"Godrej Consumer Products Limited 3Q FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, welcome to the Godrej Consumer Products 3Q FY22 earnings conference call hosted by Emkay Global Financial Services. As a reminder, all participants' 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 call, 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 from Emkay Global Financial Services. Thank you and over to you, sir.

Ashit Desai: Thanks Faizan. Good evening, everyone. It's a pleasure to host the management of Godrej Consumer Products for their Q3 Earnings Call. I'll hand over to Pratik for the initial introductions post which we will go ahead with the management comments. Over to you, Pratik.

Pratik Dantara: Thank you, everyone. Good evening and welcome to the conference call of GCPL. We hope that you all are staying safe and healthy. We will be covering this evening the results for the quarter and nine months ended 31stDecember 2021. On the call with me from GCPL is Ms. Nisaba Godrej – Executive Chairperson; Sudhir Sitapati – Managing Director and CEO; and Sameer Shah – CFO. We will start with Sudhir talking about our performance in the quarter. Over to you, Sudhir.

Sudhir Sitapati: Thanks Pratik. Good evening, everyone. I hope you and your families are safe and healthy and thank you so much for joining the call today.

I'll first start with an update of our performance. We've had a mixed quarter in Q3FY22. While our overall sales grew by 8% and we remain on track to achieve double digit sales growth for the year, it was driven entirely by price led growth and flat volume growth. On the other hand, while our overall EBITDA de-grew by 2% and PAT declined by 1%, the quality of our profits have improved. In Q3 we were down 210 bps in EBITDA similar to the drop in Q2. However, this was driven by sequential improvements of 70 bps and gross margin and 90 bps in increased A&P investments. Our performance while different across geographies was similar in being near flat in underlying volume growth. Home care was 3% and Personal care was 12%, India was 8%, Indonesia was (-) 2%, but even here volume was actually flat, and Africa was 12% with flat volumes. The big story for the quarter is really flat and muted volume performance. Our reading is the significant price increases we've had to take. In our experience this level of inflation is unprecedented like we saw in 2008 last, and it does affect volume growth in the short term, largely through pipeline reductions. It may also affect discretionary spending and add to down gradation and have an impact on real income but given the relatively non-discretionary mass pricing of our portfolio and our good performance and market shares, we think that some kind of volume growth will come back in the next few quarters.

We have two areas we'd like to call out, which require deeper assessment. One is Indonesia and the second is Household Insecticides in India. In Indonesia, during the first wave of COVID-19 in mid-2020, we launched Saniter, a disinfectant brand. While the brand did very well during the COVID period, the larger macro-economic situation and frankly, perhaps too much focus on Saniter at the expense of our core portfolio, meant the overall results won't be great. Now with the pandemic impact waning and increased investment in the core portfolio, our core volumes are starting to grow, but the Saniter base is pulling down overall results. Indonesia results will take a few quarters to improve. It may even get worse in the near term as the Saniter comparative becomes very large, but we are convinced we are on the right track here. Household Insecticide in India was lower than our expectations this quarter. We have always mentioned in the past that HI is a category that shouldn't be seen on a quarter-to-quarter basis. We believe that there was an adverse seasonality in South and East of India while season was quite good in the North of India. Overall category has seen a pattern of high and low consumption over the past few years. There was in the comparator high consumption, driven by COVID, more people staying at home and increased consumption on health. We do see low consumption driven by waning COVID fear. However, leaving seasonality and COVID impacts aside, we fundamentally believe that there is huge potential to grow in the Household Insecticides category in India. Indonesia with twice the GDP of India has two and a half times the consumption of Household Insecticide and has successfully premiumized the category into aerosols. Our number one priority in the medium term is to drive category development and scale of growths in Household Insecticides.

On the margin front, we felt that cost had peaked, and we should see strong improvements in gross margins and moderate EBITDA improvements. However, commodity market, especially the Palm Oil fractionate that we use PFAD continues to be choppy, but the bigger story of medium-term gross margin expansion and moderate margin expansion remains intact, with significant investments in A&P.

We continue to have a healthy balance sheet and our net debt to equity ratio continues to come down. We are on a journey to reduce inventory and wasted costs and to deploy this, to drive profitable and sustainable volume growth across our portfolio through category development.

On the people front after 11 high-impact years, Sunil Kataria, CEO of our India, and SAARC businesses has decided to pursue an external opportunity. I will directly run the India and SAARC business as CEO, in addition to my responsibility as MD and global CEO.

As always, our values matter the most of this time, we were recently ranked number one among the top 100 companies in India for sustainability and CSR initiatives in 2021. This ranking is based on a survey conducted by Futurescape and published by the CSR journal. We remain committed to doing our best, to truly live the Godrej way and serving our people and communities. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh from Edelweiss. Please go ahead.

Abneesh: My first question is on Hair Color in India. When I see the base, it was not very high. On a two-year basis, the base was around 10% growth. We don't have the number this quarter specific, but you've called out that it's a soft quarter. You have scaled up the Godrej Expert Easy Shampoo Hair Color. If I see mobility for customers in Q3, it was broadly normal. Many companies have called out that discretionary demand has been fairly good in Q3. In that context, hair color, soft performance how do you see that?

Sudhir Sitapati: I think there are two or three things going on in Hair Color. One is we took a very sharp price increase on part of our portfolio and that affects inventory. Even within the quarter, we saw that. We took the price increase in September and typically what happens is that old stock gets stocked up and then the new price. So, there's a price transition. There was also, if I'm not mistaken Sameer there is a very strong comparator of shampoo hair color in the base. I think the good thing in our hair color businesses, we continue to gain share in India overall in Hair Color.

Sameer Shah: And to add on a two-year CAGR basis growth were close to high single digit. We are not too worried on the hair color performance in the quarter. On the face of it optically, it was relatively soft performance, but on a CAGR basis that was quite fine.

Abneesh: My second and last question is on advertising spend. In the December analyst meet Sudhir said that you'll be de-linking the media spends from short-term goals. You had also said that you will cut down on the non-media ATL. My question is when I see your advertising spends this quarter on YoY basis, there is a saving, so it is YoY flat. There's a 57-bps saving as a percentage of sales. Market leader in soaps obviously they don't give a category-wise spends, but on an overall basis, HUL did cut down significantly on ad spends. So, is that helping your overall ad spends also in terms of soaps and non-media ATL?

Sudhir Sitapati No, I think while the overall media may be flat YoY and YoY has various things, if you look at it, sequentially and absolute crore rupees, it has significantly gone up in Q3 versus Q2. Ultimately media is a good thing to look at sequentially and in rupees crores and that is generally our strategy. Some of these media investments, they don't pay back immediately, but they pay back pretty soon. We will continue to do that as we go along because our strategy remains committed to category development. There will be some volume bumps as all of us know in the next few quarters. I think if we are focused on category development, driven through increased brand investments, we'll come out of this quite well.

Abneesh: Just one small follow-up. Reversal on impairment on the BBLUNT in the India 15 crores. Could you elaborate why that has happened?

Sameer Shah: So, we have remeasured the fair value of our investments in BBLUNT. Just to refresh, we had impaired it in flag end of FY21, the remeasured fair value is much higher than the book value and that results in impairment reversal in the quarter.

Moderator: The next question is from the line of Avi Mehta from Macquarie, please go ahead.

Avi Mehta: My question, is on Household Insecticides space. Now you are right that quarterly there is seasonality. I just wanted to understand from you, this is the second quarter of soft performance and that also on a two-year basis. Would it be fair to say that market shares are not remaining healthy or it's an industry issue? If you could just give us more clarity on why this is happening and what can drive a change, so that we can understand that better?

Sudhir Sitapati: We know firstly, market share like in Hair Color, we are gaining in a Household Insecticide on a MAT and , during the quarter . Whichever way we look at it, we're gaining share in the Household Insecticide. I think Household Insecticide had a very strong COVID tailwind and therefore having now relatively tougher comparators. I think the bigger issue that you said remains, which is we have to over the next few quarters, find a market category development trigger for Household Insecticides in India and grow that category and models are available for us in the rest of the world. It's just for us to adopt and invest in and do it with discipline. But I would say it's an unsolved problem. I mean, it is a fluctuating category, but the honest truth is that we've got to solve this problem. I hope we'll do it in the next few quarters.

Avi Mehta: Bur COVID impact was seen more on the fourth quarter, and we saw second, and third quarter was a supply side issue which you were facing, there was some impact because of that. So, which is why I was confused from a two years CAGR also for the last two quarters we are seeing only what maybe mid-single digit kind of growth. Is it that the industry itself is taking some time to come off because I'm comparing on a two-year basis?

Sameer Shah: We had a relatively high COVID base, and I think as Sudhir was saying what's happening is, because of this patterns of high consumption, low consumption, perhaps we are in, very short term in low consumption environment. As a result of it overall growth rates are lower, but market shares are moving up. Again, I mean, as we had called out in December analyst meet also, we just reiterated and we will hopefully build key consumer bets and on ground execution of it in coming quarters, which should get us back to desired growth rates.

Avi Mehta: The second bit was on the margins. While you have clearly called out a focus on driving double digit sales growth, would it be fair to argue that, because there's input cost pressure because and there's a mix change in Indonesia, in near term FY22 margins are likely to be under pressure at EBITDA level.

Sameer Shah: The model remains the same. How do we work on improving the quality of profits then while again in Q3, the overall margins in terms of contraction are more of the same as we saw in Q2, but we are pretty pleased with the quality of profits in terms of sequential expansion in gross margins, reinvest that back for growth and growth will come in coming quarters because there'll be a lag between investments and the growth. My sense is that model should continue even in very short term. I mean, we are relatively optimistic that this trend of sequentially improving gross margins at least in India should continue. We will also continue to see higher investments. We will perhaps also start seeing, lower margin contraction and if all goes well actually even margin expansion in India. I think Indonesia is going to be a little, kind of other way round where in very short term, I mean, we will see a bit of challenges in terms of sales because of high Saniter base and also working on some of the core key consumer bets, which will take a quarter or two. Secondly, we had abnormally high base. I think some 35% EBITDA margin Q4, but sequentially we think the margins could expand even in Indonesia, but YoY of course there would be, on the lower side. But on the whole, you will see, sequentially improving, quality of profits with higher gross margins, part of it getting reinvested back for growth. As Sudhir said in the bigger story of, moderate EBITDA margin expansion, medium gross margin expansion very much remains intact.

Avi Mehta: Any guidance on the tax rate for FY22, because we've seen a good reversal in this quarter. Thank you.

Sameer Shah: No, I think this quarter has a deferred tax reversal in Indonesia. It's because we had to remeasure our deferred tax assets because the tax rates actually moved up by 2% over there. I think we can stick to 22% to 23% range of in next year.

Avi Mehta: This is for FY23 you're saying? For ‘22, it might be slightly lower given this reversal.

Sameer Shah: Correct.

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

Manoj Menon: On Indonesia just wanted your views on, let's say, how do you see the macros minus Saniter etc. because ultimately in a discounted cash flow, the underlying does matter. So, it's not really about year-on-year. What I'm trying to understand here is, after many years of let's say macro headwinds, at least in my understanding that there is a general view that Indonesia as a country, as an economy is likely to see a cyclical upturn. I just wanted to just check how are you looking at it? Why that matters is that your view, whether it is you share my optimism, if I can use that word, will depend on the plans you make. So that's question number one. How do you see Indonesia macros for the next year, 18 months etc. as it stands today?

Sudhir Sitapati Maybe I will pass on the question on macros to Sameer, but I do feel that we are seeing green shoots in the revival of our core business volumes, even in Q3 Manoj. I'm quite optimistic that over the next few quarters while the overall numbers may not look great, the core part of our business, maybe back to growth, I think after several quarters. I think that also augers well for the macros. I don't know if there's anything to add on.

Sameer Shah: No, I think the headlines on macros, whether you look at GDP, whether you look at the overall cuts within FMCG food, non-food are gradually improving. Currency is also stable. We do believe that macro will continue to see gradual recovery as we have seen. At least over past couple of quarters in terms of why the performance is what it is, is I would say part because of, base of hygiene Saniter and also again what we had called out in December meet that we over invested perhaps Saniter maybe marginally at the cost of core, which is what we're correcting at this point in time. We remain very optimistic, and we share your optimism, I should say on macros, but more importantly, the potential of Indonesia business in medium to long-term.

Manoj Menon: The business plans which you make are already made. Let's say for the next 12, 18 months is assuming a certain recovery can I interpret it that way?

Sameer Shah: Absolutely.

Sudhir Sitapati: I think it's assuming a certain recovery in our core business and the Saniter base is what it is. The rest becomes a mathematical and that we can’t see growth honestly coming for the next three-four quarters given the way the numbers are stacked.

Manoj Menon: Let's go forward three months, six months, nine months, 12 months. If you could help us, let's say, a memo MIS number look ex Saniter this is the growth that would be super helpful given this one off, because I am trying to look at the trajectory rather than the noise in the number.

Sameer Shah: Our plans are looking robust is again what I can share. I leave it up to your expertise to convert our English into your math. But ex Saniter for sure the plans are looking robust, but more importantly beyond the financial plans, there are also key consumer bets which we are looking at executing over a period of time. As I said earlier, in very short term there will be subdued performance, but maybe from quarter one or quarter two of next financial year overall as well as ex Saniter for sure the growth rates as well as overall margins profile will be better off.

Manoj Menon: Secondly, just quickly coming to India, given the typical interplay of gross margins and the ability to invest in newer categories and newer launches A&P basically, how do I think about the next 12 months, 18 months, the way you are planning currently and on entities?

Sudhir Sitapati: I think firstly, the strategy is not at least for the next 12 months, as I said in the earlier quarter based on too many new things, it's based on category development on our core businesses particularly household insecticides, but even the others, air, and hair color. The gross margin we hope to see medium recovery. Actually, we believe we are in the middle of recovery of gross margins, and we hope to see that as things go, unless there's a major shock in commodity even further than what it is today, which one never knows and some part of it we will plough back into EBITDA and some part of that we will put into brand investments.

Manoj Menon: Last question, if I may, and I'll come back in the queue, given the unprecedented input inflation what we have seen, let's say after 10 odd years, at least in my sense talking to few FMCG CEOs listed unlisted put together, the sense which I get is that there is a fair amount of trepidation to let's say implement further price increases, God forbid if there is a further inflation. Would you agree with this hypothesis because basically there are CEOs worried that if let's say crude goes from 90 to 120, I am just putting some numbers so that I'm conveying this correctly, that the ability to actually take a pass through without really having significant adverse effects of price elasticity, I don't think that confidence just doesn't exist today. Would it be correct to make this statement?

Sudhir Sitapati: It will not be very pleasant for us if costs go up significantly further than what they are today. Again, the way to look at the Godrej portfolio is our business is pretty non-discretionary, it is pretty much, so in some sense inflation benefits us in the medium term. But when you have hyperinflation, we have to keep consumer interests at heart. It's not that you can't price, and these categories are not structurally elastic, Soaps and Household Insecticides, people need to use them. But we tend not to pass them on suddenly, which is why we have reasonable confidence that if commodity is roughly where it is over the next whatever 9 to 12 months, this is a journey of margin, but if it is a sudden rise in commodity, I guess from our point of view, we will keep consumer first. We will do what's right for consumers first. We are in this for the long game, and we will postpone the margin expansion.

Sameer Shah: Just to add, for us the commodity basket is not just crude, the bigger impact comes in from palm oil prices and they are at their lifetime historic high again. It's anyone's guess as to what would be the direction in medium term, but let's see how that kind of shapes up. From crude. I would say. we do get impacted, but the impact is honestly not that big as compared to what it is from palm.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: My first question is on Indonesia. You called out the Saniter issue. I understand that. Although I don't think on a two-year CAGR basis it should make a difference. But in any case, we will ignore that. But excluding Saniter, if you could just rank starting from best to worst, the three categories that you have in Indonesia without giving me any numbers or anything on a two-year CAGR basis, which has done the best, which has done moderately and which has done relatively not so good. That's my first question.

Sameer Shah: I think we can give you directional inputs again, Percy, and not actually specific. But what I can begin with is ex hygiene portfolio the growth rates would be close to mid-single digits in Rupee terms, the base impact which we were calling out and unfortunately it will remain at least for next quarter or two. I think in terms of sequencing largely both Household Insecticides and Air Fresheners remain in positive zone on a YoY as well as on a two-year CAGR basis. And Baby wipes we continue to see challenges on a YoY as well as on a two-year CAGR.

Sudhir Sitapati: But Percy, I don't want you to take the impression that Indonesia is all about the Saniter base. As both Sameer and I said in the past that during the COVID period, I think we would have done things differently in hindsight. And I think there's a lesson here for all of us which is when there's a big shock like COVID one tends to just change all one's plans and go behind something new. And as a consequence, sometimes one forgets the core and I guess that's the lesson. Of course, this kind of period nobody's really faced before, so it's not fair to blame anyone because it's a really volatile situation, but that's the lesson to learn which is regardless of the volatility, one has to be focused on the core of one's business and whatever is new one has to invest in it only within proportion. I guess that's the lesson we have to learn in the business.

Percy Panthaki: Secondly, I just wanted to understand, as far as the India Household Insecticides business is concerned. See, the overall top-down view is very well understood, lack of penetration, you have to grow penetration you have to grow usage, you have to upgrade people to new formats, etc. That's the top-down story that any consultant or even a player in the market, if he analyzes this, he will come out with these steps that need to be taken. But if you can just give a better idea or a little more detailing, of course, I am sure not everything can be said due to competitive reasons, but whatever you can in terms of the actual steps that you are taking, so as this top-down story actually plays out, because till now it's always remained opportunity, but that opportunity has not fructified fully. So, what will you do to make it fructify?

Sudhir Sitapati: Percy, it will be hard for me to say that, so maybe in the next quarterly meet or the quarterly meet after that, once we have done what we have to do we can talk about it because it's not correct for me to speak now. But look, category development has three or four general things that one has to do. One has to firstly find a trigger for category development. Why should somebody use the category? That is question number one. Question number two is one has to invest significant amounts of A&P behind it. One has to get lots of trial, distribution, and affordability. These are like just first principles of category development. So, how we play that in HI, I guess we will tell you once we do it or once it's public, but this is how we have to think about it.

Percy Panthaki: One last quick question, how would you look at FY23 as an overall context for us analysts? Would you say that with FY22 margins being under pressure and here I am talking about at the EBITDA level, would you say that there's a fair degree of probability that FY23 will see YoY margin expansion? And also, in terms of the top line growth given that FY22 already has seen some amount of price increases on that high base, do you see FY23 top line led more by volume or more by pricing on a YoY basis?

Sudhir Sitapati: Percy, I think I had spoken about this in the last quarter. I think broadly the view remains unchanged, which is if commodity costs are in the vicinity of where they are today, which is a big if, but let's start with that because these are very high prices, they could go either way, then I would expect that in do nothing, it will be low volume growth, but I hope we can do better than that in terms of volume growth. I hope if we do a good job, we will go from no volume growth to low volume growth, to somewhat reasonable volume growth. There will be high price. I think there will be good gross margin expansion and there will be medium EBITDA expansion. This is how I would still say looking at the cost situation. This can change, of course, if there's a sudden inflation, as you said, if PFAD goes to $1,600 or crude goes to 120, we will have to come back with a different view. But given where we are, this is the view that I would have. You will be able to then do the math and where you think we will end up.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Two things, Sudhir. One is again on the India business. So, I hear you on the category development and these things will take time and you have articulated it well now as well as in December. But do you think there is a need to be a bit more aggressive on, let's say distribution expansion. I recall, I think about 7-8 years back Unilever in a matter of 12 months, tripled its direct distribution reach. Do you think something like that could be done given the current portfolio, because I know the two companies' portfolios are very different? But what is your sense on, let's say targeting distribution first which is more in your control as against let's say category development which takes its own course.

Sudhir Sitapati: My answer is outside India there is a lot of scope for numeric distribution. I think our distribution is less than our demand. I think in India there is scoping in targeted ways for distribution increases in some parts of the country, there is school for distribution increases. But I think the broad story in India is that demand has to come first in distribution, whereas perhaps outside India and our own business, it's the other way round with some exceptions. So, it's not like there's no big distribution task, but that's my instinct on India.

Vivek Maheshwari: Sudhir, when we look at your let's say rural salience as compared to some of the other companies, you are quite under indexed. So, does that mean that this portfolio particularly the Household Insecticides is less relevant to rural which is why you think that distribution side up, because I would have thought that distribution side upside could have been significant at least from a rural salience perspective given that the starting point for you is far lower than for some of the other companies. Can you clarify that part?

Sudhir Sitapati: Our soaps business is very well distributed and rural. So, we have a pretty good rural salience in our soaps business. Our overall salience is low in Household Insecticides. I have travelled now to several parts of India including last week where I was in rural Tamil Nadu. I find our rural distribution very good for GCPL, especially in soaps. Now the question is in our Household Insecticide product, I think category development was driving rural demand for Household Insecticide and if we do that, it will go on the back of our soaps distribution system which is really good. So, which is what I mean in India that for some of these categories, Hair Color, HI and in hair care, we have the distribution network in India built on the back of soaps. But we have to build demand for these three categories and let them go to where they have to go and then perhaps you can ask the question on the next distribution.

Vivek Maheshwari: Second thing is somewhere, I know again the context of different, but somewhere you mentioned that the input price inflation is similar to what you had seen probably in 2008. And that's a comment that a lot of companies have made. But either a GCPL specific India business comment or industry side comment, but when we look at, let's say 2008, or let's say FY09, India margins for GCPL at EBITDA level were down about 500 basis points or so at the EBITDA level I am saying. This time around, the margins have been relatively tighter. So, when you say that category development will need investments and trial and whole host of things, despite which you expected medium term margins will still moderately go up. And this is despite the fact that the starting point is not as bad as it was in 2000 or FY9 at that point of time. So, can you clarify, is there a possibility of margins first going down and then moving up?

Sudhir Sitapati: There's always a possibility. But I would say again, it depends a lot on costs, but I would still say as sitting where we are sitting on relatively low comparator of gross contribution, that is step one. Step two is we have a very-very aggressive cost saving programs, actually we have implemented this year as well. One of the reasons despite the kind of gross contribution dilution we have seen EBITDA margin dilution in India is there's been a terrific controllable cost program which we will continue going into next year. Thirdly, one of the silver linings is we also expect to see leverage. Because our industry is affected by commodities which are inflating, we certainly expect our turnover growth to be significantly greater than general inflation and therefore we will get leveraged. So, these are the three sources of margins. And I am reasonably confident that we will with these three sources, be able to invest in brands and show moderate, but not huge, but moderate EBITDA improvement.

Sameer Shah: Just to add Vivek, the point is not just gross margin expansion, but also this big controllable cost drive and it straddles across functions like supply chain cost, material, or even your margins purely from a sales system perspective. Non-working media investments also in the overall marketing piece and then of course the overall overheads. So, there is a very strong plan on that front, and we believe at this point in time that we should get good enough savings coming in from those controllable cost which will get redeployed for investment which in turn should drive growth. And combination of that plus gross margins recovery should result in a moderate EBITDA margin expansion.

Sudhir Sitapati: And Vivek, just to answer your question on distribution once again, physical and mental reach are equally important. At all points in time, one has to look at where is the bottleneck. And I think a lot of the efforts in some of these categories is to first increase mental reach and then distribute physical reach we follow. So, this physical reach is not the only thing that is in our hand. Mental reach is equally important and in our hands.

Vivek Maheshwari: Just on the point on margins, I think my only submission will be, any growth which is at the cost of margins is not that bad given that all the FMCG companies are sitting on literally life high margins. So, even if you invest behind A&P spends and get growth, I think market will view it much more positively than what probably you will fear.

Sameer Shah: We have called it out in the past also that if there is a very serious tradeoff between growth and margins we will be skewed towards growth and not margins. So that remains very much intact.

Moderator: The next question is from the line of Alok from Ambit Capital.

Alok: I just wanted to check on the Indonesia business. What could be the risk or threat to your hypothesis of growth resumption and here again I am echoing the macros, I am echoing the Saniter. So, could there be categories like risk, distribution, or any other risk that you can think when we talk about growth resumption?

Sudhir Sitapati: Look, there is. Firstly, Indonesia has a salience of about 15% to our business. So, we have to look at it in that context when we are looking at risks going forward. Within that, in Indonesia there is a lot of scope on physical distribution, I would say that is even more important than mental reach. We have got to increase our physical distribution in Indonesia which I guess is something we have got to execute and do. We have got to again invest behind our brands which we probably need to do more off. And there's a macroeconomic risk. We factored this in when we are giving a rough commentary on what's likely to happen in Indonesia which is we don't see growth for the next few quarters. Can it go worse than that? Perhaps it could, but you will have to see how much worse on 15% or 13% of the company is what it is today for us.

Alok: My second and last question is on the statement when you say about seeing new go-to-market initiatives in Africa and micromarketing initiatives in personal care. So, to the later I am assuming still you are looking at distribution expansion or state further reaching into newer territories within India. But in Africa is it new geographies or is it new distribution platforms? What is exactly that we are doing?

Sudhir Sitapati: Africa, I would say the number one priority is physical distribution. We have got a great portfolio in Africa increasingly of our FMCG products that are doing really well both in hair and more recently even in household insecticide. And our number one priority is to drive physical presence in Africa.

Alok: And that would be largely in the general trade I am assuming? Or would it be through wholesalers or distributors, how is that?

Sudhir Sitapati: I would say like our number one focus country in Africa is Nigeria, I think general trade through retailing and building a good solid retail infrastructure in Nigeria over the next 12 months would be the big priority in Africa. And I feel like our FMCG business in Nigeria and particular Africa in general is at tipping point.

Moderator: The next question is from the line of Abhijeet Kundu from Antique Stock Broking Limited.

Abhijeet Kundu: My question was related to India business where you have said that in Household Insecticides as well as in Hair Colors, category development will be your job to do going ahead. Now, what we understand through our channels is that there has been, before this actually development happens, GPCL has been focusing on discontinuing some of its non-moving SKUs across categories. And as you had said in December that you would also focus on bringing down the inventory levels. So, did that have any impact in the current quarter if not we can see some amount of impact on sales in the coming quarters?

Sudhir Sitapati: To my general experience on inventory and SKU reduction has been like benefits pretty soon. And I anticipate that to happen. I feel like we will go behind inventory reduction. I think it will be a key KPI for us next year. And no, I don't expect inventory reduction to lead to a loss in volumes. Obviously, we would be sensible when we cut inventory and not things which have got strong consumer franchise, we will not obviously cut that.

Abhijeet Kundu: And your view on SKU reduction?

Sudhir Sitapati: In general, both inventory and SKU reduction, it usually takes up volumes because the pipelines are clogged and when you clean the pipelines what moves fast tends to move faster. It's generally a good thing to do. Obviously, it has to be sensible about both SKU and inventory but given that premise these are both good things to do.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: I have three questions. The first question I am harping on what you tried to explain us from the distribution. Would you be able to share our net distribution or weighted distribution for the categories like soaps and Household Insecticides? And further if you can break it up urban and rural? So, that will give the confidence what is it that we are looking for the development?

Sudhir Sitapati: I don't think we can share our internal distribution numbers. These are relatively easily available on AC Nielsen for the categories. So, I am sure you can pick that up from there. But I can tell you that the distribution is very good. It's a strong suit in India.

Sameer Shah: No. I am sorry. We can't share this. From confidentially perspective, it's not in larger public domain. I mean the reach, direct indirect as well as the rural urban.

Shirish Pardeshi: At least Sameer, you will be able to share what is the difference between in terms of the larger opportunity we are talking about? I mean, I agree that the Nielsen numbers are not freely available, and we don't have the access to that. So, maybe if can give some more color qualitative.

Sameer Shah: I think what Sudhir shared earlier, it's not just physical reach, but also mental reach. And in Soaps we are well distributed in terms of reach. We just need to leverage that soaps distribution reach for Household Insecticide and Hair Color but before that we need to invest in terms of generating the demand, especially in rural or even with urban who are consumers. So, that's going to be the approach. I think the other piece is not just going to be increase in reach, but also increase in productivity in the outlets in which we reach. So, that's the other thing which we are going to work upon in terms of unique lines and so on and so forth.

Shirish Pardeshi: My second question is on the price. Would you be able to share how much price increase has gone in nine months this year? And the overall weighted inflation which we are having at this point of time?

Sameer Shah: If you look at the latest price increase, it's there in our update also, it is around seven to eight percentage, on a full year basis I think our price increase would be mid-single digits thereabouts.

Shirish Pardeshi: And the inflation, what is the weighted today?

Sameer Shah: I think it's very choppy, and you have to bake in not just the replacement rates, but also what's going to be expected commodity prices over a period of time. It's going to be also dynamic. We have called this out that we will be competitive in terms of taking price increase, but we also would keep an eye on what's happening on the volume front. I think at this point in time, ceteris paribus, we do believe that our price increases which we have already taken some of the price increases which will continue in coming month and quarters should result in overall sequentially improving gross margins. So, I think that guidance or strategy at least in medium term continues, until and unless there is a big spike up in inflation, especially in palm even from current levels.

Shirish Pardeshi: My last question to Sameer, we have seen senior management changes in this quarter, and maybe Sudhir can add, is there any further senior management changes required to drive the strategy and the distribution expansion, or is that already been implemented or there is no more departure which will happen?

Nisaba Godrej: I think we do have changes that have happened even before Sudhir has come. So, I don't think there's any guarantee about no changes happening. And some of these are obviously even regretted losses, people leaving that we would rather retain them. But I think Sudhir is very focused on making sure that we have the best team possible in place. And he has stated quite publicly also that his preference is to give opportunities to people within GCPL. So, I think you might see the one-off people leaving, but there has been, which I think Sudhir touched on the global category team that's been created all with people internally, which is already doing some really of good work, especially preparing for next year. I think to your answer, we will always keep looking to have the best possible team together and our preference will be for internal leadership.

Moderator: The next question is from the line of Ashit Desai from Emkay Global Financial Services.

Ashit Desai: If I look at the domestic staff cost, the nine-month run rate is somewhat similar to what it was in 2018. Any changes or thoughts on how and what the sales incentive structure is. And also, from our accounting perspective the variability we have in staff cost is very different from what most of the FMCGs have.

Sameer Shah: We have called this out in the past. Because we have this performance linked variable remuneration which in turn is driven by business performance. And the reason why in current quarter as well as on a nine-month basis the employee costs are lower especially in India because of relatively lower performances. And we also moved the metric couple of years ago, what was only EVA to EVA plus plus phase, and maybe at the right time we will also share with you all as to what's the metric going ahead. So yes, the variability is there but it is largely driven by the performance linked variable remuneration which in turn is driven by business performance.

Ashit Desai: Any thoughts on the sales incentive structure, any changes to that?

Sudhir Sitapati: What do you mean by sales incentive structure? Do you mean below the line, or do you mean the incentives we pay to our sales teams?

Ashit Desai: Incentives to the sales teams.

Sudhir Sitapati: I don't think there's any change in thinking there.

Sameer Shah: There's no change over there. On that front also in terms of quantum it is too small to hold the needle either way.

Sudhir Sitapati: Strategically going back to one of the earlier questions, our intention is to get more value from our FOH, and I had presented the last time as well that we are getting people to do bigger jobs and more jobs and so on and so forth. So, strategically this is an area that we will continue, especially in a time of inflation like this, what are the ways in which we will hopefully deliver both EBITDA and A&Ps to squeeze out any non-consumer facing cost. And that's very much part of the strategy.

Ashit Desai: So, would you say the staff costs have been flat? The reason is more to do with lower performance linked incentives, or these are larger changes within the organization.

Sameer Shah: This is largely lower variable remuneration because of the business performance. As we called out, the overall controllable costs in which employee cost is a subset, is something which we kickstart from next financial year.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I now had the conference over to Mr. Pratik Dantara for closing comments. Thank you and over to you, sir.

Pratik Dantara: Thank you everyone for joining. Stay safe, stay healthy. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.