



“Godrej Consumer Products Limited Q2 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Godrej Consumer Products Limited Q2 FY2021 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities Limited. Thank you, and over to you Sir.

Jaykumar Doshi: Thank you Faizan. Good evening everyone. On behalf of Kotak Institutional Equities, I welcome you all to Godrej Consumer Products 2Q FY2021 earnings call. We have with us Ms. Nisaba Godrej, Chairperson & Managing Director; V. Srinivasan, CFO and Company Secretary; Mr. Sameer Shah, Head Investor Relations; Pratik Dantara, AVP, M&A and Investor relations. Over to you Pratik.

Pratik Dantara: Thanks Jay. Good evening everyone. We hope that you are staying safe and healthy. Given the exceptional circumstances created by COVID-19 outbreak we are still presenting the results to you from our respective homes, so please bear with us if there is any technical glitch. We will start with Nisa sharing her perspective on the business performance. Over to you Nisa.

Nisaba Godrej: Thank you so much Pratik. Good evening everyone. I hope you and your loved ones are safe and healthy during these difficult times that continue and thank you so much for being with us on this call today.

GCPL delivered a strong performance in Q2 with all our clusters recording positive sales growth. Our overall sales grew by 11%, EBITDA and PAT excluding exceptional items grew by 19%, 83% of our global portfolio was Household Insecticides, Hygiene and Value For Money products and they grew by 17%, Hygiene had an excellent growth of 27% followed by Value For Money products which grew by 22%. Total Household Insecticides was steady at 6% partly impacted by supply chain issues due to regional lockdowns in India. From a geography perspective we have seen positive sales growth across all our clusters. India recorded a strong sales growth of 11% led by Hygiene including Soaps. Overall rural grew much ahead of urban. Indonesia delivered a soft performance with a growth of 3%, this was impacted by large scale social restrictions in the last fortnight of September and down-stocking by select modern trade retailers. Our Africa, USA and Middle East business showed robust recovery with a growth of 10%. We continue to lay the building blocks with sustainable and profitable sales growth in the subcontinent.

Household Insecticides have been one of our biggest growth pivots and grew steadily at 6%. The performance has partly been impacted by supply chain issues due to regional lockdowns in India. We recorded much higher secondary sales growth in India. We continue to reap the benefits by very strong innovation pipeline and product portfolio serving consumers at all price points. We are also investing more behind consumer education in disease prevention. We have been laser focused on growth and innovation in our Hygiene portfolio including Soaps, which grew at 27%. We also showed strong recovery in Value For Money products with 22% sales growth. We

continue to have a strong balance sheet and remain more watchful than ever on receivables management. Working capital days have reduced by 12 days primarily driven by the reduction in receivables across clusters. Net debt-to-equity ratio also reduced to 0.17.

I am pleased to share with you that our teams have been on top of their execution game. I believe we were agile in resolving the supply chain challenges and serving our consumers. We are using this crisis as an opportunity to digitize more rapidly and grow more strongly in channels like e-commerce and chemists. As always, our values matter the most at this time, we are committed to enabling the safety and well-being of all Godrejites and serving our consumers and communities with our full hearts and minds. 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 Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the Africa, USA and Middle East business which showed very good recovery of 10% sales growth, wanted to understand how sustainable is this? Should we expect double digit growth going ahead in every quarter? The EBITDA margin dipped 110 bps because of the higher salience of braids, Could you explain why braids have grown faster? Was it a conscious strategy and when can we see margin expansion in this part of the business?

Sameer Shah: I think to begin with, as we had shared last time around also that we are laying down the building blocks for a sustainable steady sales growth. 10% sales growth in last quarter was led by West and Southern African market. We will want to continue with those investments, which have driven growth over there and also continue with the go-to-market initiatives along with new product launches and hence drive innovation led growth over a period of time. One of the reasons why the margins have been relatively down on a YoY basis has been higher saliency of braids and that is partly driven by consumer preference at least in the last three, four months in terms of shift more towards value formats within hair extensions. We are seeing that shift gradually changing as we see the performance sequentially improving month over month and hence, we do not expect that to be the reason for any margin erosion going ahead.

Abneesh Roy: My second question is on Household Insecticides in India. Sales growth of 4% was below expectation. Hence wanted to understand this because the partial lockdown or regional lockdown as an issue has not been pointed out by other FMCG companies and you must have seen the good growth I think delivered by most companies and your own growth being decent in Soaps for example. Why should the regional lockdown impact only this part of the business while it has not impacted the other listed company that grew in this category by 20% plus? Could you explain that bit and did you lose out on opportunity because of this?

Nisaba Godrej: So let me start of by just qualifying that in Household Insecticides we were not particularly happy with our own performance and we were expecting to do better especially because trends on health and staying safe is quite strong. That being said and the stock issue is one issue, but what happens is that in Household Insecticides Q2 and Q3 tend to be the more salient quarter in the year. Meeting demand in Q1 is actually easier than in Q2 and Q3 because your factories have

more capacity for a less salient quarter and what actually happened is we had a regional lockdown in Guwahati for 21 days where a lot of our Household Insecticides production happens which impacted us quite badly. We felt this pinch much more specifically in August, but September and October again have been strong. Like Sameer said secondary growth was also quite good. Our new innovation is doing very well. Some of the longer-term trends like illegal incense sticks are definitely on a backward trend, we are doing more work there and we are seeing things like cockroach and rat penetration increasing, aerosol penetration also sort of drove demand. So the lockdown that factory did impact us and we are hoping to see a much better performance in Q3 on this category.

Abneesh Roy: Nisa just two follow-ups, what percentage of our manufacturing takes place in Guwahati in Household Insecticides and would you have lost market share structurally because other players would have captured that and any plans how you get that back?

Nisaba Godrej: I cannot give you the specific numbers of what percentage of manufacturing is from Guwahati. On your second question, we would have overall probably gained shares in electrics, but we might have lost shares in coils and aerosols because of this impact, but I do not think it is structural. Our shares in the aerosols are extremely high and even in coils our relative market share is huge. We will focus on our product innovation, serving the consumer and Q3 should be better.

Abneesh Roy: Just one last follow-up here and then I will move on. Even if we do not get into numbers, is there any price war in Household Insecticides? Anything to really get worried on the pricing front?

Nisaba Godrej: No pricing war. I believe that this is not the best performance like we saw in Q1 and also what we are seeing in consumer sentiment. I do not think this factory lockdown and supply is the only issue we face, but like I said September and October have been much stronger and we are quite focused on growth and the consumer sentiment is a tailwind. Illegal incense sticks being on a back foot is a tailwind. We are seeing other non-mosquito pests like cockroach and rat products are in high demand. We should not have any supply chain issues in Q3. Let us see what we are telling you in January or February when we speak next.

Abneesh Roy: Last question. You have done well in overall sales in India 11% growth, wanted to understand all new products on the Health, Hygiene platform in the last six, seven months, I see very aggressive advertisements on the print media and other media. Could you give a sense on the numbers, percentage of revenue or what is the contribution and which of those are looking promising in these initial stage?

Sameer Shah: Sorry Abneesh again I think we will not be able to share the numbers for competitive reasons, but what I may directionally share with you is hand wash is doing very well.

Abneesh Roy: New product is a general overall basket right last six, seven months or one year?

- Nisaba Godrej:** It is a mixture, things like disinfectant sprays, the toilet cleaners, floor cleaners doing well and do not forget Abneesh some of these categories had quite low penetration even pre-COVID and were growing at a quite good clip, so I think COVID has just accelerated the growth. It is a good opportunity, we have obviously chosen the peculiar categories and products that we want to add, channels that we want to go after very aggressively.
- Abneesh Roy:** Sure, that is very helpful. Thanks a lot, to Nisa and Sameer and the team. All the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from IIFL Securities. Please go ahead.
- Sameer Gupta:** Just wanted a little more clarification on the Household Insecticides performance in India, so if this is an issue with the manufacturing then is it right to assume that there would not have been any sales loss at the consumer end because I guess the distributors plus retail channel itself would be around 20 days and to that extent in Q3 there will be some up stocking impact back in trade because of this issue?
- Sameer Shah:** I think as we shared earlier we had much better secondary sales growth as compared to primary sales growth in Household Insecticides and the reason for that was partly getting impacted by lockdown related challenges, We feel that the stock levels with our channel partners are adequate and we should see steady state growth. The point over here is to continue building on some of the new launches like say Gold Flash or the good work on incense sticks or the cockroach solutions product to drive steady and sustainable sales growth. The start has been good so let us see how that shapes up over next few months and perhaps for rest of the year also.
- Sameer Gupta:** Just to summarize you are saying that the secondary has been higher than primary this quarter and that gap will not be bridged it might continue in the same way going forward also.
- Sameer Shah:** Absolutely because when the sales have been much better, growth has been much better than the primary sales growth in the last quarter.
- Sameer Gupta:** Just another question if I may, again on Africa, while there is a mix impact but when we had acquired this business some five, seven years back this business was already at around 20% margin and on top of that we had a wet hair care portfolio, which was even a higher margin. So even despite the mix, what kind of stable state margin should we look at in Africa now given the competitive intensity where it is and given the demand trends where they are?
- Sameer Shah:** So I think we have shared this in the past that strategically we would want to see anywhere between 300 to 400 basis points of margin expansion in Africa at least over the next two-three years. Even if you baseline it with say FY 2020 margins, we do feel that we have the drivers, in terms of thought process which will get executed whether it be cost saving projects, favorable category mix or the scale benefit itself. So we remain quite confident at least of that expansion

of 300 to 400 basis points over the next two to three years in the overall Africa, USA & Middle East business.

Sameer Gupta: This 300 to 400 basis points will be a mix of your leverage, your growth and your margin mix - is that understanding correct?

Sameer Shah: Absolutely.

Sameer Gupta: Thanks team thanks for taking all the questions. I might come back in the queue if I have any more. Thanks.

Moderator: Thank you. The next question is from the line of Nishad Karkare from Bay Capital. Please go ahead.

Nishad Karkare: I just had one question on the investment side, so if I see the standalone cash flow we see Rs 980 Crores investment into subsidiary and the consolidated cash flow shows a similar or rather slightly larger debt repayment of about Rs 1200 Crores. Firstly I just wanted to understand which cluster or geography does that pertain to and secondly we have in the past never really used the domestic business cash flows on the international side just wanted to understand what led to the change in that?

V. Srinivasan: As we had mentioned earlier as well, we had prioritized repayment of loans as a good opportunity now to go with and what we have done is that the surplus cash that we have in India, we have used it to capitalize these subsidiaries for repayment of the loans. That is what you see as investments in the standalone cash flows and the change is that we have surplus cash and today that surplus cash locally earns only about 2% to 3% if you have to put in a safe investment. Whereas when you repay these loans you are actually able to reduce your dollar cost by 2% to 3% and in the long-term also we will have a good balance between repayment of loans and keeping such surplus to ensure that we have adequate cash for our business growth.

Nishad Karkare: So, this is not driven by let us say lower than anticipated cash generation in one of the businesses and that required kind of some amount of urgency in debt repayment nothing of that sort?

V. Srinivasan: No, in fact we have prepaid some of our loans.

Nishad Karkare: This will be mainly related to the African debt, is that correct?

V. Srinivasan: Yes, largely our debt right now is mostly for Africa.

Nishad Karkare: Thanks a lot that is all from my side.

Moderator: Thank you. The next question is from the line of Kiran Naik from Mody Fincap. Please go ahead.

Kiran Naik: I would like to know what is our market share for different products we sell?

Sameer Shah: Again for competitive reasons we do not share what is the market share, but I can share with you what is the market leadership position. For example, in India in Household Insecticides category we are market leaders, we are market leaders in Hair Colors, we are the second largest player in the bar Soaps and we are also market leaders in Air Fresheners and mainly in Indonesia we would be market leaders both in Household Insecticides and Air Fresheners, so we are either number one or number two across categories in which we play in.

Kiran Naik: Thank you Sir.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Sun Life Insurance. Please go ahead.

Chanchal Khandelwal: Congrats on good set of numbers. A couple of points, firstly the Indonesia growth. Indonesia constant currency growth of 3% is on a lower side - is it because of the new social distancing norm in Indonesia and we lost some days in Indonesia and what is the growth one can expect in Indonesia going forward. Secondly is on the Household Insecticide - you lost 21 days and refilling may happen in this quarter but what is the category growth which happened in last quarter and what is the growth you are looking forward in terms of the category growth going forward?

Sameer Shah: I think let us start with Indonesia first. I think if we just look at the overall say FMCG category performance in Indonesia, over the last six months we have seen close to double digit decline so in that context you do think that our growth being lower than our own internal expectation, but at par given the overall context. Secondly, we also did see the impact of extreme social distancing norms which was executed in mid-September and remained in mid-October. Lastly, we also did see the down stocking by some of the modern retailers and that is something which we have seen even in the past they down stock and then maybe at some point in time they up stock. So these are the three, four reasons why the performance has been soft. I think at this point in time we remain cautious in terms of how the overall Indonesia business performance will be at least in very short-term, but structurally in medium-term we remain extremely optimistic of Indonesia's performance driven by multiple growth vectors whether it be market share, category growth, penetration, new product launches or even scaling up new category like Hygiene, which had happened in the last six months.

Chanchal Khandelwal: On the Household Insecticide in India?

Sameer Shah: I think on the Household Insecticide as we shared earlier also, it is also the secondary growth rate where better off than primary growth rate and hence to that extent we do expect our overall performance to be relatively better. It is difficult to estimate a growth number at this point in time due to multiple moving parts.

Chanchal Khandelwal: How has the category grown in this quarter?

- Sameer Shah:** The details which I have seen coming across from tracking agencies have been for a very short period of time. We had paused subscribing to the overall category data, but over the last two months we have seen category growth somewhere in low to mid-single digit, but again we need to take it with a pinch of salt in terms of how the overall category growth rate have been.
- Chanchal Khandelwal:** Just lastly on the Africa business, coming from a low base and you have multiple new product launches planned, can Africa be the growth driver going forward or with the new CEO in place how are things panning out?
- Sameer Shah:** Yes, I think the thought process is to definitely get profitable sustainable growth in Africa. The plan is to see steadiness in the overall sales growth. The pivots basically would be, go-to-market initiatives and new product launches getting executed, the margins profile moving up, the cost saving programs getting rolled out, so it is something which will pan out over a period of time, but yes there is no long-term without short-term in a way, so to that extent we will see gradually improved performance in African business here and now going ahead.
- Chanchal Khandelwal:** Thanks that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak Securities. Please go ahead.
- Jaykumar Doshi:** My first question is, you had fantastic growth in Soaps category in the current quarter so what is your assessment of market share in the current quarter and how do we see the trajectory going into October and November and any trends that you may have seen in terms of down trading or any other trends in that category?
- Sameer Shah:** We think our source of growth has been market share gain. Typically what happens is when you get into high commodity inflation kind of environment as we are currently, lot of local players sit on the fence and that gives opportunity to lot of the large players like us to gain market share. So definitely that has worked well for us and secondly our micromarketing initiatives very much continue, something which has been a growth factor for us over past twelve-eighteen months that has also contributed and last but not the least the thrust within the new product launches also, in Soap portfolio has contributed to this growth, so we do expect a good steady state performance in Soaps also going ahead.
- Jaykumar Doshi:** Given inflationary environment what are your plans to protect profitability for the portfolio? Any thoughts on price increases?
- Sameer Shah:** That is honestly not too much of an issue because we leverage our portfolio very well. We will also get more from the cost saving initiatives. We have taken some price increase at the fag end of quarter. We would be striking a balance between price increase and volume growth in this category.
- Jaykumar Doshi:** Is the growth trajectory likely to continue in October, November and how is it trending?

- Sameer Shah:** I would not be able to have a guess on that, but as I said earlier the intent would be to continue steady state sustainable growth momentum going ahead.
- Jaykumar Doshi:** If I may ask one more question on Hair Colors - recovery has been fairly impressive from 1Q to 2Q. How is it trending if you can give some color on what are the trends you are seeing and how should we expect it in third quarter, fourth quarter. Will the sequential improvement continue?
- Nisaba Godrej:** I think the sequential improvement should continue, we also had an extremely strong October in Hair Color on account of the festive time, even though people are not fully going out. We should see sequential improvement and are quite confident about it.
- Jaykumar Doshi:** Thank you that is it from my side.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from DAM Capital. Please go ahead.
- Rohit Dokania:** Two, three quick ones from my side. Can you talk about what has been the secondary growth in Household Insecticide in Q2? Is it possible to quantify that and also if you can talk about what kind of exit growth did we see in Household Insecticide let us say in the month of September?
- Sameer Shah:** I think again for competitive reasons we would not want to share a monthly growth, but on secondary growth what we can share is it was in double digits thereabouts, the momentum in September and October was good, the plan is to continue that momentum for rest of the year as we mentioned earlier.
- Rohit Dokania:** Last question from my side is - the difference between value and volume is 5% versus 9%, is it a mix led improvement or which segments are contributing that, could you please highlight that?
- Sameer Shah:** Yes, part of it is mix led across most of the key categories and secondly there was pricing impact as well. Within the mix impact it was category mix because in every category we have different realizations compared to the other categories and within categories also kind of formats and brands we should have different realizations and hence it shows an impact on the overall value-volume equation.
- Rohit Dokania:** So, it not attributable to one category?
- Sameer Shah:** No, it is very broad-based.
- Rohit Dokania:** Thanks a lot, and all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: I have got three questions, the first one is slightly philosophical. I just heard your comment regarding Africa which has now done well but Indonesia you are a little tentative with the near-term outlook, etc., and if I look at the last many years I think this has been really the story. The good work in one country is offset by some of the other issues in some of the other countries. Nisa this question is for you, like a lot of the other Indian born FMCG companies, you have also taken this call that you want some share of revenue coming from foreign geographies and I guess the intent of that was for them to be growth accretive to the Indian growth, but then if you look at all the companies that have this international exposure it did not really pan out that well and I would say that international operations have actually taken away from the Indian growth rate. Given a choice would you still be as gung ho about these foreign operations as the group has been when it started out on this journey, I am just asking in the context of the kind of volatility of growth that we have been seeing off late?

Nisaba Godrej: It is nice sometimes to be asked about this because we think about all the time, so actually thank you for your question. I think if you look at a country like Indonesia I would say by any parameter you look at it, it has been a very successful M&A and it will give us growth for many years to come. I still very strongly actually believe in the Africa story because I do think there are value for money products, good distribution and low cost manufacturing. In the last few years definitely the performance has really not been up to the mark, there are macro challenges but if we are honest there are macro challenges all over the world and the time COVID sort of adds to that, but I think we are committed to making this business work. We do feel that this has very strong long-term potential for GCPL. We also understand that there is no long-term without a short-term so we are working extremely hard to really acknowledge where were the missteps and where we need to put the fixes and I have in the last few months talked about getting someone like Dharnesh Gordhon, who is a very experienced South African leader, who is very experienced in operating on the continent, so I am feeling quite confident that we will turn this ship around. One quarter 10% growth is not like we are having a party, but it does give us a bit of horse power to say let us finish this year strong, let us put all the changes we need to implement and tighten our belts and get this done. So I do think the potential is there. I had spent time in these markets, there is lot of opportunity similar to India and the big markets like Nigeria and South Africa, so yes I hope to be delivering consistent performance in Africa quarter over quarter going forward while increasing profitability.

Richard Liu: My second question is that if I look at the LATAM margin they seem to have structurally gone on the higher side and sorry my definition of structurally that is just two quarters, the last quarter and this one, but we have seen very good margin from LATAM something that we have not seen for a long time. What are the reasons for this?

Sameer Shah: Couple of things Richard which teams have been working on ground, one is very structural cost saving initiatives, something which we have seen in India over the last five, six years is what we have cross pollinated to the Latin America business and that is resulting in significant margin expansion. The other is scale, if you look at the sales growth over last many quarters it has been quite steady and that is also driving scale leverage, which in turn is resulting in meaningful

margins and again I think we remain very confident of continuation of a strong profitable sales growth in Latin America business even going ahead.

Richard Liu: What has changed that is helping the growth profile in this country because I was saying that of three geographies this was probably the most volatile and this seems to have really settled for the better?

Sameer Shah: Yes, directionally what has worked for us is strong volume growth and of course the pricing growth. For pricing you have to be clear and whether it is clean currency depreciation led pricing impact or is mix as well as tactical pricing growth so that is I think one thing, but again the route to market initiatives and new product launches have all contributed to this growth both in Argentina as well as in Chile.

Nisaba Godrej: Sometimes it is also from a management perspective getting your act together, stronger. We have done lot more work in general trade expansion there, managing working capital and receivables much stronger and actually the CEO of Argentina has now also become the LATAM head and he has fixed lot of these things in Chile as well, so it is also stronger operational management.

Richard Liu: Sure, thanks Nisa, thanks Sameer.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: I am sorry I joined a little late not sure this has got discussed already but just quick one on the India Household Insecticides portfolio, now you reported a 4% growth we understand there was some production related issues. If you could comment on how do you expect the category growth rates to really pan out going forward and how confident you are that the growth rates for you in this category could sustainably run at double digit levels and if so what sub segments will really drive that, that is my first question and secondly on Indonesia do we expect a low single digit kind of a growth to continue in the short run?

Nisaba Godrej: Welcome, we did get asked a lot of questions on Household Insecticides but very happy to answer yours again. I think from a category perspective like I mentioned earlier we remain quite confident. A few things that are happening and we also mentioned earlier that our secondary sales are stronger, September and October were also stronger, but I think looking slightly forward this focus on health is very important now and people are more conscious and paying more attention, wanting to protect themselves. We are seeing a big uptick also in the non-mosquito formats like cockroach and rat, we are seeing increase in penetration and in demand for formats like aerosol where we have very large market share and I think we talked about is previously the illegal incense sticks, duties have changed from 10% to 25% on incense sticks and we are also reacting strongly to them both from the supply chain side and the consumer side. Our new electrical liquid vaporizer, which is much more efficacious than the last generation one is doing well, the consumer feedback is extremely sort of positive, so we do feel there are enough

tailwinds to be confident about. In terms of Indonesia I cannot give you guidance on the growth, but I think from a macro perspective, from a lot of the geographies we operate in we have seen some of this COVID impact and all playing out quite strongly there. I think it will be a tough year for the business overall.

Latika Chopra: Sure, thank you.

Moderator: Thank you. The next question is from the line of Rohit Chordia from White Oak Capital. Please go ahead.

Rohit Chordia: Just couple of questions one is if I could get comments on trends in some of your new categories, Air Fresheners, second you seem to be also launching a few new variants and increasing your liquid detergent portfolio. Now that category has seen some uptick so are you getting more serious about that portfolio as an all season portfolio instead of just being a winter one and the second one is on the balance sheet side, you have seen the receivables number come down for most FMCG companies this quarter, is this to do with lower salience of modern trade and CSD right now and does this normalize as these two channels come up?

Sameer Shah: Firstly, congratulations to you on the new role. I think to begin with air freshener category per se has been sequentially improving as we can see from the overall category growth numbers, of course I think the overall performance for us also has been largely impacted by the overall slow category growth, but that is improving sequentially so we remain hopeful that there is gradual improvement and will continue even going ahead, though at a slower pace and perhaps the recovery at least, which you saw in Hair Colors for us. And liquid detergents for us historically has been more of a winter care portfolio, the attempt with the two launches is to make it more of a 365-day play and that is where this new set of launches and related inputs and investments are going in the market at this point in time. On the balance sheet front we have seen close to 12 days of working capital reduction and a large part of that reduction is driven by receivables and again for us it is quite broad based, it is coming from most of our countries. I do not think so at least for us it has been fully driven by slow modern retail channels sales because part of that has got offset by online, which also has a relatively higher credit.

Rohit Chordia: The e-commerce salience in India and how has that channel grown on a YoY basis?

Sameer Shah: So, for us salience in India for e-commerce hover by around 4% to 5% and the business is more than doubled for us.

Rohit Chordia: Excellent. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: I joined a bit late, so I am sorry if this question has been asked earlier and if they have then I am okay to look at the concall transcript. My first question was on the Africa margins I think they

have compressed YoY this quarter so just wanted to understand what the reason for that compression is and what is the outlook for margins going ahead?

Sameer Shah: I think the major reason for compression in Africa's margins was higher growth in braids. Braids have relatively lower gross margins as compared to other formats. I think going ahead for rest of the year we remain quite confident of margin expansion in Africa given multiple factors. One is we are seeing gradual shift in the format saliency and some of our cost saving projects are now reaping us rich dividends and we expect them to have meaningful contribution during the rest of the year. So I think at this point in time we remain quite confident of margin expansion for both the quarters in Africa.

Percy Panthaki: If the increase in braid salience has got to do with poor economic situation then that is not going to reverse so, soon right?

Sameer Shah: We are seeing those trends Percy. It is not like it continues for a few quarters, it started that way and it is not just the poor economic situation but also to do with salons which were closed in the lockdown, because formats also have its own interlinkages and we have seen that shift almost every month over the last three, four months. I expect also that shift to continue so at least that reason which was one of the major reasons for kind of downtick in margins will no longer be as prevalent as it was at least over the last five, six months.

Percy Panthaki: On wet hair care just wanted to understand in Africa, firstly whether it has a similar impact of COVID related economic disruption in wet and dry hair care or are they impacted slightly differently and also the wet hair care portion in USA, is that impacted or you do not see any significant impact there?

Sameer Shah: It is a very complementary category, so the impact is very much there. It is difficult to decipher that impact on dry hair versus wet hair because they are complementary categories. I am assuming both would have got impacted in a similar manner. In USA, we have seen much improved performance. The performance was extremely soft in the early part of the year, but over last two, three months we have seen good steady to strong performance and we expect that also to continue. We were also constrained with some of the backend supply chain challenges in the USA market and those are also largely behind us, so we do expect the wet hair performance in USA to be better going ahead.

Percy Panthaki: Lastly this Household Insecticide launch in Africa - can you give me any updates on that? Which countries have you done it, what is the initial feedback and what is the future rollout plan?

Sameer Shah: It is a big category. We have talked about it in the past and we have started our journey with aerosol plans in Nigeria. We would want to continue to invest, as you are aware this is a category which also needs two, three years of background work in terms of registration, product launches, and readiness in the different markets you want to get into, which is happening as we speak. I am sure we will talk more about it in the coming quarters once it reaches to a particular scale.

- Percy Panthaki:** Any initial learnings, etc. anything that you would be able to share at this juncture?
- Sameer Shah:** Too early Percy.
- Percy Panthaki:** Okay that is all from me, thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.
- Prasad Deshmukh:** I have only one question actually, so there is a sharp rise in e-commerce as you mentioned and if I have to look at the advertising per se, the advertising industry per se print media also seems to be struggling because of lack of leadership. I was wondering how your advertising spends now are adjusted versus pre-COVID and post-COVID in terms of mix TV print and digital and how do you think this will trend here on?
- Sameer Shah:** I think directionally our spends on digital has been moving up in current environment. It also is dependent on the category, it is not like all the categories can be digitally advertised because we have to also look at the target audience, which you want to connect with, but yes directionally for us I can share that our digital spends have actually moved up and continue to move up over last couple of years and the trend I think will continue also going ahead.
- Prasad Deshmukh:** So, if you must quantify how much percentage would be digital how much would be saying TV now versus say a year back?
- Sameer Shah:** Well again I think we would want to keep some of the things to ourselves
- Prasad Deshmukh:** No problem just one comment then as far as the ROI is concerned on digital spends versus say print media spends, how much would be the difference at the industrial level also should be fine?
- Sameer Shah:** Well I think again this is early to comment on Prasad. The market is to grapple with the ROI on investments whether it will be on traditional media or whether it will be on digital. There are different metrics in terms of clicks and then click conversions and so on, but to be very honest with you at even industry level the way to compute ROIs of different marketing mediums are still not very well established.
- Prasad Deshmukh:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.
- Vivek Maheshwari:** Just one question if I look at the performance till December, leaving aside the impact of pandemic, in the last eight quarter say Household Insecticides, the lowest number is minus 6 the highest is plus 17, Soap is minus 4 plus 26 and Hair Color is minus 4 plus 33. In general by design, FMCG businesses are more stable and more predictable and so over the medium-term

what will it take for growth in a tighter range because the last eight quarters were not really marred by any of those one offs demonetisation, GST was before that and pandemic is only from March of this year, so what will it take to have more predictable and a tighter range from a growth perspective?

Nisaba Godrej: COVID has definitely been there so I think that has some impact. I think that being said I would agree with you that FMCG needs to be more of a steady business. So as we go ahead this year what we do see is that we will have more steady growth and focus on keeping growth in double digits. In the past couple of years we have not seen growths in GCPL to be the strongest, we have been putting fixes in place, we have seen market share gains and we are dealing with COVID right now pretty successfully so hopefully we will see more steady growth going ahead.

Vivek Maheshwari: Nisa but the context also is because the number that I just read out are actually till December of last year so that is why I left March number because those were also impacted by COVID, but again just a follow-up to that I do not know if you have covered this already on the call since I joined late but let us say first quarter I did not get an impression that Household Insecticides will go down all the way from 27% to 4% at that time the feeling was that, that 27% is more like there is no one off, there is no channel restocking, etc., etc. conversely Soap you did indicate that there will be a pickup and things are getting better, but from minus 2 to plus 18. I think the volatility actually is something which worries me the most so any thoughts on that?

Nisaba Godrej: You are all complaining about the minus 2 to plus 18. I do not know when you joined this call because we have seen people are joining at different times, but we did talk about Household Insecticides, that we were also expecting to be in double digit in this quarter and there were some supply chain issues that impacted us. Our secondary growth were much better. September and October has been good and we are looking towards better growth going forward.

Vivek Maheshwari: Got it. Wishing you all the very best Nisaba and team.

Moderator: Thank you. The next question is from the line of Amit Sinha from HDFC AMC. Please go ahead.

Amit Sinha: I have just one question on the Indonesia business and if I heard you correctly what you pointed out is that this year is going to be a tough year for the business overall, while I understand and I have been listening to the commentary and clearly there has been extreme social distancing norms, which have been implemented in the country till last quarter your commentary on the country's business overall given that you have been doing extremely well on the Household Insecticides portfolio there was kind of positive, if not very positive. So wanted to understand, is there anything more from a business fundamental perspective, which is changing from the portfolio point of view and from the country overall macro point of view?

Nisaba Godrej: I do not think anything is changing, our growth in Q1 in Indonesia was 105 IYA and in this quarter it is 103 IYA. We were obviously very pleased in Q1 with both India and Indonesia being at this growth considering most companies were in de growth in Q1. If you look at Indonesian companies even in FMCG they are in de growth in Q2 also, so relatively 103 is good growth.

You all are asking how the market conditions are, it looks quite tough is what I said. We have a big air care business there, we are seeing the pressure on air care both in India and in Indonesia. It is not one of those categories that has tailwinds in these emerging markets, so there are pieces that we were working through to correct, by making it fresh and sanitize and things like that together. I do not think my optimism on Indonesia changes or has changed at all, but it is a tough year, I do not necessarily see us jumping to double digit growth next quarter is what I meant.

Amit Sinha: It was more of a general commentary on the macro not exactly for your business

Nisaba Godrej: I think the business there is very strong. But it is a tough year for all businesses there, and if you look at other Indonesian companies you will see that also. So actually the surprise has been that India in consumer product has actually recovered quicker and faster than expected. I would have expected Indonesia to also recover in a stronger way in Q2, but that has not happened.

Amit Sinha: Thanks, and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I had just a question on the margin front, do you have any target or any target that you can share on cost savings that you have planned and any plans around that how you are going about it given the current macro environment and not just on cost but also on this SKUs rationalization. Any thoughts on that front would be useful?

Sameer Shah: I think the cost saving programs as I was sharing earlier have also been cross pollinated to African markets as well as Latin American markets. On an average we do see savings anywhere between 4% to 5% of sales coming in of course part of it gets reinvested back for growth and parts goes to the bottom line, so that is the way we are looking at it and in India we are perhaps in the sixth or seventh year of this program whereas in Africa we have just started this journey and the way we want it to be more of continuous excellence program, which carries on for many more years to come in. SKU rationalization is important, we have done that in couple of African businesses at this point in time. Not just on cost savings perspective or simplifying your backend, but actually it also has immediate impact on the driving sales from your other SKUs because it free up time and bandwidth of your frontline team members, so we have done that. In India also we do that at regular interval and we keep on revisiting this kind of SKUs including the rationalization part of it.

Avi Mehta: Given the current palm oil prices, how has that been trending and is there any pressure that you are witnessing over there or how are you looking at that?

Sameer Shah: Honestly I am no expert on palm oil pricing trend, but the prices so far at this point in time around 750 level, it is 35%, 40% up and we have taken some pricing action at the fag end of the quarter and we are not too worried about it is impacting gross margins. We think that it is a good balance between driving volumes growth, having competitive advantage as well as ensuring that

there is not much erosion on gross margin front,. We are comfortably placed in terms of our covers as well as the pricing cost which we have taken.

Avi Mehta: Okay perfect, that is all from my side thank you very much.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: I just had one question on the new product launches, so if you could just help me understand in India what would be the proportion of growth coming from NPDs and the follow-up on that is now you are about 3 or 4 months from the state of launches that you had done, in your early opinion which ones do you think are more here to stay and which do you think are more tactical just to take advantage of the current macros?

Nisaba Godrej: Our innovation rate this year is in very high double digit but that is also because we have this new Gooknight Gold Flash Liquid Vaporizer machine in India. This is probably the highest innovation rate I do not know if we have ever been this high so that would be on the innovation rate. Again for competitive reasons I do not think we can say which are the new products that are going to be big and I don't feel too many of them are tactical, some of them you might like hand sanitizers that we played just without any differentiation are becoming very commoditized and very local driven market. If it is already a product that was there in the market and where you can bring in differentiation, at competitive pricing and with good distribution, there are lot of opportunities to grow but unfortunately we cannot say exactly which one.

Harit Kapoor: If I can just ask one more for the India business again if you could just give me a sense of what is the kind of recovery trend for the Hair Color business as you already seen, you did see negative price for the quarter, but through the quarter as exit rates go, how are you kind of seeing that now?

Nisaba Godrej: I think we are seeing positive trend and October was very positive in Hair Color, so we are seeing that category come back into growth.

Harit Kapoor: Thanks, and all the best.

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

Manoj Menon: Like what Percy has mentioned a little earlier sorry I also joined a little late on the call, I have two three questions. The first is, could you just comment about the primary and the secondary sales on Household Insecticides and Soaps?

Sameer Shah: The secondary sales growth in Household Insecticides as we shared earlier has been much higher than the primary sales growth and in Soaps it has been marginally higher than the primary sales growth.

- Manoj Menon:** That is great from a Soaps point of view. Household Insecticides, is its double digit, is it significantly better or is it closer to the reported 4%?
- Sameer Shah:** It is low double digit.
- Manoj Menon:** Point number two, some qualitative commentary on the new category entries whether it is home care whether it is baby care that will be helpful. What is the consumer feedback and where are you at this point of time?
- Sameer Shah:** Again it is too early to call out, we had a few of launches whether it be in hygiene and again within hygiene into disinfectants and veggie wash and even into bathroom cleaners, floor cleaners and toilet cleaners, but it is too early to call out at this point in time. The start has been good is what I can share over the last three to six months and we continue to invest because the point is not just to have a tactical play but make it more structural as a key growth vector for us over a period of time, so maybe at the right point in time we will be very happy to share more details on the same Manoj.
- Manoj Menon:** The point number three and that is the last question, any material changes in the market on the trade margins, consumer discounts, essentially more on the BTL side are not triggering the ATL part of it?
- Sameer Shah:** Yes it continues to remain at the lower end though I think it has gradually moved up compared to the first quarter levels, but still significantly lower on a year over year basis you can see that from our disclosures and it has added about 2% to overall pricing for the last quarter. We are still lower on a YoY basis and maybe the trend also continues at least for rest of the year is my view.
- Manoj Menon:** Got it. Thanks guys all the best. Good luck.
- Moderator:** Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.
- Ayaz Motiwala:** Before the question on Hair Color was asked, I was almost wondering if you are in the business because no one for the last 45 minutes asked this question on it, so thank you for clarifying that. The related question on Hair Color is, will you take some of the Indian businesses like you are taking Household Insecticides to Africa into other parts where you operate principally in Indonesia, focus on Hair Color or related such businesses of India into that geography?
- Nisaba Godrej:** Yes we have a brand called NYU which is fashion Hair Color similar to Expert Crème, in Indonesia. We also have quite a significant Hair Color business in Africa, focused it mostly in South Africa that has been sort of expanding so Hair Color is definitely a global category for us and obviously the Latin American businesses is heavily skewed towards Hair Color .

- Ayaz Motiwala:** Just as a learning on the Indian context, you have been in this business for a while, so do you see this business evolving into a much larger a business from a category point of view and we are being the big leader there, are you seeing other elements in the business?
- Nisaba Godrej:** There has been a launch that I have been actually very excited about this quarter, which is not in Hygiene or in Household Insecticides, but in fashion Hair Color. Globally the market there is obviously a grey coverage market but then there is a fashion Hair Color market as well. While in India it has mostly been a grey coverage market, we think the time is right for fashion Hair Colors and actually COVID will push that trend forward because with the people wearing masks and are not doing lipstick, the upper half becomes very important and fashion Hair Color can play a strong part in it. We have an extremely good, no ammonia innovation in fashion colors, it is quite hard to get that bright vibrancy without ammonia, so the formulation is fantastic and again it is value for money Rs.40, significantly above our creame, but still really value for money for that category. Hence we are quite encouraged by the early results and we think this could be something very interesting for the market. Building fashion and not just grey coverage is an interesting opportunity in India.
- Ayaz Motiwala:** On the Hair Color side of the business is there also a natural tailwind building up and is that going to affect your business positively or negatively?
- Nisaba Godrej:** We have a lot of natural ingredients in the Hair Colors also. We are the biggest natural Hair Color brand, which is our Nupur Mehendi brand, so you will see more things from that brand being launched, but I do not see any negative impact on Hair Color. Fashion is an equally important trend as Naturals.
- Ayaz Motiwala:** Sure, and just a small quick question to the point that Sameer you answered to an earlier question you said BTL has added 2% points to your topline is that what I heard correct?
- Nisaba Godrej:** That is right.
- Ayaz Motiwala:** Okay that is great. I appreciate your time and thank you very much. Have a good evening.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Pratik Dantara for closing comments.
- Pratik Dantara:** Thank you everyone. With that we would like to draw this call to a close. Thank you everyone for your participation and have a great evening. Stay safe and stay wealth.
- Nisaba Godrej:** Thank you so much.
- Sameer Shah:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.