



“Godrej Consumer Products Limited
Q3 FY '23 Earnings Conference Call”

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MODERATOR: **MR. GAURAV JOGANI – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Godrej Consumer Products Limited Q3 FY '23 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gaurav Jogani of Axis Capital. Thank you, and over to you, sir.

Gaurav Jogani: Thank you, Inba. Hello, everyone. On behalf of Axis Capital, it's our pleasure to welcome you all to GCPL's Q3 FY '23 Earnings Conference Call. From the management, we have with us today, Mr. Nisaba Godrej, Mr. Sudhir Sitapati and Mr. Sameer Shah. I would now like to hand over call to Mr. Tapan Joshi from the Investor Relations team. Thank you, and over to you.

Tapan Joshi Thank you, Gaurav. Good evening, everyone, and thanks for joining us today. As Gaurav mentioned, we have with us Nisaba Godrej, who is the Executive Chairperson; Sudhir Sitapati, MD and CEO; and Sameer Shah, CFO. We'll start with Sudhir sharing his thoughts on our performance, and then we can open up for the Q&A. Over to you, Sudhir.

Sudhir Sitapati: Thanks, Tapan. Good evening, everyone. I hope you and your families are doing well. Thank you so much for joining us on the call today. I quickly start with an update of our quarterly performance. We delivered an all-round performance, which was in line with our expectations for the quarter. Our consolidated sales grew close to double digits and 15% in constant currency terms with a sharp sequential uplift in underlying volume growth. Our overall quality of profits has been quite healthy with a meaningful recovery in profitability.

Gross margin saw sharp sequential improvements of 330 bps and expanded 50 bps year-on-year. We have continued to invest behind our brands and increased working media investments by 28% year-on-year. Overall, our EBITDA grew by 10% and PAT without exceptional items and one-offs grew by 13%. Working capital continues to reduce, driven by simplification initiatives thus releasing cash. For the first 9 months of FY '23, our cash from operations has increased by INR 300 crores.

Despite macro headwinds, our India business has performed well. We delivered robust double-digit sales growth of 11% with sharp sequential improvement in underlying volume growth of 3% versus decline seen in the previous quarters. We drove significant improvement in profitability with gross margin expansion of 590 bps quarter-on-quarter and 250 bps year-on-year.

We were able to drive this gross margin expansion due to better sales mix, agility and pricing decisions and cooling off of input cost pressures. Our EBITDA grew by a healthy 20% year-on-year and margins expanded 210 bps year-on-year. This strong growth in EBITDA in India was delivered along with a 28% year-on-year increase in working media investments. From a

category perspective, we delivered broad-based double-digit growth in both Home Care and Personal Care.

GAUM continues to consistently deliver double-digit sales growth, and this was the 11th consecutive quarter of double-digit sales growth. On the profitability front, we were a tad below our own expectations, while EBITDA margins declined 160 bps year-on-year, our EBITDA plus working media margins declined 40 bps year-on-year. Our ATL investments in GAUM grew by 64%. And as a consequence of these, our EBITDA growth was marginally positive at plus 1%. However, severe depreciation in currencies have meant that our forex and interest costs were up.

Our Indonesia business is witnessing gradual recovery. Sales declined by 3%. However, good news is that ex-Saniter growth was positive at 2%. We saw healthy gross margin expansion but upfront higher marketing investments and scale deleverage resulted in EBITDA decline. We expect to see positive growth in Indonesia in the coming quarters. So overall, I think we have seen sharp uplift in our volume-led growth performance and also on the quality of profits. This, alongside green shoots in various parts of our business augurs well for the coming quarters. Our strategy is threefold: to drive category development of our core portfolio, simplify our business and to put people and planet alongside profit.

On the category development front, I'm pleased to announce two disruptive innovations that we hope will democratize the Household Insecticide category. First is the Goodknight Mini Liquid Vaporizer targeted at consumers who want affordable yet powerful all-night solutions. The product simplifies the chip design of the liquid vaporizer and uses much less plastic. We are able to sell the mini combo at INR 50 versus the regular INR 95, and the refill at INR 35 versus the regular INR 76.

Our second launch is the Mini HIT spray also priced at INR 50. Using inspiration from no-gas sprays in Allied categories, this product is not only accessible, but on a per mg basis of active 1/5 the price of a regular spray and in striking distance of illegal incense sticks. To the best of our knowledge, both these are the first of their kind in the world.

On the simplification front, two initiatives are worth calling out. We have had a company-wide initiative to reduce our inventory and receivables. This has yielded mixed results with our AR plus inventory coming down from 97 days at the beginning of the year to 79 days on December 31. In particular, we have made great progress in Africa.

In Kenya, for example, our inventory for AR has fallen from 78 days in FY '22 and 36 days in 9 months ended December '22. In Indonesia, about 25% of our value was coming through branch operations. Company salesmen were selling in 16,000 stores from whom we were collecting cash and having credit. We have moved this in the last 3 months in an exceptionally swift operation to a distributor model with very little disruption to sales.

Finally, on the people and planet front, our attrition rate after a few quarters of turbulence has come back to pre-COVID results and some of our best employees who have left the company are coming back. The mini LV we've already spoken about is a great example of sustainability

where the plastic per mg of Active is down 25%. We are overall reasonably confident of our business performance in the next few quarters, especially if the macro environment in India turns around and our HR innovations revive the category. Thank you very much.

Moderator So may we open the line for questions now?

Sudhir Sitapati: Yes.

Moderator The first question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: Yes, congrats on good set of numbers. My first question is on the disruptive innovation in Household Insecticides. So three sub parts to that. In this category, we have seen very quickly copycats also emerge. So if in terms of patent or design or ease to copy, could elaborate in this scenario, how do you see copycat emerging?

Second is you discussed the huge difference in pricing versus your mainline product. But I also see the competition offering very high discounts consistently. So if I take that into account, will it make sense for the customer to shift? And third is how does this compare to the mainline product. So why will the customer not shift fully to this? So what are the differences for the customer?

Sudhir Sitapati: Thanks, Abneesh. Let me answer the question. See, our job in Household Insecticide is to develop the categories of sprays and liquid vaporizers. So we are focused on that. Like in every other category, there are some things that are not that easy to copy. I don't know actually what will happen. But we are really focused on whether people will move from burning format, which is coils and incense stick to these.

We have very, very high share in the sprays, FIK which has bought upwards of 80 share, and we've got very high share even in liquid vaporizers. So we will certainly get a higher than fair share, and our game really is an upgradation game. There are some differences. I mean, for example, at FIK formulation that we are using in the small FIK is certainly not the same as we are using in the large one.

It's actually a more concentrated one. It's a different formulation because it's a no-gas spray. I think, your second question, which is that the LV is the same regular LV as what we're using or it's the same liquid. In the FIK or the spray, it is a concentrated spray, which is far more efficacious or the cost per ml, the MG is far lower and so it's great. I think in terms of pricing, look, these really bring access to the category. They also may be cheaper on a price per MG, but that's not the intention of these products. The intention of the product is that there is no product entering the Liquid Vaporizers segment at INR 35 and there is no spray in the Household Insecticide market at INR 50.

So it is the accessibility, which opens doors for millions of households that is more interesting. One of the things we feel more confident in a market like India that the upside of upgradation is far greater than the kind of a little bit of a downgradation that we may or may not see. In general,

these upsides are much higher, and we've seen it in several categories ourselves. So for us, we'll be really happy if more people use this. We feel reasonably bullish on both of these innovations.

Moderator: We'll take the next question from the line of Avi Mehta from Macquarie.

Avi Mehta: Clearly, an interesting and exciting innovation. I just wanted to build on the last one that you said you believe that the downgradation impacted at all of an existing user would be much lesser from what you see. Is that downgradation only in terms of adoption? Or do you see any margin hit as well from a gross perspective that can occur because of this? .

Sudhir Sitapati: See, on totality, these are all categories which are highly accretive to GCPL's overall margin portfolio. And what we have seen both in categories outside GCPL, but most recently even in our Hair Care entry, which has done very well for us in the quarter, is that overall gross profits growth for the category and overall margin growth of the company as a consequence of these innovations.

The downgradation is a lot less than we think it is, and far less than upgradation. And overall, it is the category, GP grows faster than what has grown in the past. And because these are generally high-margin brands and generally, even the lower priced SKUs have higher margins than our average GCPL margins is generally good for margins.

Avi Mehta: So the expert hair care is a good example. I get what you are kind of thinking.

Sudhir Sitapati: Yes, yes.

Avi Mehta: The second bit was on Indonesia. I mean just wanted to better understand the margin normalization trajectory. I hear that you said that positive growth is what would happen in the coming quarters. Could you give us a sense on when do we see margins normalizing to probably that 24%, 26%? Or is it a deferent range that we should build in as we go forward? .

Sameer Shah: This is Sameer here. So I think we have stated in the past that the immediate task on hand in Indonesia is to see a gradual recovery, which we do believe is around the corner, and we should start seeing the eventual overall much improved sales performance driven by a lot of initiatives which we have taken over the last 2, 3 quarters. I think the margins uptick will be gradual in nature.

The margins will go to those mid-20s or even late 20. But definitely, we will see sustainable margins improvement over the next 3, 4 years in Indonesia. And also it's a good quality of profits. So gross margins expansion, higher working media investments and lower controllable costs.

Avi Mehta: Perfect. And would it be fair to assume a similar trajectory in Africa for the mid-teens that we had initially indicated. Clearly, the focus now is on growth and hence, the working capital, working media and density that has risen, but would love to hear your thoughts on that as well.

Sudhir Sitapati: Yes. I think we had a medium-term plan for Africa, which this quarter doesn't give us any reason to change our thoughts on that plan.

Sameer Shah: Yes. And just to add in Africa, we will see at least in medium-term meaningful margin expansion. And we have stated earlier that maybe over the next 2 years, thereabout. We would want to see Africa margins around mid-teens. Again, we very much believe we are in their journey. So in Africa, at least over the next couple of years, we will see a meaningful expansion.

Avi Mehta: This is despite the investment that would be in the FMCG side?

Sudhir Sitapati: That's right.

Moderator: Our next question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: Yes, a few follow-up questions. The first is, of course, you have managed your gross margins very strongly sequentially. So that's a very good performance, versus the number one top player, which is very diversified. So I'm not comparing like-for-like. But I wanted to understand in so versus rest of the players, have you managed to get the commodity a bit more right this quarter or you manage the promotions a bit less versus, say, competition because the bps expansion is very good. And in raw material deflation scenario, always regional players come back. In coming quarters, how much does that operate from local and regional players?

Sudhir Sitapati: Yes. Abneesh, on that question, I don't know versus others. But certainly, versus ourselves, we have held ourselves accountable to a few things. I think we've got generally good capability in farm buying across the group. I think, in volatile circumstances that often comes to our aid. We have been very disciplined about pricing, and we've been having regular pricing meetings keeping in mind replacement margins, keeping in mind, RPIs and so on and so forth. So I don't know what others have done, but we have played a disciplined game in soaps prices. See, after all, soap oil prices have been falling for the last 3, 4 months, so a lot of this has to do with who has what price or what stock, how much holding, etc. So while I can't comment on others, I can say that we feel now that this crisis has passed us in soaps or at least this round seems to be that we have been done right by consumers, and we have basically been prudent in terms of buying, pricing, etc. So our market share has continued to be good in soaps, and we are gaining market share.

So I would say that the overall soap strategy, which involves very, very heavy margin hits in the preceding few quarters. And on top of that, not cutting investments in the rest of our portfolio, I think we yield reasonably good results -- have yielded good results this quarter and should for the next few quarters.

Abneesh Roy: So on my previous question on the disruptive HI, the INR 35 LV versus your mainline LV, for the customer in terms of life of that one SKU, how does it compare in terms of length of the duration of usage and in terms of efficacy, will it be different? And if it is not different, why will cannibalization not happen?

Sudhir Sitapati: Firstly, the price here, I mean, the number of days and all depends on how people use it. But the price is INR 35 for 25 mL for the small one. And the big one is INR 76 for 45 ML. So not only is the small one a lower unit price, it is also a lower per ml priced. Our own learnings in

categories is that for a consumer are very responsive to slight changes in price per ml, which are consumers going downgrade unless the gap is very large.

So there is a kind of a goldilocks condition of some kind of discount to products which are aimed at the mass market, beyond which we have big downgradations. But every single category, Abneesh in FMCG, the LUP on a price per ml basis will be a, cheaper than the model pack or the monthly buying pack and categories that have a stick to a certain discount, let's say, 15%, 20% and no more, don't see big downgradation, but see big upgradation.

So in most of these categories, an HI premium was an exception. The LUP has become in terms of user base, 75%, 80%, in terms of value, 40%, 45%. If that happens to us in premium HI and LV and aerosol, I think we'll certainly have a good run in the coming few years is our bet. The discount that we have on HI is no different from what other categories, whether it is soaps or toothpaste or shampoo or hair colors more recently have. So it's a kind of formula that seems to work.

Moderator: Our next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra: My first question was your rural paying for portfolio is fairly low. But incrementally, what's your read on rural demand as you progress through the December quarter and even in the January month?

Sudhir Sitapati: I think like lots of people have been sharing, it is the general demand situation has been tough in lower income consumers. We have a soaps business, which is rural in North India. But it has been a tough demand and I'm hoping we'll see some green shoot soon. I think that is reasonably creditable because of market development, which our focus has been on Air Care and on Hair Care, which have really been the recipient of the first round of market development.

Market development is a big macroeconomic proof because you are really saying that a large group of consumers who don't adopt the category and macroeconomics is not the reason they don't adopt the category. So that's one kind of way of beating slowdown blues, which I feel we've done reasonably well on the back of these 2 categories in this quarter. But the situation is tough. I don't think I'm in agreement that it is both discretionary demand in urban and rural demand is continuing to be soft.

Latika Chopra: Sure. Second thing was around the Hair Care. Hair colour bit that you talked about fairly on improving accessibility has helped you. But could you give us some flavour of the INR 15 that, what could be the gross sales in the overall hair colour mix for you? Is it high single digit, low double digit? And has that increased? Are you being able to tap into more distribution or new distribution outlets, retail outlets because of this price pack? Or you're able to drive better offtake from existing reach?

What I'm just trying to understand is because you are doing a similar kind of democratization it allows you to have a higher reach through newer outlet? Is that a bigger part? Or it's more offtake from existing outlets? And the last bit I know we have restricted to 2 questions. But the last bit

is just to check or anything incremental or incense stick. One of your peers did talk about it in the Q3 call. So I just wanted to get anything to incrementally keep in mind from an incense stick competition. Is it coming back or anything of that sort?

Sudhir Sitapati:

Yes. Thanks, Latika. See on hair colour, I don't think it's tougher for me to share the salience of the small pack, etc. I think the principle is that many of these low-unit packs serve distinct consumer needs. And I think it serves existing consumer needs. For example, not everybody has long hair or wants to colour the entire part of their hair, so a lot of people do re-touch up.

And there is an added dimension of affordability. So certainly, small pack across not just in hair colour, but in every single category, small packs open up the total addressable market. And I think hair colour is one among a long example of categories that have done it. Outlet expansion will happen and has happened, but that's a consequence of more consumer demand in it. That's not the underlying reason. The underlying reason is the TAM opens up significantly when you democratize the pack. And I think the HI innovations should do what hair colour and many other categories, soaps is example, in our own portfolio, sachet and so many other parts of the portfolio have done. So I think that's probably how we expect the HI innovations to work. That's the answer to question number one.

On incense sticks, look, illegal incense sticks continue to grow in India. They are illegal, and we are trying all legal means to ensure their growth is not as fast as it was a few years ago. But the relative salience post-COVID has gone up a little bit. Our approach of incense sticks is structural. For example, if you take the small LV or the small Aer spray and one of the reasons I said is if you can get into a price per mg, which is the closer and closer you get to incense sticks, you don't have to exactly match incense sticks.

The answer to incense sticks may not be another incense stick. The answer to incense sticks maybe to make premium formats which have many advantages to incense sticks. For example, they don't burn in the household, they can last longer, bring it closer and closer in terms of a price per mg of active to incense stick. So that's a more strategic solutions to dealing with incense stick, whether it works with it or not, only time will tell, but that's our approach to -- while we fight the legal battles on incense sticks, that's our most structured approach to incense sticks.

Moderator:

We'll take our next question from the line of Vivek M from Jefferies.

Vivek M:

Sudhir, first question is on Home Care. So there was a shift in season. So third quarter numbers, let's say, 10% versus, let's say, the earlier quarter at about 2%. So if I take the average of the 2 quarters, that number comes to about 6%. So where do you think is the reality? Is 10% more of a representative number? And that is what one can look at going ahead? Or it's more closer to 6% because of this season's shift? .

Sudhir Sitapati:

See Vivek, these are not firstly HI numbers. These are Home Care numbers, and we don't have the policy, and now we stopped revealing HI numbers, so it's not fair for me to reveal HI numbers in some way or the other. But I think it's fair to say in HI two things. A, it's fair to say that this

is not a category that can be looked at on an in-quarter basis. So you have to average out several quarters because that's the nature of the seasonality here.

So your assumption may not be incorrect given the weightage of HI and given what we declare on Home Care, the assumptions we made may not be widely incorrect. B, I would not hesitate to say that our HI journey in terms of category development and growing the category versus historic rate has still not met the success that we wanted to. We hope that these two innovations are a break through. So I think that's how I can best answer your question without specifically answering it.

Vivek M:

You have spoken about Indonesia, but over the next few quarters, where will be your focus going to be? And if I look at Indonesia for the last 4 years or so, the business has literally stagnated. How do you think about FY '24 when you think about all the measures that you have taken in the last few quarters and what you are going to do in terms of launches or distribution. So how do we think about, let's say, FY '24?

Sudhir Sitapati:

See, on FY '24. Firstly, forget FY '24, even now, actually, we are quite bullish on the Indonesian macros. We think the Indonesian macros have turned around. And we have our own leading indicators such as our sales growth, let us say, in retail, in general trade, retail, which is a good measure of consumer uptake because every other channel has lots of issues. We are quite happy with the growth that we are seeing in GT retail. And GT retail is only a matter of time before that reflects the entire business.

We have three sets of issues in Indonesia. Number 1 is a base of Saniter, which has actually come off in this quarter. So to be fair, that's no longer a big issue. Number two is we have had very high stocks in modern trade. And number three is that there was a lot of inter channel conflicts in Indonesia that we are trying to link. So we are taking a little slower in terms of recovery in Indonesia, but now that we're correcting it, we are correcting it to levels which are well ahead of what it was even pre-COVID, where a lot of things went wrong.

So we're saying, let's take this opportunity. So I think, the fundamental macros in Indonesia are good. Again, it's not proper for me to give exact numbers on what we will grow, but I think we will do well in Indonesia in FY '24. Because I know the kind of clean-up, I know the various green shoots that are going on there, I don't think there is any issue. We've got two categories where we're market leaders with terrific brands and the Indonesian economy has now started growing. So these categories still grow faster than GDP. So I'm reasonably bullish on Indonesia in FY '24.

Vivek M:

And Sudhir, I know quarter-to-quarter numbers always can create distortions. But if I look at second quarter ex of Saniter, your growth was about 8% in Indonesia, wherein this quarter, it's about 2%. So is there anything specific to call out?

Sudhir Sitapati:

Yes, there is something specific to call out, which is we have taken further corrections in Q3, both in terms of, for example, reasonably large number of write-offs in our inventory but also holding back on heavy promotions and discounting that we were doing in the past, we have

decided to go a little easy on those. So I think that you read it well.. I'm sure that, that is not to do with offtake because our measure of offtake is GT retail is only sequentially moving up in Indonesia.

But our depth of promotions that we were running in the past, we have reduced that in Q3, and that is a journey we're probably going to go on further. So that may cause a little bit of speed bumps on the way, but we are sure that, that's the right way to run this business without having very differential promotions for different channels or different traders versus the others. So that's the correction that we took in Q3, Vivek. Which we hadn't taken into Q2. Q2, we simply took some other set of corrections like stock. This is another set of corrections we are taking on promoting.

Vivek Maheshwari: And last question, if I may. One of your comments concern me a bit, which is around the rural. So most of your peers are talking about at least rural bottoming out with some even saying things have started to pick up. Is that not something which you are seeing on the ground?

Sudhir Sitapati: Yes. I mean, it's hard. This now gets into January month and February month and things. I think it's fair to say two things. One thing is that post-COVID consumers have had pressure on consumption. It may recover. I'm hoping it recovers either this quarter or the next quarter. It's really early for me to say. It's very hard to read these times with that kind of position. Two is we did see overall some discretionary pressure even in urban in post-Diwali. We've seen in the context of these two pressures, we had a reasonably good Q3.

Now how is Q4 going to be, how the demand situation is going to be. I mean, it's hard for me to say specifically whether there are green shoots or not, Vivek. So probably others have seen green shoots, maybe there are for us, but I've just not observed that with -- I mean I know -- definitely see that lots of people in the market were talking about post-Diwali and went to shopkeepers, they would say that things are not lifted up post-Diwali. I've not been to market in the last two weeks. So maybe next time I go, I'll let you know how it is.

Moderator: We'll take our next question from the line of Arnab Mitra from Goldman Sachs.

Arnab Mitra: My first question was on this innovation on LV. So on aerosol, it's obviously the penetration is so low that any democratization will have a net positive effect. On LV, the price gap on the machine itself seems to be quite large in terms of the INR 97 versus INR 50. So just wanted to understand, is machine a very large part of the sale of the category or is it more towards refills? And therefore, we can guess a little bit about the potential risk of the downgrade in the machine itself and which would then be the target in the refill on its own?

Sudhir Sitapati: Arnab, the principle of the machine is to feed it in. So it is not a large contributor to value creation because the principle of the machine is feeding in and not to make money on the economy pack, which is the first pack that we want to go into the household. So really the gain both in terms of sales, salience but more than sales salience in terms of profit salience is very much in the liquid part of the business.

So in other words, it doesn't matter too much if someone moves from an INR 95 machine. I mean even with the downgradation, as I told you, I don't think there will be because our INR 95 machine has superior features. It's got a, it's in a twin mode and it's better for higher income consumers. It's better when you have relatively low mosquito infestation.

When you have higher mosquito infestation, the mini machine is a better machine because it remains at a higher level through the night. This one switches on and switches off. It's a more sophisticated. It's a better machine for high income. So the machine, by the way, is not just -- it's not quite the same as the LV, where it's just the same LV at a lower price. It's a different machine with different functionality. But I don't think a movement one way or the other, there is going to hit our profit too significantly.

Arnab Mitra: My second question was on the gross margin side. So between India as well as Indonesia, Africa, has most of the benefit of the commodity reduction already been netted in the 3Q? Or there is more upside on the commodity side in all the three geographies if you could separately talk about them?

Sameer Shah: Yes, this is Sameer here. So India definitely see having sequential as well as year-over-year margins expansion. I think Indonesia and Africa will see going ahead margin expansion both sequentially as well as on a Y-o-Y basis. In markets like Africa, there is still this currency inflation, which is sort of impacting the margin. And in Indonesia also, there's a little bit of commodity inflation, which is still kind of prevalent. But the way the trends are as well as expectation is that there should be commodity prices cool-off and that should result in margin expansion. So India is ahead of curve, but Indonesia and Africa will see it maybe in this quarter as well as in the quarters going ahead.

Arnab Mitra: And my last question was on Africa. So we've seen, as you said, 11 quarters of good growth, but there is obviously a lot of price-led growth here and if you think that the currency changes and all that. So how do you deal the volume traction in the business? What would be a good growth for that kind of an environment, if you were to look at a 3-year stack in that business now?

Sudhir Sitapati: No, no. I think the way I look at the Africa business is slightly different, Arnab. The key metrics for us are volume growth in FMCG and overall growth in FMCG in Africa, that's a really important long-term driver of value creation. And overall EBITDA growth in Africa. So on front number one, which is volume growth in FMCG, it has been exceptional.

And the dry hair business is a little bit more complex because there are some businesses where we feel we need to probably extract more value. So that's probably the right way to look at the Africa business. In terms of EBITDA, I think you've had a rough round of cards. The cards that have been dealt to us in the last 24 months have been pretty tough in terms of forex, which peaked out in the last quarter in terms of shipping costs, in terms of fiber cost, which is related to petrol costs, all these stocks seem to be cooling off as we speak.

So I'm hoping that and many fundamental improvements have happened. So what has happened in Africa, EBITDA is -- that gross margin dilution is marking a lot of fundamental work in BTL

reduction, overhead reduction, et cetera. So I'm hoping that when the water recedes will be -- the benefits of these costs will come into the Africa business. So that's our hope, which we hope in the next few quarters will play out. I know Sameer wants to add.

Sameer Shah: Yes, just to add to that, Arnab. I think even as a data point, I mean, in last quarter, I think the overall volume growth in Africa, which is ex US, close to mid-single digits. And overall, constant currency growth were upwards of 30 percentage, I think the other big focus also in Africa is more on profitability, right? So there will be pricing-led growth, there will be upfront investments in FMCG categories as we were sharing earlier, but there also will be a very clear focus in terms of driving profitability. So it's better to get that balance right in terms of what the minimum scale leverage and on side investments in FMCG, but kind of cost reductions or margin improvement in dry hair to reach to the overall ambition of that mid-teens EBITDA margins over the next 2 years.

Sudhir Sitapati: But Arnab, I think just to conclude, the Africa point is, I think there are two really good things that may happen come our way. One is that FMCG salience is going up. So somebody wants to share the volume growth in FMCG, but it's good. I mean, we don't have the exact numbers. If our overall is mid-single digits, FMCG is far ahead of overall the double-digit kind of growth, and that's really good. And the second one is the structural cost of our business has come down in Africa. The gross margins, we can get it back to close to normative levels, we should have a pretty good EBITDA growth going forward.

Moderator: We'll take our next question from the line of Harit Kapoor from Investec.

Harit Kapoor: So my first question is on the rollout of HI innovation. So could you just give us a sense of what the rollout plans are? Which market? How much time you're going to take to even go national only?

Sudhir Sitapati: No. we don't share rollout plans before we roll them out. But broadly speaking, we are rolling out, as we speak and the intention is to go national, it is not an intention to be a single state launch anything. So as we speak, we are rolling this out across the country. There is a season in Household Insecticides that starts in mid-February in large parts of the country. So we're hoping to be able to capture that. .

Harit Kapoor: And the second question is on the urban discussion...

Moderator: I'm sorry to interrupt. Mr. Kapoor, if you can just use your handset and speak, your audio is not clearly audible, sir.

Harit Kapoor: Yes, is it better?

Sudhir Sitapati: Yes.

Harit Kapoor: Yes. So Second question was on the urban and discretionary impact to call out on. In terms of the categories, where are you seeing this? Is it more on the air fresheners side or is it on the premium hair colour side?

Sudhir Sitapati: No, we're not seeing it. I mean that's what I said earlier is we are hearing this and generally, when you speak to retailers and consumers, we see this. But I think that the beauty is when you get market development right as it trumps macroeconomics, simply because the space to go -- let's take Hair Care, right? In principle, it's a discretionary category. But the penetration is so small that if you get your relevance and access and everything right, regardless of stress, it does really well.

So I think that is what we are reasonably happy with Q3 is while we hear a lot and we see it and we see it, for example, in soaps and all in our premium part of our portfolio, we can see this kind of slight drag in urban, both these categories have beaten at different ends of the spectrum, I mean hair colour at one end and air at the other end. And for different reasons, we feel that they've beaten Q3 kind of slowdown.

Harit Kapoor: And my last question was on the cost structure simplification. So while I understand it's an ongoing process. But if you look at FY '24, is there a target geography that you know some of these initiatives will be higher in versus others?

Sameer Shah: Harit, this is an ongoing process, right? I mean, strategically, we have shared that we would want the overall controllable cost, which is basket of supply chain variable, manufacturing costs, the fixed overheads or the non-working part of the ATL spend as well as -- yes, I mean, those costs. Basically, the basket will continue to go down. I mean, you can see it, just last quarter, but last 9 months, in FY '24, we do see there are meaningful opportunities in terms of bringing it down. So no target assets, but yes, it will be very integral in terms of creating that pool which goes either for investments or goes towards bottom line.

Moderator: Our next question is from the line of Akshen Thakkar from Fidelity.

Akshen Thakkar: Congratulations on a good set of numbers. Two questions, one slightly long term and one slightly near term. On long term, the new products that you have developed 3 years out, if you were to call them success, how large do you think they can be? I'm just trying to handicap what's the size of the price over here. And the second, more on FY '24. I'm just looking at the Personal Care category where pricing could come off, you would see a decline, etcetera, over there now. So generally, from your experience, what kind of acceleration do you see in volume?

I'm just trying to again handicap that you've obviously come off put 3 years of very strong growth in that business. Next year, should we be thinking of that business as single-digit growth with good profitability growth? Or do you think the volume accelerates enough to offset whatever pricing headwind you might have and that business could still see double-digit growth? Yes, those two questions from my side.

Sudhir Sitapati: Yes. Again, it's probably not appropriate for me to give a number. But I think, look, the principle here is that many categories operate at these democratic price points, right? For example, hair colour went from INR 90 to INR 30, and pretty much the entire market moved. Now I mean 85% of the market in India is INR 35, or INR 30 or less.

So that's a good case study of the kind of things that happen. If you take shampoos, detergent, there's a large range that operates at this low unit price. So anywhere in that range, even the bottom of the range would make frankly us quite happy because that -- a large part of that comes incrementally to us. And there is no particular reason that shouldn't happen. So we do think this is a value driver as it happened in so many categories, HI should be no exception to this, right? So that's the range that we are kind of looking at.

The second question on FY '24. I think we may do an analyst meet with all of you and sort of share how our thinking for FY '24 is. But while we not had a great year this year in terms of volume growth, like I said last year, and that has not changed, frankly, is that this is a business that must aim for double-digit volume growth. That is the destiny of this business.

And we did have first 6 months, which was negative volume growth despite because of the hyperinflation that we had, we've had some volume growth, especially in our core market of India. And we hope that this volume growth improvement. What we're interested in is how do we take what is essentially a 4%, 5% volume growth business closer and closer to double digit. I feel that next year will be a good step up in that journey.

Moderator: We'll take the next question. That's from the line of Kunal Vora from BNP Paribas.

Kunal Vora: My first question was on soaps. Where are you in terms of pricing in soaps? Do You see a need to take price cuts? And by when would the entire benefit of the raw material cost decline which you and see start reflecting in the margins? And yes, I mean, that's assuming the raw material costs stabilize this year? That's my question number one.

Sudhir Sitapati: I mean, look, in terms of pricing, we have some principles on pricing, which again, I don't want to specifically share, it's not correct for me to specifically share the principles of pricing. But I think the time of heavy volatility in soaps for the time being seems over, there will always be some slight correction here and there as oil goes up, oil goes down, passing it on, sometimes we pass it on to various ways we pass it on, but we are now in some sense, in oil prices in peace time. As far as the margins go, I mean, on soaps, maybe Sameer is in a better position to answer.

Sameer Shah: Yes. I think it's going to be very dynamic, in terms of pricing as well as margins. I mean we have seen even with commodity cool off, benefits also getting passed on to end consumers, but there is margin uptick, as you can see from gross margin expansion also. I think we first need to estimates in terms of what price palm-oil really will be stabilized. It has been very choppy. I mean choppy in way it went up as well as choppy in the way it's coming down.

So let's see, but point is that we will remain extremely competitive in terms of pricing and in terms of our strategy, and that is seen in our results. I mean, over the last 3 years, 4 years, I think

we continue to gain 80, 90 bps of market share. So we are very happy with the strategic choices, which we have taken in this category and are equally hopeful that we'll continue to gain market share as well as expand margins if commodity environment remains as what it is at this point in time.

Kunal Vora: I was just saying on this and like assuming the raw material costs remain stable now, is bulk of the benefit of margins already captured? Or is there something...

Sudhir Sitapati: There might be carry forward.

Sameer Shah: Yes. I think there will be some incremental kind of margin benefit, which will kick in. But as I said, I mean, the intent is also to eventually use some of this as food for investments for growth. Yes, directionally, we will see a little bit of gross margin expansion, yes.

Kunal Vora: Yes, sure. Second is on the HI LUP innovation, how long did it take to come up with this product? Is this a new product which was conceptualized after Sudhir joined or is something which was work in progress? And if you can provide any initial response, any test marketing, any distributor feedback that you reviewed on this?

Sudhir Sitapati: So, I mean, I can't provide the test marketing results. It suffice it to say that we don't launch products without rigorous testing and we've been working on. I think both these were not built in a day. So if you take, for example, the FIK formulation, which is the no-gas formulation, it has done very well for us in Nigeria, which originally based on an India idea. So -- it has been in the pipeline for some time, but we have now made it fit for purpose. In Nigeria, it wasn't launched as an LUP, it was launched as general formulation and it's done really. One of the drivers of FMCG growth in Nigeria. So this is a good example.

The FIK one has been around in our systems for a long time. It went from an idea which was test marketed in India, it didn't do so well, to Nigeria did really well, has come back to India. And because we find the problem, which we did last year, saying we need to market develop premium Household Insecticides. One of the tools for market development is access, how do we make sprays accessible. Here, we have a solution in Nigeria. Can we get that on purpose? So that's the story of this innovation.

The liquid vaporizer innovation, which is the machine innovation is actually simplifying the chip in our large machine and using a lot less plastic, that we've been working on for maybe round about the time, maybe a year or so. And that -- again, we've had various machines. A lot of these have had innovations in the toolkits. I think what has changed to be said, is the sharpness of problem definition that we have to get something at INR 35 or INR 50 for the market, then it's taken us some time, but there's been a whole body of work for many years that helped us in solving a problem that we define.

Kunal Vora: More clarity on market development and products following that.

Sudhir Sitapati: Yes. So a, I do think both by the way, are pretty smart innovation. We're quite proud of them because to bring more gas into HI is a second time in the world. The first time in the world, we only did it. And to build a small machine of this price is also probably the first time in the world. So we're quite pleased with the speed with which we did it and I hope the sharpness with which we should define the problem with this was solved.

Kunal Vora: That's very helpful. Just like one related to inflation, which is if you can provide the capex number for FY '23, what should we look out for and tax guidance for FY '24?

Sameer Shah: I think the capex for FY '24 would be in line with largely FY '23. Maybe, I mean, there could be 10-odd million to 15-odd million higher spend more towards digitization, automation, which in turn should result in lower controllable costs and a little bit towards supply chain initiatives, which we have in place.

Sudhir Sitapati: But I think the larger principle without getting into the numbers is we have one of the reasons for reducing our working capital and focusing on cash is to focus on technology and digital investments which in turn further reduce our costs, which can give us some fuel for growth. So that's the general model that we have tried to follow. Certainly, one part of it in terms of working capital reduction is a tick. In terms of setting up capabilities for digitization is also probably a tick that now needs to deliver so that costs come down further.

Kunal Vora: That's very helpful. Just on tax guidance, how about tax rate for FY '25 sir?

Sameer Shah: I think in terms of tax to begin with next year, what will happen is we will actually move out of a lot of tax-exempted manufacturing location in India. So the overall reported tax rates will go up, but we have to please remember that this is a non-cash tax expenses. So over last, I think five or six years back we took a significant INR 600 crores of MAT credit in the P&L. So some part of it, I mean, will be basically from that INR 600 crores credit. Otherwise, the cash tax remains at 17.5 percentage, 18 percentage thereabouts, but the reported tax rates will go up. And then maybe clear down the line, we will converge to 25% tax rate in India, which would be reported as well as the cash tax.

Kunal Vora: Okay. So FY '25, you get to 25% tax rate?

Sameer Shah: Correct. Correct. And next year increases only, I mean, a non-cash tax rate increase. The cash tax remains more of the same

Moderator: Our next question is from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: Sir, I have three questions. So the first one was on the innovation. I think it's a very interesting innovation. So just one question there is what I understood is that this product is more effective than the existing product we have. So either you are to replace the existing product over time. How are we going to be positioning this product? Yes, either is to do category development. But it seems to be like that this is a replacement to the existing product. So I just wanted a clarification?

Sudhir Sitapati: No, no, it is not a replacement. Let me clarify. And the answer is a little bit more nuance than that. See in the case of the electric liquid vaporizer, it is exactly the same liquid. The delivery system is different. The delivery system in urban and higher-income households has an automatic switch which goes up in the beginning and releases a lot of active in the beginning, and then releases a little less active for the next 3 hours. And then again, up doses active. So that is based on the insight largely where in urban households, the need for a lot of people keep the rooms -- they keep their windows closed. They need a quick burst as they sleep, and then they don't need that kind of active. This has been designed keeping in mind rural and low-income households where windows are often open and mosquito problem is through the night. So this one remains up through the night. So the delivery systems are different, there are two different needs of consumers. And we don't think that there is going to be -- I mean, there will be basically two different segments, but the liquid is exactly the same. It is just a smaller -- this is 25 ml, the bigger one is 45 ml. In the case of its spray, it is a fundamentally different structure, which is that this is a no-gas spray, which is very similar in other categories you guys will receive in the deodorant category, etcetera. This has the advantage of being able to concentrate more active and therefore, great value in your spray. But obviously, it doesn't have the kind of ease of spray that an aerosol has because an aerosol spray all over the room. So again, this is more suitable for smaller rooms, where there is not much. You don't want massive dispersion, but you want a concentrated amount to come out in a small space.

So in the case of the aerosol spray, it's a different product, designed different a different consumer. And I think what is reasonably smart about both these products is that they are designed for a use case which is slightly different from what the bigger ones have been designed for, which is typically higher-income urban households. This is more for smaller rooms, a poorer consumers, rural consumers, etcetera. So that it's not a replacement.

Sheela Rathi: Just a follow-up that what was our market share in some range in rural and urban India? Or what is the penetration?

Sudhir Sitapati: See, we don't give out market share of our products. I think it suffices to say that the spray category is very, very underpenetrated in India. The liquid vapor as a category is reasonably well penetrated in urban India, but very poorly penetrated in rural India.

Sheela Rathi: Understood. I think, second question Sudhir, was that it felt like that we found more update on Africa performance, especially by FMCG growth. What is driving -- my first question would be that what is the share of FMCG versus non-FMCG now? And what is driving this mean double-digit growth? Is it that we are gaining market share? Is it that the targeting point is low or we are expanding our distribution in a different manner versus what we were doing earlier?

Sudhir Sitapati: Yes. FMCG is now roughly 1/3 of our Africa business and growing much faster than the rest of our business. So that's roughly the salience of FMCG. FMCG has done really well, I would say, predominantly because of the route-to-market work that the relation team have done in Nigeria first and now Kenya increasingly, where both our wet hair products that we acquired would be

Africa, with the US acquisition, which is in both relaxers and in hair treatments, the physical distribution of it and now increasingly media has gone up.

And now in Africa -- in Nigeria, we are quite happy with the progress on Household Insecticide. So these have been the drivers of FMCG. And we are certainly hoping that, I mean, our long-term strategy in Africa was to build a big profitable FMCG. So that makes us really bullish because the bigger FMCG gets, the more stable it is, the more likely to be a more value-creating business Africa is for us. Was there another question? I perhaps missed that in the -- Was there another sub-question?

Sheela Rathi: No, just the distribution strategy. I think you covered it.

Sudhir Sitapati: The distribution, retailing strategy is obviously -- the hair extension business is a different channel to FMCG. So why we in the initial years of the hair -- acquisition strategy had presence in Africa, it didn't necessarily mean we had presence in retail. Because the hair extension business is very much a wholesale salon kind of business, and this is much more a modern trade GT kind of business. So I think the Africa team has done a really good job in the last few years of building the roads for retail distribution.

Sheela Rathi: Now my final question is on F '23 guidance. Do we still maintain the low single-digit volume growth and double-digit revenue growth guidance? Because you sounded less upbeat on global demand in this quarter and overall. So it's a little mixed bag.

Sameer Shah: Sheela, this is Sameer. I think it's too early to share guidance in F '24 and as Sudhir said, we will be having annual analyst meet where I'm sure we'll be sharing low lights in terms of what are our building blocks and drivers. But surely, I mean, we do expect, I mean, much better overall business performances compared to what we have seen at least in the first half of the year, part because of better macros expected at least in the F '24 and part also because a lot of our category development initiatives, either working or expected to kind of work over a period of time. So no guidance.

I think the other thing is strategically, we had shared that we would want to work like close to a double-digit volume growth, over a period of 3 to 4 years as well as the 100 to 150 bps of EBITDA margin expansion. I think you are very much on track, at least to begin with on volume growth in that journey. Next year, directionally again, we will see a much improved volume performance as compared to what we have seen in FY '23 and margins also for sure, we will see margin expansion. But the quantum is something too difficult to call out at this point in time.

Sheela Rathi: But on F '23, how should we think of the number?

Sudhir Sitapati: F '23 is almost of over and only Q4 has left. No, I think -- I mean, look, yes, I mean, Q3 is reasonably good. I think Q4...

Sameer Shah: I think you're asking for quarter 4 guidance. More than anything else, which again directionally, I can share is going to be even better as compared to at least what we have seen in the first half of the year, hopefully also quarter 3.

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

Alok Shah: And good to see new launches in HI. Firstly, a clarificatory one, and sorry if you already answered, but did you mention anything on the technological changes in this mini LV pack? So essentially the heat time would be less resulting into difference in efficacy. And would the current active or the GK flash re-fill fit into it? Or that would not be possible.

Sudhir Sitapati: Yes. I mean the answer to both questions is, I mean I answered this one before, but I'll say it again, which is the spray is definitely different and it's definitely got a strong product moat around it. The machine designs in the liquid vaporizer is certainly designed for purpose. I don't know how competitors -- what mostly have there. But it's certainly designed for purpose and some clever designing on plastics and on the chip required. What was the second question? I'm sorry.

Alok Shah: Second was the current active or the GK flash will...

Sudhir Sitapati: So these are all replaceable. All GK machines will fit into all GK active. So consumers can use the smaller LV on their existing Gold Flash. Their larger Actives on the small machines. So our family fits everything.

Alok Shah: So that's fungible. The second was on the strategy to communicate the HITs proposition to the consumer, and I'm referring to the INR 50 price point one. Will that be more about educating the consumers about the lower price point or because it is no-gas, so we will not spray through the room. And hence, it is about addressing problems in small areas. So how do you plan to communicate this -- about this product to the consumers for the equipment?

Sudhir Sitapati: We don't usually speak about what we communicate until we put it on air. So if we're going to put it on air quite soon, so you'll see them. It's not again, not proper even if it's only a few weeks away to say what we're going to do before we actually do it. But it's actually weeks away.

Alok Shah: My last question, Sudhir, was in one of the previous calls, you had mentioned about global category teams and leading to global disruptive innovation. This seems to be one of the start point to that end. Can we expect these products to be now cross-pollinated also. So of course, in one of the previous reply, you did mention about this product being in one of the African market. But can we see both these products now getting soon launched in GAUM and Indonesia also? How do we think on that line?

Sudhir Sitapati: I mean one of the principles that the global category team has kind of one of the products that has done well for us this year is this product called Aer Matic, which basically a big brand for us in Indonesia, and we brought it to India. It's been there for a few years. But this one we really focused on it and has grown fast. So one of the advantages of having a global category team

with global categories is if something works in 1 country, we will move it fast to another country to work. But to be fair, it has to prove itself in one place before it move elsewhere.

Alok Shah: But if you give a result of the cannibalization happening, not happening, it takes about 6 months to 12 months. So maybe if at all, any cross-pollination happens, it could be at least 8 to 12 months away? Then would that be right in?

Sudhir Sitapati: I don't want to give exact time. But yes, we think it's better to be patient and prudent to learn your way through in the home market. And then to take at how long it takes. I mean I don't know specifically how much time it will take. But there's no -- I don't think there's a tearing hurry also the size of our India business is so large, and this is such an India-specific issue that if we can look it here, it's worth a lot more. And in this particular case, in any case than potentially exports. But yes, I mean I don't think we'll be tearing hurry till we learn our way in India.

Moderator: Our next question is from the line of Prolin Nandu from GMO.

Prolin Nandu: Sudhir, my question to you is on HI. And you have been quite upfront in mentioning that you are still not there in terms of the HI development. And now you have launched new products, which will take care of the notarization issue and premiumization is taking its own time and happening.

But I want to talk about this whole advertising campaign that you started 6 months back. And because we mentioned a lot about working media and marketing spend, when I look at that advertising, it's more focusing on a sound sleep at night rather than focusing on mosquitoes. So how do you measure the ROI on that? I mean, have you been able to change the behavior pattern of the usage or for the targeted customer by that advertising? If you can just share something on that.

Sudhir Sitapati: Yes. I mean, look, we generally put a lot of advertising -- increase our advertising on some brands. It's clearly paid off. And once HI, the jury is still out on the advertising front. But that's also because different categories have different pin points or points of inflection. And I suspect on HI, the bigger issue is accessibility. Now something like sleep will take some time to build. It is not easy.

Our reading of the situation was GoodKnight was built on sleep. It has needed meethe sapne or Goodknight dost. And over a period of time, we moved away from it. Over a period of time, people perhaps said that with new born babies, there's a bit of a safety concern, etcetera, etcetera. So this kind of thing takes multiyear investments to grow.

It's not easy. We still remain convinced as we do more and more consumer work, that there are two fundamental positions in Household Insecticides. One is the fear of disease and to kill mosquitoes and then the desire to sleep, which is then a combination of safety and efficacy are kind of two different positions. We have two different brands. Nothing in the strategy has told us that, that is incorrect.

But it is not fair to expect a repositioning like that to give you explosive growth. Now what I noticed in the past is when you do repositioning like this, and then you have a mix element change like bringing a mini LV, it usually responds really well. So I would say that one of the ways in which we will test our repositioning, whether it works or not is how successful the small LV is.

Prolin Nandu: Okay. Very clear on that. On the relating part on this HI in terms of this innovation and new products, and you mentioned that in terms of you want to get as close to incense stick in terms of pricing on a per mg or per unit kind of level. I just want to pick a brain that does the customer think on those lines, many buys any product in terms of pricing? Or they will be look at it overall what is out of pocket kind of in expenses rather than looking at the per unit thing? I mean has it worked in any other category in your experience? If you can just comment on that.

Sudhir Sitapati: See no consumer articulates per mg and all that. Unit price and access. So both are important. Access price is important on an individual basis. Consumers respond to it. On an individual basis, consumers don't respond to price per mg. But what we've seen in takeoff in many categories is that there is on an aggregate basis, and you're talking about millions and millions of people price for mg is a simple way to understand underlying value. Consumers have different ways of understanding underlying value. So they'll say last longer, last less, etcetera, add ones more. So they have been hardly -- nobody will articulate price per mg, but price per mg just forms a good analytical framework.

So in many categories, we have taken seen that when the price of format A falls to less than 1.5x of format B, then a lot of upgradation happens from format B to format A. So it's more an analytical tool than a consumer language, but it is a powerful analytical tool. It works on aggregate.

Prolin Nandu: Sure. And 1 last question on Indonesia would be, again, this 2% growth ex of Sanitizer last quarter, it was 8%. Are we done in terms of whatever the onetime correction that we were supposed to do and now Q4 onward, wouldn't be any correction that would be required? And obviously, the base will also be a lot more favourable to us. Is that a fair comment to make?

Sudhir Sitapati: No, I don't -- I mean, I don't know if it's done because as I said earlier on, there are three separate issues in Indonesia. Issue number one was Saniter-base which is more or less done. Issue number two is down-stocking, which is more or less done. Issue number three was very high differential promotions between channels, which is unfortunately not fully done yet. But it is fair to say that Q4 will be better than Q3. Now I mean -- but that is something we are determined to -- now that we're taking two corrections in Indonesia we'll take the third one also. And I'm not sure that the third one is fully done yet.

Moderator; We'll take our next question from the line of Jaykumar Doshi from Kotak Securities.

Jaykumar Doshi: Sudhir, a couple of quarters back, you had articulated your views on palm oil prices, and it has played out pretty much on bank. How do you see the outlook going into next financial year? And what does it mean? What's the headroom for gross margins from current levels? Essentially,

you were operating at 59%, 60% gross margin. Do you see that fully recovery? Or did it settle at somewhere midpoint between that we had today and...

Sudhir Sitapati:

See, on soaps, there are a couple of things. The macro situation on palm oil prices, I mean it's a bit of a black swan event. It's not likely to repeat in the near future again. In general peace time, it is difficult to make margins of palm oil prices and soaps and so on and so forth. So there is a normative margin which we can return to in soaps. But I think the broader point on gross margins is an important one, which is our approach is a consumer-first approach. Along with increased media, we are also democratizing all these SKUs. So we are more relaxed about -- we've not talked about getting back to historic margins because we also see a lot of cost savings that are possible for us to be able to fund innovations like the small HI.

I mean our soaps, it probably will. But on small HI or on hair color, we may have a weighted average gross margin, which may be different from what it was in the past. But I think it suffices to say that we will push more and more in controllable cost or cost to serve within us, to try and mitigate whatever because the idea is to pass more value to consumer, either through the product or through advertising. So that journey we should be on. So we may or may not go back to where we were.

Sameer Shah:

Yes. I think a couple of things to add to this Jay, One is it's very difficult to add a guess in terms of what would be the level of palm oil prices next year because it has been extremely choppy over the last 2 years. So let's see how that shapes. Directionally, I mean, even passing on this benefit to consumers, whether it be palm through this democratization strategy. My sense is our gross margin still will expand in FY '24 at overall global level on base of FY '23.

Jaykumar Doshi:

Understood. One more question, if I may. Could you just give us update on how your earlier innovations one is powder to liquid body wash is tracking and perhaps some color on powder to the liquid hand wash which was long back. Just want to understand what is the extent of penetration.

Sudhir Sitapati:

Liquid hand wash is doing extremely well and a large part of that market is now moving. There are several players in that category now are moving to that. I think on powder to liquid body wash is taking time, these kind of innovations take time. Powder to liquid hand wash itself took a good 18 months before it caught on. I think this can taking a little bit of time, the body wash.

Moderator:

We'll take a next question from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi:

Just one question for Sudhir and one for Sameer. So I'll start with Sameer, and referring Slide 12. And we have seen that the India ad spend has gone up almost INR 188 crores we have spent. To my best understanding, I think quarter 3 is normally a winter season. So where this money qualitatively was spent? Was it more front-ended towards the support of new product and the launches or was it spread across?

Sameer Shah:

So I think it's pretty broad-based. I mean, we continue to back the HI repositioning, especially in Goodknight, there was also meaningful investments in Aer category and the results are seen

in terms of overall Home Care category growth being quite a meaningful one. And there are few where investments in larger percent was as well as Hair Care kind of space. I would say it's pretty broad-based. And I think the percentage to see is you keep still moving up on a Y-o-Y basis. What we can see even in quarter 3 compared to this quarter in India.

Shirish Pardeshi: So one follow-up, Sameer, here. If we benchmark this and now entering into the season, so will the ad spend will remain elevated level? Or there is some margin improvement where the ad spend will come down?

Sameer Shah: Yes. I think we did this in the past. Again, there is no band because every category has its own specific spend, threshold. And ofcourse for us, it not only quantity of spend, it is also quality of spend. But you have mentioned in the past that for HPC typically, I mean, the categories in which we are in or align maybe the threshold is anywhere between 10 to 12 percentage. So we are not too far off either. I mean last quarter, we were at like 9.5 to 10 percentage. There seems to be some opportunity in terms of scaling up the working media investments incrementally. But I think that will more than get funded from other considerable cost savings or your gross margins expansion.

Shirish Pardeshi: Okay. My last question for Sudhir. On 20th December, 2021, we had the first interaction with you. And I did ask this question what are the things you would like to change. So maybe after 1 year, if I can ask what are the hits and misses. So maybe if you can say that, what are the things which is there. And this more on the people processes and culture, if you can speak about.

Sudhir Sitapati: I think we definitely have hits as a company that the clarity of strategy that we have enunciated in December '21 hasn't really changed now 1 year and 2 months later. And we have only been executing it. So for example, even with Household Insecticide, the LUPs or an idea, we've been talking to share with them. We had at that time that because we knew that we had to make the strategy more accessible, it's taken us 1 year in order to get there. So I would say, number one is not just the clarity of strategy, but we shared belief in the strategy or the shared knowledge of the company of the strategy is high because we have not really changed strategy. So I would say that is the #1 thing that worked for us.

I think the number two thing that worked for us was in terms of -- is I think there's been a lot of focus on talent, and that's been a pro and a con, by the way. I think in the first few months after I joined for a variety of reasons, including the great resignation, a lot of changes. We had a lot of attrition. I think that attrition areas reduced, we have managed to bring back some of our top talent back into the company.

And see, we have managed to get some really good talent from outside to join the company. So I would say it's both hit and a miss, hit -- miss, because certainly, we had a higher than what we wanted attrition in the first 6 to 8 months. But I think you hit because I feel a lot more confident of the internal talent is promoted talent that's come back and so on. So I would say strategic clarity and talent have been big hits.

In terms of misses, I think the depth of the issue in Indonesia, the depth of the issue in Household Insecticide was quite clear to us. It takes time to solve it.. I think in Indonesia, there has been a bit of a miss in terms of the depth of the issue that we should probably have seen earlier, there were a lot of signals that also be acted and so on. So I would say that we could have probably read the macro situation -- that the company situation is better in Indonesia faster. I guess that would be a big miss. I would say -- I don't know if it's a miss.

I mean it has been a period of unprecedented volatility, apart from the end of COVID and then you create the palm oil and inflation. So probably our cost focus in Africa should have been better than it was. I think our topline focus was very good. But probably, if you are better focused on costs in Africa, maybe you would have dealt with the volatility better. But look, this is a black swan event. So I'm not 100% sure about that. But certainly, Indonesia, we should have read better.

Moderator: Our last question is from Swati Jhunjhunwala from VT Capital.

Swati Jhunjhunwala: And congratulations on a good set of numbers. So just two questions. First is what are the price hikes that you've taken in the 9 months of FY '23 versus Q4 FY '22? And second one for volume growth. So just not to harp on it much, but you said that volume growth will improve going forward. And we've seen that price growth has been leading the topline in the last few quarters. So going forward, do we expect a better mix of price growth versus volume growth to maybe 50-50 levels or any guidance that you can give on the price growth side for the next?

Sudhir Sitapati: Price growth on SKUs are all available in the public domain. So it's relatively easy for you to find what the price growth is. I mean going forward, I think it is fair to say that we are a hyperinflationary scenario in the commodities that we operated in first half. We are also sitting on Household Insecticide in a very high COVID base in the preceding year because that category did indeed grow consumption during COVID. Both those kind of moderated in the first half of FY '23. And going forward, we expect them to improve.

So the balance between price and volume, we expect will reverse from where it is right now. I think one last point I want to answer to the last question on probably what we did well in this year is despite the extreme volatility that we faced on many fronts, there's been COVID, there's been Ukraine, there's been a big management change here, etcetera. Two things we did well.

One is we continued investing behind our brands, even when profits were under pressure. Two is even though things like we prioritize cash in a year like this, which is probably the right thing to do in a volatile year, and we'll probably end the year with record cash growth. I think that is probably a good lesson to learn from a highly volatile year because ultimately, many of these are financial metrics and cash is reality in a tough year like this is probably something that has been a good year for us.

Moderator: Ladies and gentlemen, that was the last question. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.