category.

In terms of innovation, we have now forayed into the Herbal Based Powder Hair Color segment, under our Godrej Nupur brand. This category has almost Rs. 1,000 cr opportunity, 25% of the Hair Color market is comprised of Henna-Based Powder users and our belief is that this will again help us recruit new users to the category through a very interesting format, under the Nupur brand.

On Slide #13, on the soap side, we have sustained our volume-led sales growth of 10%. Both Godrej No.1 and Cinthol have done well. We have continued to gain market share and performance was led by effective micro marketing initiatives and a strong on-the-ground execution.

So over all in the India business consumer demand is improving, and we expect this recovery to sustain going forward. Both urban and rural growth will be better this year. In this quarter, our urban business grew by 13% and the rural business by 17%, and we do expect the rural growth will continue to outpace the urban growth on the back of remonetisation, the settling down of the GST implementation and the government efforts to stimulate the rural economy. As we have mentioned before, our thrust on innovations will continue and we are clearly accelerating the pace of new launches, with differentiated and unique products. Fiscal year 2019 will be our most active year yet, in terms of new launches. In India alone, we have had three new launches in the past few months and we have about three or four more planned in the next few months as well.

Now switching gears to our International business. Our International business delivered a constant currency growth of about 7% driven by the recovery in Indonesia. The adjusted EBITDA margin declined marginally, primarily because of a little bit of limited operating leverage but more because of the investments that we are making in terms of our advertising and promotion spends along with investments we are making in talent. So we are clearly investing in several markets ahead of demand, which we believe will yield strong dividends both later on this year as well as the years ahead.

If you turn to the Indonesia performance, which is on Slide #18, the business saw recovery with ahead of the market constant currency sales growth of 10%. The market environment remains challenging, but our team is working very hard on stronger execution, newer product launches and more effective spends in marketing. We have regained our market leadership in household insecticides and we continue to gain market share on a year-on-year basis as well as on a quarter-on-quarter basis. Adjusted EBITDA margins increased by 220 basis points led by cost saving initiatives, lower overheads and better optimization of sales promotion spends.

In our Africa, US and Middle East cluster what we call GAUM, it was a relatively soft quarter with a constant currency sales growth of 5%, led entirely by volume growth. While



our West Africa business did very well, and Kenya is seeing early signs of recovery, our sales were impacted by a lot of weakness in South Africa as higher fuel inflation, increase in the VAT and transporters' strike really adversely affected the disposable income. And so, in some ways challenges we saw in South Africa were quite unanticipated, particularly in the month of April. Through May and June, while the challenges in some way still remains, through some of the actions that the team is taking, we are seeing an improvement in our performance and we are hopeful that the South Africa business should improve in the quarters ahead. Excluding South Africa, our business grew in double-digit in constant currency terms. Adjusted EBITDA margins decreased largely driven by the lag between increase in input price cost and price hikes, lower operating leverage but also because of some of the upfront marketing investments we are making to both the scale up Wet Hair care and along with some of the spends we are putting as far as infrastructure and talent is concerned across both our Africa's center in Dubai, and across our various geographies in Africa. Again, these are upfront investments that we are making. There is a significant potential that we do see in Africa. We do believe that it is only a matter of time before you start seeing these investments translate into both better and stronger sales and profit growth.

We have added a new section to our performance update, which is around innovation and as you can see, there are some very exciting innovations that we have launched. One of them is the Goodknight PowerChip system. This is an effort to try and upgrade coil users to a more efficacious format with unique gel technology and on a per night basis, it is more affordable. It lasts for 15 days with a disruptive price point of Rs. 30 for a PowerChip and Rs. 45 for a combi-pack.

The next innovation that we have launched is a higher efficacy liquid vaporizer. The opportunity size is over Rs. 2,000 crore. This liquid vaporizer is 50% more efficacious than a regular liquid vaporizer and is priced at Rs. 72.

We have talked about the Henna Based Powder Hair Color under Nupur. It has the goodness of natural Henna, easy application, available in 3 shades at a disruptive price point of Rs. 10.

Turning to our International business - in our US business, we have launched a naturals range under African Pride, called Moisture Miracle. The products have no parabens, no sulphate, no petroleum, and have delightful fragrances, we are quite excited about the opportunity that this new segment provides to us. Every quarter, we will continue to share more stories about the innovations we are launching. We will focus this section more on new innovations and new launches as opposed to new variants. Clearly, there is lot more work that has been going on in as far as launching new variants are concerned.

So, as I mentioned earlier on, generally we are feeling quite happy with the performance this quarter. Indonesia and India clearly are the markets we feel better about. I think in Africa, the foundational blocks are being put into place. So, while the quarter was soft,



certainly our expectation is that on an overall year-on-year basis the performance for Africa should be better than last year both on the top-line and bottom-line front. We would be more than happy to take your questions and your feedback at this stage.

Continue: - Q&A...



Questions and Answers:

Moderator:

Thank you very much. We take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy

In the presentation, you have mentioned, you have gained market share in the domestic market in the Soap segment, but there is no mention of Household Insecticide market share and Hair Color. So, could you please tell us as per Nielsen, how we have performed in those two segments as well?

Vivek Gambhir

We have seen a marginal increase in market share across Household Insecticides and Hair Colors.

Abneesh Roy

Coming to the new disruptive innovation, PowerChip, are you seeing any down-trading from the regular vaporizer, to this because price point is lower? If no, how are you ensuring in terms of the distribution and the marketing so that down-trading is minimal?

Vivek Gambhir

The messaging of the proposition has been around the power of 100 coils and which is working quite well. And so, the way we are positioning the messaging, the proposition and to a certain degree, the go-to market initiatives are targeted far more to upgrade coil users. So far we have not seen any down-trading from liquid vapouriser, but even if a little bit of that happens, the whole intent will be to develop a category through providing different products at different price points and we don't expect much cannibalization, but even if it happens a little bit, this will enlarge the whole pie, and a much higher proportion will upgrade from coil. Net-net that will be positive.

Nisaba Godrej

We have also launched our Power Refill which is 50% more powerful and we are just replacing the old refill with this new refill. So, consumers are getting much more efficacy at the same price. If you talk to consumers in areas where infestations are high in India and you ask about this refill, the consumer feedback is very positive. I think one of the ways that we grew our liquid vapouriser business over the long-term was getting these coil upgrades. We felt that we needed another price point to drive this penetration. So, things like PowerChip, in terms of our GTM, in terms of our marketing are very-very focused on coil upgrade. Between formats, there can always be some amount of cannibalization



though we are not too worried. Actually, Household Insecticides is a dual usage category so people are making those multiple choices and the liquid vapouriser and PowerChip from a consumer benefit point of view, is quite different.

Sameer Shah

It is a select market launch. Right now, PowerChip has been launched in North and East, and parts of Central and West India. The PowerChip hasn't been launched in South, which is quite a big market for us in electric.

Abneesh Roy

But in the non-South, would you be restricting PowerChip in the urban areas?

Vivek Gambhir

No.

Abneesh Roy

On Power Activ+, Indian consumer is all about value. Now in a normal regular vaporizer also there are 2 modes, the lower mode and higher mode. And because you are charging Rs. 72 in this latest innovation, here again I wanted to understand how do you really communicate to the customer to pay extra?

Nisaba Godrej

They are not paying extra. We have kept our prices the same. We have not charged more for this 50% more efficacy. This has been our pricing now for a while.

Abneesh Roy

On Household Insecticides, the new pack of four coils priced at Rs. 10. So, is there any competitor at this disruptive price point. For the larger pack, how is the affordability?

Sameer Shah

There is no one actually in pack of 4 which comes in a sort of sachet packaging format. We are the only player to have this at a price point of Rs. 10. The larger pack which is normally a pack of 10, would cost in terms of MRP of anywhere between Rs. 33 to Rs. 35.

Moderator

Thank you. We take the next question from the line of Amit Sinha from Macquarie. Please go ahead.



Amit Sinha

Firstly, on India Household Insecticides, in the last few quarters you spoke about the issues which were impacting the growth overall and largely you pointed towards affordability and efficacy. Now clearly you have launched two products. Do you think that these two products largely solve the problem? It is still early days, and you are yet to face the biggest quarter of the year. So how confident you are on the turn around which you have seen in the first quarter?

Vivek Gambhir

It's a journey. While these products will help, that's not the only answer here. It's a portfolio game and so one is obviously stronger marketing, better distribution, a continued thrust on innovations will continue and so along with these products which we hope will do very well, there are other things that we have in the pipeline. Some of them will get launched this year, some are being planned for the following year, some are being planned for the year after. So, there is a plan for more products as well. So, its portfolio approach. But our belief is that hopefully if the team executes well now, there are enough opportunities for us to continue to grow the category. Category development is the number one objective and within that if category grows, we can drive penetration harder, we will also then deliver and drive the right kind of performance for our business.

Nisaba Godrej

Yes, in hindsight it seems that when you slow-down on your biggest and most important category, we spent a lot of time looking at the category and building both new products and looking at distribution again. So, you will see a lot of strong work from us and we have a very big innovation coming in this quarter. So, we are quite excited about that too.

Amit Sinha

In this quarter, was the growth largely driven by the season being good, or was it driven because your products performed well?

Vivek Gambhir

The season was okay, because it seemed relatively weak in the East for instance because of relatively late onset of monsoons there. So, the rains have been okay. It has not been a stellar season as far as insecticides is concerned. Second the base was quite low, one has to remember that as well. Some impact of the innovation but again it's pretty early to call them a success as yet. But it's a combination of focus, slightly better season, some impact of new innovation, all of these things together have enabled us to deliver these kinds of numbers, which we hope to sustain going forward as well.



Amit Sinha

On the Indonesia business, while you have mentioned that you have gained back the market share even on a yearly basis. But if I look at the revenue run rate clearly it is less than Q1 FY17. The question is, has the Household Insecticides market shrunk in the last 2 years significantly in Indonesia and what is the outlook there. How are we doing in the non-Household Insecticides portfolio in Indonesia?

Vivek Gambhir

If you look at the numbers reported by the market research company, over the last 2 to 3 quarters, the overall Household Insecticides market has been showing a decline, even last quarter, the market showed a decline whereas our growth has been much more positive than that. I don't think there is anything structural about this decline. The hypothesis here is that if you recall a year ago, the level of promotional activity was extremely intense, which led to a lot of pantry up-stocking in consumer homes. So, as we discuss this with our teams, the belief is that it probably will take a quarter or two, at an overall industry level for the pantries to be exhausted. Once that happens, you will start seeing again the growth return back, but structurally there is nothing to worry about the Household Insecticides category as a whole. But I think some of the category challenges over the last few quarters had been through the pantry up-stocking issue. In terms of our other categories, air-fresheners continues to do quite well, that's the second major category. And beyond that with some of the other categories, generally they seem to be on track.

Moderator

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

Arnab Mitra

On the revenue growth, in India business your pricing growth is still running nearly zero. I understand that soaps' input costs are still down, but when would you expect some level of pricing growth to come back in other parts of the business? Because other than that, once the low base goes away, the volume growth equal to revenue growth will be potentially a single-digit number.

Sameer Shah

We have taken some price increases at the fag-end of the quarter. There will be price increases in Hair Colors, in toiletries and air-fresheners. The impact of which will start getting reflected from Q2 onwards. In case of soaps, the overall palm oil prices are still down and hence there is hardly any room for taking price increases, though we are looking at differential pricing in different states that's part of our revenue growth management model that we are running on soaps. But going ahead, we will see a little bit of price-led growth in our overall India business revenues, largely driven by price increases in non-soap portfolio.



Vivek Gambhir

From a gross margin perspective, which is the other part to think about beyond this price-led growth is the impact of portfolio mix and the impact of innovations, as a portfolio if Household Insecticides grows faster and Hair Color grows faster, that will definitely lead to a stronger gross margin profile. So while you may not necessarily get a desired price-led growth necessarily quarter-over-quarter, but from a gross margin perspective, our portfolio mix and our innovations are at higher gross margin. So, the trends in gross margin and as you can see, even the last quarter the gross margin improvement was extremely healthy. So, even though it was largely only volume growth led, in terms of gross margin at least it is a trend in the right direction.

Arnab Mitra

Coming back to your point on margins, one thing is pretty clear that in Indonesia you had very low margin and this quarter was the peak of the competitive intensity. So, to that extent then you had a substantial improvement in margins going ahead through the year. Similarly, in India the gross margins were very low this quarter and then it improved through the last year. So, going ahead for the balance of the year, are there other levers to expand margins because now the low base kind of runs out on margin.

Vivek Gambhir

Quarter-over-quarter there will be some changes largely driven by how much marketing spend we are putting in for new launches. So, the first priority has to be for all the new launches and for all our existing core, are we investing at a competitive level. While there will be some volatility or fluctuation at a quarterly level on margin, at this stage we feel fairly comfortable that for the entire year our profit growth will be ahead of sales growth at a consolidated level, because there are fair amount of cost initiatives that are being worked on, and typically cost optimization projects deliver results more towards Q3 and Q4. As we look at the plans for the year, while there could be some quarters where margins could be under pressure more driven by brand building, it's a conscious call we will take. For the whole year, we feel very confident that profit growth will be ahead of sales growth.

Moderator

Thank you. We take the next question from the line of Percy Panthaki, from IIFL. Please go ahead.

Percy Panthaki

On the new coils SKUs which we have launched at Rs. 10, the retailer was willing to break bulk. So, if a customer went and asked for 4 coils, he was willing to give that by opening the pack. So, is this understanding not correct?



Vivek Gambhir

Typically, about one third of the customers would buy loose coils. About two third of the customers, still would buy the whole pack.

Percy Panthaki

So if the retailer is willing to break bulk then it's not an affordability issue to start off with. Because if I want to buy only 4 coils, I am getting that. So, it's not that I am forced to pay Rs. 30.

Vivek Gambhir

So if you buy 4 coils, typically a retailer would sell the single coil at Rs.3.5 or Rs. 4 a coil. So, in that sense, a pack of 4 at Rs. 10 would be far more cost effective than buying each coil even if you buy at Rs. 3.50, would be Rs. 14 vs Rs. 10.

Sameer Shah

It's more of rural phenomena compared as compared to urban customer. Plus a pack of 4 at Rs 10 price point would be available in both rural as well as urban.

Percy Panthaki

On Africa, when we acquired Darling or when we made the first announcement of acquisition, at that time the presentation said that the margins are in the region of 20% or may be high teens at least. Then we acquired SON which is a 20% plus kind of a margin business. Today, our margins are significantly lower than that. And each quarter almost for the last 4 to 5 years, in your presentation, you mentioned one of the reasons as up-front marketing costs. So, these up from marketing costs would come in the base at some point of time right. They would incrementally not affect margins. So, when do we see that phase coming for us?

Vivek Gambhir

Clearly, as far as margins are concerned, Africa is behind our expectations. A lot of the margin challenges were less driven by upfront marketing investment, that's more of a recent phenomenon. The bulk of the challenges pertaining to margin can be attributed to significant devaluation in currencies, which is lead to higher input raw material cost, largely in the dry hair or hair extensions piece where the fiber is largely imported. There are 2 or 3 pieces of the way our strategy has been working. One is beyond dry hair can we look at expanding the portfolio, to other categories. That's where things such as wet hair care come into the picture. The second is wet hair care tends to be a higher gross margin category. Also, higher percentage of wet hair care over time is now being locally manufactured, which is part of our strategic decision. That journey has been happening through last year, and that scale up continues to happen. So, hopefully going forward, while it's difficult to take a call, the currency environment seems to be much more stable



now, than what we have seen in the last 3 or 4 years. So, a combination of stable currency environment, coupled with broadening of category mix and higher scale ought to lead to an improvement in performance, going forward. As mentioned earlier, the hope would be that FY19 should be a better year in terms of both top line and bottom line. Having said that, we will not shy away from making the right level of competitive investments in marketing at this stage, both for wet as well as dry hair. So, the intension would be let's keep on making prudent investments in marketing but a combination of these factors, should enable us to improve our margin profile. But as you pointed out clearly, I think this sheer extent of currency devaluation over the last 3 to 4 years has put even our personal expectations on margins below what you would have liked at this stage from Africa.

Percy Panthaki

I was just referring to my notes from some earlier conference calls and basically with regards to currency devaluation what we had said earlier was that, it's affecting everybody. But it's affecting us a little lesser because we have manufacturing on the ground and our import component is a little lesser and we are playing the market share game by not taking price hikes as much as required and that would hurt the competition more and we would gain market share. And it did play out. You were growing very robustly for a few quarters and gaining market share at the cost of margins. But now what has happened is that, even your sales growth has petered off and your margins have also petered off. So, it's no longer a trade-off between the two. If we are no longer gaining market share, then we might as well take a price increase and pass on to the customer, right?

Sameer Shah

What is happening at this point in time is, the investment at least over the last 3 to 4 quarters, have been more on the wet hair care, which had been largely more of East and West Africa phenomena, at least last quarter what we did see is a bit of sluggishness in the South Africa operations, which actually pulled down the overall sales growth. For instance, the ex-South Africa business grew in early double digits, wherein we undertook marketing investments and scaled up wet hair care business.

Percy Panthaki

In Indonesia on a 2-year CAGR basis, we are negative. So, any sort of visibility on when the 2 years CAGR can turn positive for this business?

Sameer Shah

As mentioned earlier, with every passing quarter the growth rate should be heading in the right direction, we did see for all the 4 quarters of the last fiscal year, this is the first quarter where we are back to double digit growth rate, despite FMCG being soft for last 3 to 4 quarters. We do expect this momentum to continue going ahead. On a 2-year basis, we will see at least hopefully a double-digit kind of growth rate, as well as expanding margins.



Again, there will be new product launches, we are working on go-to-market initiative which should all be the key pivot to this business performance.

Moderator

Thank you. We take the next question from the line of Prasad Deshmukh from Bank of America, please go ahead.

Prasad Deshmukh

Firstly, on Household Insecticides, historically, the plan was also to expand beyond mosquitoes and roaches and launch products there. However, incrementally more and more launches are coming in the same segments. Is there any change in the thought process in terms of how big the opportunity is or whether it's too early to go into those categories?

Vivek Gambhir

No, if I look at the HIT brand, this brand has 2 main products, one is the Crawling Insect Killer and one is the Flying Insect Killer. FIK is the mosquito part of it. The CIK is the product for other pests. So, HIT CIK is doing very well. Generally, HIT Anti-Roach Gel and the Gel Stick, there is some more work needed to be done there to tighten the proposition. But I think, across the board, the non-mosquito part of the portfolio is increasing every year, and there are more products that will be launched later on. So, from an intent perspective there is no change in our thinking about the importance of the other pest category. It takes time because some of it requires more habit changing kind of communication, but we are quite committed and we see an opportunity to expand the other pests part of the portfolio as well.

Prasad Deshmukh

How big is out of home insecticide portfolio now?

Nisaba Godrej

We don't share those numbers.

Prasad Deshmukh

Any update on the Air Freshener as a category?

Vivek Gambhir

It's doing well. The 21% growth that you see in the others category is largely driven by the Air Fresheners.



Sameer Shah

We continue to maintain market leadership position in that category in India.

Moderator

Thank you. We take the next question from the line of Harit Kapoor from IDFC, please go ahead.

Harit Kapoor

The new launch on Goodknight Activ+, did that require, a new formulation, meaning would that mean that it would have taken you the whole process of time to get this and also will competition then not be able to react immediately on this?

Nisaba Godrej

Our competitors do have a similar product. But in liquid vapouriser, it's not really about competition. It's actually about penetration and consumption with our own consumers and giving them something more efficacious makes it more value for money for them and works better against mosquitoes.

Harit Kapoor

Secondly, how large will South Africa be now in the overall mix for Africa?

Vivek Gambhir

It's 1/5th. If you break our East Africa, South Africa, West Africa, Rest of Africa and SON its roughly 20% each.

Moderator

Thank you. We take the next question from the line of Latika Chopra from JP Morgan, please go ahead.

Latika Chopra

Could you update us on your Wet Hair Care product in Africa? Has it being performing as per our expectations? What are the positives and negatives you have come across in this initiative of yours?

Vivek Gambhir

Our focus initially was to try and find a way to localize manufacturing. That has taken us some time. And there have been some delays which are quite expected in a project of that size. So, the local manufacturing is now largely in place. The marketing campaigns have been developed and relaunches will happen over the next 2 to 3 quarters. The products from a consumer testing perspective have received great reviews, and along with that we



have now launched a set of new products as well building on the platform that we have created across the board, particularly in West Africa and East Africa. It's been a little bit slower in South Africa. Generally, the launch is largely on track, some delays as far as scale up of local manufacturing is concerned, but more importantly in terms of the consumer feedback, and the salon feedback, the products are receiving very positive feedback. And again, this is just the beginning. There are lots of launches and new products that we will build on these brands over the next 1 or 2 years.

Latika Chopra

What in your view would be the normalized level of margins for this business, assuming all your investments which are marketing related, infrastructure, capability building related normalize over a period of time?

Vivek Gambhir

Over a medium-term basis so, over the 3 to 5-year basis, the margins for this business should be in the high teens. And that's what we are working towards, and its taking us a longer than what we anticipated, largely because of some of the currency impact that we saw over the last 2 or 3 years, and along with that some investments we made in people, creating a new Africa center in Dubai, some brand building that we are doing now for Wet Hair and Dry Hair. So a combination of those factors have led to the margins being below our earlier expectations. Our belief still is that, over a 3 to 5 years' time frame, the margin should be in the high teens here.

Latika Chopra

On Indonesia, anything to share on your hair color foray?

Vivek Gambhir

It's still quite small. The team is now looking at some additional plans for this year, to try and see how we can drive up hair color faster. Because of the turmoil that the market saw over the last 6 to 12 months, the bulk of the focus was on insecticides and air fresheners and baby wipes, because that's almost +80% plus of the portfolio. Now the team is at least feeling better about the market environment, and a lot of the hair color will ride on some of the work we are doing on the GTM expansion front. I think this year we should see better scale up on the hair color business. While the business did well last year, the numbers were too small to talk too much about it.

Moderator

Thank you. We take the next question from the line of Kaustubh Pawaskar from Sharekhan, please go ahead.



Kaustubh Pawaskar

On the Latin American Business - it was part of your 3x3 strategy earlier and the focus was on building a business in the Indonesia, Africa and Latin America. But your Q1 presentation suggests that now it has become more of a non-focus business and focus is more of gaining momentum in Africa and Indonesia. Can you throw some light on it and show what would be your strategy or plan for the Latin American business?

Nisaba Godrej

From a priority perspective and I don't think it's just related to this quarter. We have always maintained that our top priorities are India, Africa and Indonesia. We continue to grow in LATAM. But I don't think anything changed materially over the last few quarters in terms of our focus, and what we want to build. Those three regions have bigger base and higher growth opportunities.

Kaustubh Pawaskar

Anything on the performance front, because Latin America was a drag on your International business, but now since the macro environment there is yet to see a recovery, so will we see some kind of improvement over the period of time?

Sameer Shah

Purely driven by materiality and also feedback from lot of market participants, we combined LATAM, Europe, and SAARC business into one category. To give you quick flavor of the performance, we do have high-teens constant currency sales growth in LATAM. The margins are nothing much to talk about, because seasonally this is a weak quarter in the LATAM business on margin front. We are more or less maintaining our market share, and we are kind of continuing with our past strategy. But our larger, focus would be on driving superlative growth in almost all the 3 large clusters, which is India, Indonesia and Africa.

Kaustubh Pawaskar

Secondly, on various cost saving initiatives you have taken in past couple of years has given you good result in terms of margin improvement and profitability. So, going ahead, any targets, in terms of margin improvement through these initiatives, any internal targets that you have set in for yourself?

Sameer Shah

No targets as such that we would like to share. Internally, we do work with targets. But just to give you an example, as we kicked off Project PI cost saving programs in India, 4 - 5 years ago and today it is one of the strategic pivot to our profitable growth and not just profitable growth, but also reinvestment for new product launches. We have rolled out cost saving program again in Indonesia, at a fag-end of last fiscal year, and this year again we



are going to scale up. So, we have seen the benefits of structured cost saving programs across our business and we would want to kind of fast track as well as continue with those programs.

Moderator

Thank you. We take the next question from the line of Manoj Menon from Deutsche Bank, please go ahead.

Manoj Menon

On Africa, there are external issues which are pretty well documented - the new CEO, new office in Dubai etc., which you alluded to which is also known and actually you had guided appropriately earlier. Are there any mid-level attrition for example? Or is it something to do with fashion changing, competition, so how do we actually structure the Africa issue if we had to say 2 or 3 internal issues and 2 or 3 external issues.

Nisaba Godrej

Africa is a huge investment for us. So, you can imagine that we have many more concerns than you would have on the business, but that being said, I would give you a little bit of flavor, both me and Vivek spend a lot of time, on the ground. We are dealing with quite a lot of complexity in terms of its actually five regions that roll up into Africa. We made some mistakes along the way. But we have actually seen more opportunity than what we thought of in the beginning. Maybe we have been a bit slow in terms of innovation, but we are very confident going ahead and when it comes to team, we have built a very strong team. So, from an opportunity point of view, it's very high. Look we have a whole Household Insecticides pipeline being tested and registered. We are not launching as of now, because we are prioritizing Wet Hair, we are relaunching the dry hair as a brand, we keep doing new styles, etc. There is a big natural hair movement even on the African continent and we are doing a lot of work there. I would say it's more about it being complex vs there is any sort of fundamental issue with the P&L. This quarter again we have got hit by a really bad macro-economic situation in South Africa. We also may have probably missed few tricks in South Africa. In Wet Hair, some of the on shoring didn't go as smoothly and we had problems there. We were putting SAP in SON, there was hurricane in the US and so we have not managed certain things well. But from an opportunity stand point, there is a lot. And hopefully what we should be building is a resilient business, even in sort of not very positive macro-economic situation. Because this is a very high involvement, high investment categories for women.

Manoj Menon

Regarding Africa and Household Insecticides, is M&A a realistic option for you to look at over the next 3 years?



Vivek Gambhir

There are one or two targets, but because the return on capital across the Africa business is on the lower side, we would want to scale up the Wet hair and relaunch Darling properly first. And then think about organically launching household insecticides. So at this stage we are not looking at M&A options for household insecticides, the focus would be on organic, but that too we are holding off till the other parts of the portfolio are fully scaled up.

Moderator

Thank you, we take the next question from the line of Abhijeet Kundu from Antique Stock broking, please go ahead.

Abhijeet Kundu

From the presentation, what one can decipher is that, lot of that growth currently has come from distribution expansion of crème. And you have launched the product as well. So, in terms of distribution expansion, what amount of distribution can happen in crème over a period of time, which will drive growth? What is the targeted kind of distribution expansion?

Vivek Gambhir

There is still substantial opportunity to expand crème distribution. Secondly, we are launching a new campaign for crème as we speak, that will go into the market. There is substantial opportunity to expand distribution for the new henna-based powder as well. So, combination of both distribution expansion along with rejuvenated marketing should be able to drive strong growth from this category going forward as well.

Nisaba Godrej

Another great thing about India right now is the kind of analytical work that's been done and the kind of data that we are getting, even sort of where to expand and which exact shop to go in and where in rural, etc. I think that capability that we have been building up will help grow much stronger.

Abhijeet Kundu

We have seen reduction in other expenditure on absolute basis as well on consolidated basis. Will this decline in expenditure go on for this year?

Sameer Shah

Our other expenditures have actually increased. On a standalone basis, they stood at Rs. 212 crore vs Rs. 182 crore in the base, while on a consolidated business, the other expenditure is at Rs. 427 crore vs Rs. 383 crore in the base. As a percentage of sales, and



comparable sales, adjusting the GST in the base, consolidated level there is hardly any movement at 17.4%. So, there is absolutely no movement when looked at as a percentage of sales.

Moderator

I would now like to conference to the Vivek Gambhir for their closing comments

Vivek Gambhir

Thank you very much for your questions and your feedback. And we look forward to working harder to deliver a better performance in the quarters ahead. Thank you so much

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

