



“GCPL Analyst Conference Call”

March 25, 2021



ANALYST: **MR. ANAND SHAH - AXIS CAPITAL LIMITED**

MANAGEMENT: **MR. DHARNESH GORDHON - CLUSTER HEAD - GODREJ
AFRICA, USA & MIDDLE EAST**
MR. SAMEER SHAH - HEAD - INVESTOR RELATIONS

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- Moderator:** Ladies and gentlemen, good day and welcome to the GCPL's Analyst Conference Call hosted by Axis Capital 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. Anand Shah from Axis Capital. Thank you and over to you Sir!
- Anand Shah:** Thanks Rutuja. This is Anand here from Axis and thanks and good afternoon everyone for joining the Godrej Consumer's conference call to discuss the business and performance and strategy for the Godrej Africa, USA and Middle East business. We have with us Mr. Dharnesh Gordhon who is the Business Head for the Godrej Africa, USA and Middle East business for Godrej. So without further ado I will just hand over to Bharti from Godrej to take over the proceeding. Thanks and over to you.
- Bharti Agarwal:** Thanks Anand. Good afternoon everyone. We hope that you are staying safe and healthy. Thank you for joining us today to discuss the Africa business performance and strategy. We have with us Mr. Dharnesh Gordhon, Cluster Head, Godrej Africa, USA and Middle East and Mr. Sameer Shah, Head, Investor Relations. We will start with Dharnesh sharing his perspective on the business and then we can open up for a Q&A. Over to you Dharnesh.
- Dharnesh Gordhon:** Thank you Bharti, and thank you everybody for being on the call, I really appreciate your time. Good afternoon, good morning, I am not sure where all of you are. I think the first thing is in these times that we are living in, the first question that we always have to ask is to see that all of you and your loved ones are safe and healthy and indeed, it is more than a year now since the global pandemic was declared and affected most of us personally. So, I appreciate your time. So just maybe resetting some context in saying that, in a way in our Godrej Africa, USA and Middle East business, it is really a mindset and what we have to embrace is that we have to win in our markets of limitless possibilities. So this whole question about everything can and will go wrong, but how do you grow a sustainable profitable business over time, and I think the first thing we always talk about as a team is about embracing values that encourage collaborative workplace and discipline. We see change rather than stability as natural and this whole drive to do more with less. So over the last couple of quarters, we have seen a good run, and I know we can use many adjectives, but we have seen a recovery across our Africa, USA and Middle East cluster of businesses, and we have seen this steady performance continue to begin to win more with our consumers in each of these markets. We have seen a steady performance with mixed growth, and the key areas from a geographic perspective was coming from our Southern

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Africa business, our cluster in West Africa, which includes Nigeria, Ghana, etc., and part of our East African business particularly areas like Tanzania where we are seeing stronger growth than the rest of our geographies. The USA business has also seen decent revival particularly in the last two quarters. It is a lot about refocusing and we have seen that when we do put the right amount of focus, we are able to win with our consumers. When I talk about focus it is really about getting the very basics right and strengthening our operational and strategic focus of the business, and about making sure that execution discipline is there. So when I look at very different parts, say how do we grow market share which means how do we grow, how do we manage cost and manage cash, and how do we build strong effective teams, these are kind of the broad pivots of some of the areas of focus. We have been seeding in multiple blocks to drive sustainable profitable sales growth, and one of the big projects for us is really the go to market opportunities. So making sure that we understand our channels more, the geographic play more, and how do our consumers get access to our products more, and in these markets it is really about current availability. Effective distribution continues to be the single most determinant factor of success in African consumer markets in particular where the retail market is extremely fragmented. COVID has got new dimensions and challenges, but we do see that our business opportunities to scale up across multiple channels, getting to be more direct, has to be complemented by serious discipline and execution and flawless execution is a term that we continue to embrace because it is about that. It is less of strategizing and more of doing and making sure it has done in the right way and with the right guardrails and right frameworks in place. So we are more and more becoming a multi-channel player, we continue to find ways of deepening and widening distribution, and in terms of discipline it is really from idea to launch. So when we talk about innovation, it is not the innovation or the product that is not doing well, it is through our ability to execute over a period. So overall we feel that our ambition is to have a sustainable double digit growth has to be guiding everything that we do, but we also actually start making choices on where to invest, how to keep our brand relevant, and in this area we are beginning to focus more on what really matters and what consumers really value and I was making a point about ambition by becoming a lens to guide our decision making. It is about making choices and making the right choices fast enough. So one of the areas that we look inside our businesses is that are we structured to do this, are we structured to be agile, to be focused and at the same time are we focused within that scale, and sometimes it looks like the things that are pulling a different end of something, but it is important to get those pieces right. So one of the rollouts that we have had very recently is we have began rolling out centralized category management structure and more and more we find that we are beginning instead of getting better execution, we have not been able to cross pollinate learnings across geographies where the consumer tangent is very similar with maybe change with local execution, but in general our offering is very similar. So one of the ways is that we roll out the category management structures

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across our hair extension business and we often referred it to as dry hair business. In our wet hair business which is hair regimen, hair color and hygiene, and part of this role is, how do we more and more allow execution to be locally tailored, but our offerings and category understandings to be cross-pollinated fast enough and across the geographies because we have often found that we are really learning too much instead of leveraging learning in different ways and this is very much from consumer insights all the way to manufacturing excellence, are we producing the right product at the right manufacturing level scale with the right efficiencies and this is what we are finding that given that centralized direction more it is allowing us and it is very much early days we have a lot of work to do in the ways of working, but we already begin to feel that this is coming through very nicely and it will allow us to focus on ways that have been different in a way to the past. So this centralized structure has become quite important. The other thing is we have also started to relook at all the operating models for each of the geographies and with the operating models they may be very different because you have tier one markets, tier two markets, what are the structures we have, what is the opportunity for more shared service leveraging. Leveraging shared service is more from an efficiency perspective, certainly from a cost perspective there, we should see those opportunities coming more and more. So we have many building blocks that we are putting in place and I think the whole point is we have to build today for the sustainable future and building is not just getting a sales target for the month, it is really putting the right things in place and using governance as a very important framework in how we are getting there and we have to build ecosystems that are sustainable over a long period. We continue to become more confident that the longer term potential of what we are doing is there and our ability to drive profitable double-digit growth is there as long as we keep on the one side of discipline, on the other side our entrepreneurial agility etc. When I talked about building strong effective change and I think this is another area of focus, I am very pleased, it has been a year nearly in the business and I think the teams have been very resilient. The agility that has been coming through is going to serve us much better in the long-term obviously. We will continue to focus on developing and retain the right talent. We made a lot of changes in the team over this last period because we have to begin more and more to transform into high-performing agile organization but having the right competence to meet in place, building capabilities for the future etc., become more and more focused. So one of the areas I even talked about is managing costs and managing cash. Very often we leave money on the table because we are constantly recalibrating our offerings. Where are the areas of high capacity of utilization that we should be using more. We looking at the entire manufacturing footprint, where we look at how can we drive less also we have less complexity and drive scale rather than many manufacturing setups all over the place and I think understanding that from a geography from an economic block perspective what are the transfer the duties etc., of import duty and more and more we begin to find that there are synergies that we can put in place which will help us. So I have said a



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lot of things, but that the most important probably the worst to describe it is yet to be a confident, yet we have seen things turning around in a way that we begin to feel more and more comfortable because it is not short-term. The building blocks will always be built and it will always need refining but I think building the ecosystem now will give us a long-term sustainable growth that I think hopefully we will all be very proud of one day. But we also have to fix the airplane while it is flying so it is not that you let go of short opportunities or the ability to at least get some profitable growth going now and I think this is what we begin to find because success leads success and the momentum and motivation of the team, the energy that is coming through now to deliver on the consumer opportunity. Opportunities are there and it is just how you get to that opportunity is really the choice not whether you seek that opportunity. I have tried to very broadly have a broad brush and I hope it was okay and I am happy to take questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Yes, hi Dharnesh. First of all, thanks for taking time out to speak with the larger audience, appreciate it. Just couple of questions from my side and I will come back in the queue. The first is when you considered this opportunity from a career perspective maybe 18 to 24 months back. Just wanted to get your thoughts on what are the strength, weakness and opportunities which you saw in Godrej as a group as the Africa business, which prompted you to leave Nestle let us say after 16-odd years. Just wanted to get your perspective and how did you look at it from outside before you joined. The second question is on the people part of it, I am sorry if I missed any comments in your opening remarks, anything on the people side, the culture side, etc., Now that you have just about completing 12 months, your initial observations, any changes, etc., and lastly if time permits the way you look at the household insecticides opportunity specific to some of the markets in Africa.

Dharnesh Gordhon: So, this is the probably the most challenging question everybody asked me is about why. When I was first approached with the opportunity and I did not understand the company, I had not done research and it was just an opportunity to build something which was exciting for me personally. But when you cross that with a company that has such a deep history the values of the organization and also the ambition of the organization is like, this is something that really appeals to me. It is like an adventure in a way that was made for my mindset and I am a guy who likes challenges and I like adventure but it is also important that you have the adventure with the right organization in terms of does it align with your personal values, are people that I can work with and do they have long vision and prepare to understand that. In order to make things happen in some of these geographies you need to play the long game and when all of those things started coming together I got really excited and part of it

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to be very honest a bit that I love Africa so much and I was born in South Africa. I would probably be in South East Asia and I knew where my next career move was. It was just kind of okay another move not something that was super different and honestly and I am here probably sharing a bit too much personally. I reached the age of 55 and I said okay, I have five years or ten years whatever left. Let me start doing something that I am going to enjoy and look back on. So it is kind of a not very smart logical way of deciding to join but I think it was just I had such a good feeling when I am at least, and I met way back etc., and then I visited India I just had the right feeling that I find myself, I can find a home here and we can do stuff together I mean obviously this was going to be challenging there was no doubt about that. I had to have this approach that is going to be fun as long as we stick to a game plan and we do think we are in the right way and that is why one of the first things I always talked about is balancing growth and governance because most of these markets especially developing markets you have to be as smart on governance as you have to be on looking at how do you grow the business because it is easy to sell but to collect cash is a big problem. Probably my own geographic experience helped. Obviously it was categories I did not understand but that was another challenge that means something new and different so it is kind of a schoolboy enthusiasm. It was just a good shot. I think you asked me another question on the household insecticides. Household insecticides has to be one of the biggest opportunities and we started to play last year in a more serious way because any part of the challenges there is a lot of technical challenges we face in terms of regulatory and there is quite a long time span to register products exceptionally be linked to that process. We have been having really good success in Nigeria for example with Good knight Smart Spray. We also have been growing our Zambia business very well in household insecticide, in fact we have had quite a big growth off a very small base, but one thing that you realize and especially if I go use Nigeria as an example, if you put the right effort, you will get the returns and we were playing with some different models and one is mainly from a brand activation perspective introducing the product and where we were investing and I think in a month or two when the full results will come out but you would see that that spurt of growth and the green shoots of a really good household insecticides business coming through. Nigeria has to be a focus for actually the largest opportunity for sure but we are doing very similar work in Ethiopia in Zambia but with a different models. So one playing is entrepreneurial enterprise model with dedicated distributors and the other one is we bring ourselves fully all the way to operations and really building a sizable business in the future and I think for me the massive opportunity certainly is Nigeria then obviously spreading to the rest of West Africa. And in Central Africa we already seen some success but with two very different models and also it is really understanding that the product offerings are different. For example I just discussed with my Middle East team yesterday about household insecticides for the Middle East and in the Middle East mainly in UAE etc., it is not mosquito that the challenge is, cockroach is the challenge. So making sure you

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understand that you have the right consumer proposition and let us understand that Good knight as a brand or HIT as a brand has different relevance and I think that kind of area of focus is coming to and honestly one of the reasons why I feel that success is coming through is because when we started dedicating category teams to be focused on this we see the results coming. So I know it is early days of saying the benefit of centralized category team but I feel that it is suddenly more focused, it does not take away from local execution and even local tailoring so we are not making a one size at all place I think that would be the biggest mistake you made. We are very confident that we know what it needs to succeed. It is not necessarily a cutting pace of the India success but from a technology perspective we have the right products we have right technology, it is how do we execute it in this in a smart consumer way with the right offering. We have had probably a very good year of learning of household insecticides and one of the plans is to double down our investments in particularly Nigeria on the brands.

Manoj Menon: Yes, thank you so much Dharnesh that was super helpful. Now I had one more which I had asked was largely on the people and culture. How do you look at the people part of the business just trying to understand your people strategy in Africa.

Dharnesh Gordhon: Look the one thing is the super talent available in Africa. We also have to be an organization that can appeal so we make in Africa we do not have as a company we do not have the name that a Nestle, Unilever has because people always went to the traditional MNC's right so this is one of the areas on how do we attract some talent and honestly one of the big changes we have had is we have brought in a lot of new African born talent across the spectrum in senior roles and we have seen that value because there is no better if you get the right talent who understands the market intimately with also having the right value then it is a recipe for super success. It will be very interesting if you look an organization from a year ago to now across the highest level to the middle to the lower to lower and you will see a lot of good African talent coming through is joining us and I already see some advantages. Even from the finance perspective somebody's team is now getting a lot of local talent coming through and it is not just about local and not local I think it is we shorten the learning style of the market if you bring local people who get to understand the context because there are different cultural clinics and there are different things from a consumer perspective also the way business is done etc. So this local understanding has tremendous role and also we want to be seen as somebody that is attractive for everybody and when we talk about equal opportunity employer in a way is also about building a brand name of Godrej in Africa and being someone who is, I am not just a mid lower white color or blue color employer, I am also an employer of super talent and I will bring in leadership and African leadership into more and more leadership positions. So it is really interesting if you see before and after and we are not even begun to

take our journey but more and more I am beginning to be confident that we can attract the right talent and later on we start cross-pollinating if somebody from Nigeria can go to South Africa, somebody from South Africa to go somewhere else so allow that kind of integrate to happen as lot.

Manoj Menon: Thank you Dharnesh, truly helpful all the best, good luck.

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

Percy Panthaki: Dharnesh, just wanted to understand what drives growth in your business because in the last few quarters the growth has picked up back into double digit, but before that for quite a few quarters the growth was really low. So just wanted to understand all these gyrations that we are seeing are they mainly explained by environmental or macro factors or is there some business specific explanation which is a larger contributor to these gyrations.

Dharnesh Gordhon: Yes, obviously there could have been macro factors and in the first two, three months maybe there was some supply chain challenges from other people. But, if you look at most of our competitors, most of them are local anyway. So if I have to start singling out a few things, one is, really focusing on the route to market. So our go to market, where, are we just a distributor, wholesaler, push organization or we understood off take, so driving from being a sell in to become an offtake organization, that it is not just loading a wholesaler with your product and you do not care whether it actually sells out of your store into the retailer and of the retailer even if it is into a sellout. So I think getting the team to start focusing on if you build off take and you really spend the money where you are supposed to spend giving return when you go to your distributor and to the wholesaler and there is not enough funds to drive the consumer awareness of your offering to drive brand activation etc., again all you are doing is what you call BTL. I would rather come to an ideal world where it is purely replenishment based on consumer off take. So I think kind of refocusing some of our efforts on building the consumer. Also a lot of stuff that we started to do was we realized that the distribution gaps we had and Nigeria is really a case study if we have remapped the entire route to market and we have put in an entire new distribution network which includes sales bands Okada, Okada is like a motorcycle sales vehicle etc. So we started doing that and the growth comes. So it is really interesting that we realized the pockets of areas that we were just not available, how can you get a consumer to buy your product when you are not even available in the store that they go to or even the salon they go to etc. It is a long haul, it is not something that can happen overnight but it is pleasing when you see that the transition. For example in the city of Lagos alone we have such distribution gaps where our head office is basically, our team says we should not be having

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it, but part of the thing is we did not go to the last mile. We were really probably just getting to distribute to a cash and carry kind of arrangement without driving distribution to the last mile and that focus has been across the cluster. We had different levels of success because it is also to do with what is the trade structure. Something's take longer. It is also about do we have the right people to drive the right route to market initiatives and this is an area we have a lot of competence to be built. We have a lot of training that needs to happen because we do not have a well sales machine today but the success we have seen is coming mainly from those efforts and I think this is what allowing us to get the growth. I can only say it is smarter marketing but to be very clear it is really giving the basics of distribution, numeric and weighted distribution, getting productivity and also understanding pricing a bit more because we do two things, one we leave too much money on the table, we do not price much enough or we outright ourselves because we have other efficiencies. So trying to figure that out and also making sure that we watch the products because one of the challenges we have and if you do not take incremental continual pricing you could find yourself on the wrong end of the stick because you do not have a sustainable profitable growth and I think this has been the other thing. So I think probably if you only allowed me to say one thing I will tell you it is route to market. Yes much more sharper consumer focus, understanding what are we spending on in the marketing mix and making choices because we were trying to do too many things all over the place and sometimes choosing the battles in a bit more even when it comes to the number of SKUs we have so many products some of it does enough focus really becoming saying okay what is the optimizer that we need to have in the business and making sure the ranging relevant by channel sub channel etc., Honestly the agility to quickly transform in go to market has been one of the key successes that we have seen.

Percy Panthaki:

Very interesting Dharnesh. Just some questions as a follow-up on this one. Firstly, how far are we in this journey of getting a better route to market or would you say across all the countries that you are present in as a whole as an aggregate would you say you are like 30% into the journey 70% is remaining or is it vice versa. Some kind of flavor if you can give on that and secondly is if you can also give some numerical quantification of this route to market in terms of let us say when you came in what was the total number of outlets you were reaching directly versus wholesaler and how that percentage has changed and how it will change over the next two three years as well. So that would be very useful Dharnesh.

Dharnesh Gordhon:

So the first thing I have to apologize for the fact that because it is serving many markets the playbook is very different and we have to make choices in the beginning and I think when you see some of the really good growth coming from some of the what we call focus markets is because if you do not get South Africa right and Nigeria right and Kenya right and the US right, if you do not get that right and you start spreading yourself through them

across, so you never and the question you ask is actually a super difficult question to answer because the ability to access data across these very fragmented markets even in a country like Nigeria you can get a good chunk of maybe Lagos and Abuja but the minute you get beyond into the second tier cities you have zero clue because you know, so you can have to do all these franchise. So how do we create our own sales tools to get the kind of data etc. So I am really sorry, it is about city it is not even about country and the challenge is so we have seen and we moved maybe in percentage terms in Lagos alone by over 25% distribution gain in the last six months and that is one. I can only talk about one city because if you start extrapolating that and saying what is the next battle and part of the reason is it takes time, effort and the talent and we have had to come building this the talent to be able to scale this up. South Africa has a very different place. The trade is far more organized in South Africa. We have to be more smarter about talking category management and most of the retailers that you play across multiple channels so you are going to shop right from South Africa market all the way to a cash and carry store. So understanding that even amongst a single customer in South Africa it is multi-channel player, what is the category talking, what is the category discussion that allows you to become a partner of the retailer will get you the distribution whereas Nigeria is very different or Kenya is very different. So I think the challenge would be it I mean if same question you ask and I wish I could have the answer because if I could find some way of putting all of this into one data set and at least by channel is not even by geography, by geography, by channel like obviously, my own personal assessment and please this is coming from intuition and instinct and my own experience without because no one really knows you cannot say you would need some cannot give you a richer universe they give you an idea but you can pick up generally like about 30% right so I would say nearly around 20%, 22% this new distribution and the idealistically you say 200% is the target but you also have to understand that this economy is of scale the cost itself may be about handicaps you later so what is your distribution ambition it depends on the geography but for example in South Africa you should get a 85%, 90% distribution because the way other trade structure in Nigeria if you get to 40% numeric distribution you are doing well so I am really sorry but I will we have to do the team and I have been trying to figure out how to quantify it.

Percy Panthaki:

Just a very general statement if I can make Dharnesh is that there is still a lot more to do in this route to market journey. It is not as if you have put in place most of the actions already on the ground right?

Dharnesh Gordhon:

No, we are still at the starting gates to be very honest. We experimented with a van sales model in Nigeria, we first started in Lagos and it has been amazing. We were getting into neighborhoods, our distribution so it is so encouraging. Now the question is obviously you need capital to drive it further right but at the same time it is a watch out because it is an

operation so you need to make sure you have the right governance, the right management because it can also run away with you. So now the team has come back and I just talked about the Nigerian team, we have come back with a right scale-up plan which is adding 20 brands for so many months by the next quarter, so they have come with scale-up plan over the next 18 months and then we say okay now let us pause and let us see what has been the cost to serve? Are we getting the return for their investment? So far we believe it is a great model. One of the things I am going to try now in Kenya is I am going to ask the Kenyan people to borrow some of the ideas of the Nigerian team and let us do a pilot in one city. So there is a lot of experimentation going on. Also because we have this portfolio that tangent in one way with the hair extension that is very different to the base FMCG, so you start having those multiple channel but also the fact that multiple categories, so that is why we experimenting more and in a way if you are I am not probably not designing a new unique thing but tailoring a route to market by what is relevant to your category and especially with the hair extension business which we are beginning to have more and more success and honestly at the same time bringing back discipline has gone up. I think if you ask Sameer why he is happier, the most obviously Sameer loves the growth but he is also happier that we have become much more tougher on our accounts receivable, much more discipline in the way we are managing cash because the problem with route to market also is we can start spending like crazy and you do not get paid two months later then it will become a bigger problem. So calibrated and responsible is probably the right way to for me to describe. So if I tell you a timeline, in our focus market it is minimum an 18 month journey before we say that we are comfortable and now let us scale up to the second tier.

Percy Panthaki:

My second and last question Dharnesh is on margins. When this business was acquired about seven, eight years ago, we were told that the margins are high teens or close to about 20% at EBITDA level but then they kept falling and went into single digits as well. Now they are in low double digits. What is your vision for the margins of this business in the medium-term let us say three year kind of horizon?

Dharnesh Gordhon:

Look I was very happy to even extend the discussion to get something to be part of it, but let me start with this one premise. If we want to play in markets that are tough and we want to win in markets there we cannot talk about anything less than double digit margins. You have to do that right thing and getting to 15%, 16%, 17% has to be the goal otherwise and it comes from two things, one is better pricing, better consumer offering, but it is also about fixing operational challenges. But if you talk about over a long period we have to get to that kind of saliency and then can say you have really begun to succeed in these markets and I think this has been definitely the direction and definitely something we are very serious about doing and we are beginning to ourselves understand what is the pathway to that kind of stuff. So I do not know Sameer if you just want to say a few things.

Sameer Shah: No I think Percy we have called this out in the past right that ambition is to scale upon margins but I think the pivots would be more critical to be understood and discussed and it starts with scale. Because moment we get scale we get growth , a natural fallout of that will be margin. The other pivot to margins also will be value upgrade or premiumization in our own way and we do have the portfolio and even within portfolio like hair extension there is possibility of upgrading consumers and last but not the least there is cost saving programs something which we have seen within larger GCPL set up in India, Indonesia over past now five to six years is what is getting this cross-pollinated in multiple countries in Africa and this being just the first year. So we do expect there is huge amount of steam left over there on creating a pool, part of which gets reinvested back for growth and part of which will also expand margin. So, yes from whatever 10%, 11% kind of base margins where we are at this point in time then we shall used to take it to at least 17%, 18% over a period of next kind of four to five years.

Percy Panthaki: Very helpful Sameer and Dharnesh. Thanks a lot.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Congrats on very good recovery in the business both on sales and margins. My first question is you mentioned because of COVID dimensions and challenges so wanted to understand what are the changes in consumer habits or the product category you are seeing because of the COVID, because of the lockdown, because of any wave two, wave three happening. Similarly on the margins if you could comment. So both my questions are on the current state of the business, so the margins we are seeing inflation across raw materials so if you could discuss how the inflationary pressure is there in your business?

Dharnesh Gordhon: I think the first point is that consumers definitely have been changing a lot of the patterns and it is different. I think the e-commerce in some categories that definitely have a higher savings and one of the things we started like a DTC campaign and we have seen the benefits of that. The other area which I know sounds a bit strange, but in Africa there is an opportunity for premiumization and this is another area where we think what are the value up opportunities so we think consumers are saying that we want something that is more value, we do not want necessarily just want cheap on the one side and the other side is obviously with people unemployment on the rise inflationary pressures etc. We have to be much more closer to the ground and I think this is really understanding where the consumer profits but one of the plans we have going forward especially in the big changes we have and it is hard for me to make a broad brush comment because we have gained so many different categories but definitely self help in terms of consumers doing more by themselves

rather than going to a salon as an example, become an important thing and how can we provide solutions for the consumer in terms of I cannot go to a salon as much as I used to. How can you help me to create products that become easier for me to do at home. So do-it-yourself as a one broad consumer thrust we are seeing in our hair care, in our hair extension, hair fashion businesses definitely coming through and I think this is something we have to watch at the same time pricing and I will just let Sameer talk a bit more about the impact of the inflation and margins.

Sameer Shah: Yeah thanks Dharnesh. Now Abneesh I think there has been marginal inflation especially because of crude and also because of increasing global logistics cost because there is good amount of imports which comes in, in most of the markets in Africa. Thankfully there has not been any inflation challenge because of sharp currency fluctuations. Most of the markets have been extremely stable over the last year or so. In fact some markets like South Africa have seen currency appreciation than depreciation. But I think the point is to be smart on pricing right because that is going to be very critical, how do you strike a fine balance between passing on the increase in input cost through pricing in parallel also driving strong volumes growth so that is going to be the model. We also would be placed at a marginal competitive advantage compared to a lot of our peers. That is because we have back-end manufacturing facility compared to a lot of our peers who are also importers. So the impact of inflation is relatively higher for them as compared to what it is for us. So we also get opportunity actually in high inflation scenario to again gain market share. But, yes, at this point in time we are not only worried in terms of inflation impact especially on margins. My sense is scale as well as smart pricing and last but not the least costing programs should get our margins moving up.

Abneesh Roy: My last question Dharnesh. So you have been bearing this business for four quarters I am sure you will be prioritizing even the scale of the business. So is there any business or say any geography where you want to be focused or maybe even divest at some stage. Could you share anything you want to put in the public domain on this.

Dharnesh Gordhon: Yes so I think the first one is about where to focus right, and honestly I have this whole philosophy which hopefully is right if you want to bring in the biggest market and the biggest market is by giving so if we really put the right things in place, the right focus areas. I personally lived in Nigeria and I personally have run a business there and I just know the possibilities are there tremendously. Obviously you have to do it in the right way and I think this is where you can get so excited about the opportunity and you forget to put the right governance framework and that is when things go wrong and most people have failed. It is not because the consumer opportunity was not there. So I think balancing those two is important but definitely absolute focus for us would be Nigeria. US I know I am not talking

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about Africa, but US has so much opportunity and we begin to see some really good changes happening now. I am so excited in the last couple of weeks we finally got into WalMart with our hair extension business. With our first entry into the US market and WalMart has given us exclusivity for a year in the category. Obviously it comes with a lot of responsibility to get it right, but that if we get it right, it will be a game changer because we actually would do a new category is a new geography which is exciting. The value opportunity in that in the US as opposed to Africa is so much more advantageous. So there is an opportunity and highly competitive so it does not mean it will be easy. So I think that South Africa will always remain one of those areas where we have under realized our opportunity and it may not be as sexy as Nigeria, but at the same time you have to play and you have to scale your business to a certain level and I think we still have a lot opportunity in South Africa. When it comes to defocus, this is a big challenge. When I talked in the opening address about business models, so we have to become smart and really more tough on making choices that, is this a fully fledged business where we put the entire team that we focus or is this business more an enterprise model kind of a business which is a dedicated distributor we become a supplier and surely maybe build up some consumer demand. But I think that clarity of choice has not been very clear in the past because we have been trying to do too many things all over the place and I think this clarity you will find coming in, but definitely a part of our restructuring or refocus will be making those choices and one of those is also how much of back office are we leaving everywhere which we could be synergizing and creating shares of the senses as another way of becoming more efficient in some of these markets. But absolutely the right choice of what not to focus on is as important as what you focus on and it is hard in a way because you got teams there and you got some historical sales etc., but the choice of you can do it all but with a different business model and I think this is what we are going through as a team now in remapping.

Abneesh Roy: Sure thanks, that is all for me. Very helpful, thank you.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: I am going a bit off tangent out here, but my question is that to us as outside observer GCPL Africa is really a hair care business right and a hair care business trying to get into HI and we look at it that way because Hair Care is what GCPL acquired when they entered into Africa but with your experience and understanding of Africa more holistically do you at some point look at repositioning that business as a more total comprehensive FMCG business rather than one which are present in these niche areas only or like you mentioned that there is no brand recognition for GCPL darling like Unilever or Nestle had that would be too much of a long shot.



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Dharnesh Gordhon:

Yes, so, I am answering this question by saying that one of the reasons why we decided to put a very focused centralized category teams because the one focus would be how do we scale up a brand. So I think the other issue is that 60% of our business is their extension and the rest is what you would call FMCG, but the opportunity on that is there and the question is who does what. In the past the way we were structured is everybody was doing everything and then we do not get the focus. So in the way we restructure the organization and restructure the team. It cannot be everybody is doing everything. To be very honest I mean when I joined, I started with this philosophy we have to become an end company, we have to do a extension and FMCG, we have to grow top and bottom line. Later on I realized okay hold on it is all cool but this needs a different way and we need a little structure and I think this is the journey we are on now because the opportunity is there and especially when you think about what can we leverage, we have certain strengths, category strength and knowledge. If you look at the knowledge we have in HI, in soap etc., even in hair color from India, how have we been leveraging the knowledge because we have amazing knowledge from technical, the consumer insight and how can we leverage this at the same time tailor for local execution and even if it means exchanging the product but basically the product is the same. One of the barriers we have had is, just to illustrate I will tell you imagine the daily life of a brand manager who for first half an hour talks about hair extension next half an hour talking about HI, mix up and you never get that focused. I think one of the ways of us driving that was to create the right focus structure and I know structure does not do everything but I think it will give us some clarity and we hold the right people accountable for the right category play and at the same time understand it in our route to market we may have two very different because it is about channels and it would be a speciality channel for extension whereas something else and yet in some markets if I just talk about WalMart as an example because it is the same thing for Africa and if you find a retailer that is having all your categories. So at the customer management level you can talk the same thing that at the category level and how do you tell your category differently so we feel that one of the ways to make our life easier and maybe we will get it right is let us refocus the team, let us refocus what people to understand the few success factors what is your KPI and if your KPI should be everything to everybody it is never going to work and I think so this is going to work. Maybe we are just too close to it and we feel that it is the right depth you have but I think this will allow us to do what you are talking about because we can definitely do both I think this is the key we feel that okay guys we are wasting our time let us just become a hair extension business then okay that is a different discussion but I can only see it because look other people have done it, so what is the rocket science. The rocket science is making sure you put the right focus because it is all about focus.

Richard Liu:

Okay got it, thank you, that is all I have. Thank you, wish you all the best.



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

Avi Mehta: See at the start of the call you highlighted that the way to succeed in Africa is on ground execution and in the mid of the call you were also clearly highlighting about the difference in geographies not just the country level but even at a city level and just trying to align these two data points with the organization structure where you are talking about category would it not entail that a geography focused organization structure would be more able to drive growth. I just want to understand what am I missing, if you could please help me.

Dharnesh Gordhon: It is a great question because it is the same question everybody has asked us and we have asked ourselves and I think the way for me to describe this is the freedom of a tight group. In other words execution has to be local but when we talk about developing a new product or getting broad consumer insights where is it coming from and what we found is everybody was reinventing the wheels if I may say so everybody was recreating products. Let us say from a certain type of crochet or a certain type of weave, it is not unique to the geography. The way you make tangent to your local communication or your route to market may be local. So I think this is what is the broad consumer insights that you can leverage right and then if you dissect the two things of saying this is local execution and you focus on that rather than everybody becoming a strategist and I think still the point was everybody was doing analysis and becoming a strategist rather than doing. The whole idea was if we see a big sales and we have done this in the past we have seen big sales happening and but we did not scale it so it took like six months for Kenya to learn about a certain style of hair that was already been successful in Nigeria why did it and yet our competitor in Kenya started doing the same thing so we left an opportunity because we did not learn from ourselves. So this cross learning is important and so when I talk about centralized category structures it is important that it does not mean that the local teams do not have the P&L responsibility, the local team does not have the execution or by the way even the opportunity to challenge their look this product in the way you are giving it to me does not work for my market but what I want is that the broad category principles, the playbooks can be very open. The local execution of the playbook because often times we are reinventing our play book. Can you imagine we talked to an agency about a communication plan and if I have to do the same thing by market it just does not become effective or efficient in any way. The key of this is the ways of working and this is one thing, that the message to the team is structure but the ways you work so it does not mean that the role of a central category team is direction leadership sharing ideas etc., it is not doing the job that the local team is supposed to do. So it is somewhere in between and look you think I have experienced this thing working right but and I do think if we way out what it can give us as long as it does not become prescriptive I think this is the key it is not prescriptive that



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whatever somebody sits in one place whatever they tell me to do I would have to do no because I have to allow the local CEO, the local team to have the opportunity to say we like what you are giving us however we feel it should be this. So there is that element of local so when I say execution I mean that part of that, but not from total concepts development to total innovation development that is what we found a lot of everybody was creating and you realize a lot of people in different markets are creating the same thing. The end game or the consumer solution was the same but we wasted a lot of time rather than learn from each other so we were not connecting our own dots in a way.

Avi Mehta:

If I may I mean the way then forward would be typically when you have a central category team you tend to kind of start applying Pareto's principle and then you have a situation that you focus on the key markets because that is where the growth would come in that is where the scale would come in for the category so would that be the playbook that you would start to kind of look at, that the larger markets become more the focus area rather than smaller markets.

Dharnesh Gordhon:

Yes, exactly right because this question about if we just playing an enterprise model in let us use the word second tier or third tier market where it is mainly distributor led opportunistic play, I would not want the category team focusing on that because we have to know the consumer first and we have to build scale. In the ideal world if we get Nigeria to be double, South Africa to be with 35% more than what it is today and when we start getting there, we can then focus elsewhere. So in the next 18 months for sure it is really for big markets total focus it does not mean the other stuff would not happen but I do not want to start using money to invest in consumers and then use the example why would I exactly Zambia and Uganda for small returns when I would rather keep the focus and even the marketing investment where the multiple opportunity is even greater in Nigeria.

Avi Mehta:

And sir lastly if I may Sameer when you say scale then does this flow into scale being more geography driven rather than an overall basis is that how is the right way to look at it Sameer.

Sameer Shah:

Yes, I think it will go hand in hand. The large markets should get a scale and they are a relatively large one right in the overall portfolio. For example Nigeria today itself would be close to 25% and best cluster which is Nigeria and Ghana will be like more than a third. So the task is to maintain this tier 2 tier 3 countries at steady state growth rates right and clearly from prioritization over invest and in across resources in some of the large markets like Nigeria, South Africa which would see strong growth rates. So that is the playbook at least at this point in time which we are executing upon.

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Avi Mehta: Perfect, thanks, that is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: If you can just throw some light on what is the kind of distribution overlap between categories like hair extensions and HI and maybe also wet hair.

Dharnesh Gordhon: So it depends on generally but you would often find that whether it is a large distributor or a large modernized trades are usually one modernized trade you would see overlap but if you were lower down and the salience of for example hair extension in salon would be higher or what they call beauty stores so the specialty channels have a different place. The question is where is the specialty channel buying this product from. It could be any wholesaler but the wholesaler could keep a multiple portfolio because he has different customers so the difference of the customers could be a sell-on as well as a moment of store. So I think where is the, if you take retailer one, retailer two, retailer three means retailer three is the one who gets you the actual consumer mapping that out and understanding that there are synergies but often times the mistake we make is thinking that if we do not if that we should do all that. For example in Kenya it is very different, in Kenya it is really beauty store and salon is much higher in salience rather than a cash and carry kind of play. What we are finding as well is more and more modern retail and I use the word modern life, modern retailers in terms of mid-size or mini-mart or super mart more and more and I think covid has probably done this more, they are looking for opportunities. We are getting a lot more discussions happening where we have been asked to supply hair extension into this and if you just think about why did Walmart happen, Walmart have never seen the extension. Why have we managed to get this? I think even at a Walmart level we are realizing that consumers the shopper wants to have an option of buying as much as they can one stop rather than squishing around and maybe it is one of the dynamics of COVID. But we think that the same products begin to play and South Africa is a good example where retailers that never ever thought hair extension was an important category for them are now really beginning to talk to us. Some of them are scaling with us already so we are seeing that play but even I know I am now turning right to the last level, but even a key account manager or the sales guy the focus has to be different because the buyers are generally different and the category play is different. So I think this in idea; what I would like to have one person doing everything but I think this will be one of the mistakes so we could talk about which I can be trying to be efficient and have one sales organization doing everything, the problem is that, efficiency is one thing but effectiveness is another and in some of the places we are certainly keeping a new track strategy which is at the last mile. The focus is the players activation chain is focusing mainly on hair extension and a lot of time in extension and hair

regimen products, welfare products go together and in the others the FMCG and I think Kenya is a good example where it is very different to bring, we do see opportunity to survive more but this is more retail and led rather than us leading this change and I think one of the things that I see happening in the future the consolidation firstly of retailers but also consolidation of offerings where shoppers will start making less choices why do I need to go to five different outlets for five different categories in some of these markets and we have seen that happening. So I think this question about in an ideal world I would love to have a single sales force in all our products but today we are preparing to keep the effectiveness and possibly find strategies and efficiencies later in the cost to serve.

Mihir Shah: No I was trying to just understand the potential of any new category launches that you can do especially like in hygiene and have more carrier packs if you have higher distribution overlap and it can strengthen especially when you are strengthening your go to market strategy currently right.

Dharnesh Gordhon: Yes it is absolutely the right. For example we just launched Mr. Magic in South Africa which is a powder to liquid hand wash but suddenly we have a basket. So we have maybe dealing with this channel and these customers, we are now bringing to them, leveraging our relationship, to have new offerings and it is a totally an offering with the category we did not play in South Africa. We have launched now three and a half weeks ago so that is the signal of kind of opportunities I think you are talking about.

Mihir Shah: Exactly fantastic that is very pleasing to hear. Thank you for that. Second question the niche was actually on the wet hair category if you can throw some light on or wet hair we understand the high relevance in the US market. How do we think about it in the Africa market. The success that you have had here and the potential that we see here. Some insights will be very helpful thank you.

Dharnesh Gordhon: Yes, so there are two very different things. One is what we have often done in the past, we have taken products from the US and put it into Africa. One of the things we have done recently is we need to localize production for example of African tribes etc., in Nigeria because the efficiencies are there and we can produce at a lower cost. So I think that is one part. The other part is really from a consumer perspective again, it is about focus but this category the move to naturals etc., has been quite a big engine. We did not scale up fast enough and we have seen this so now we are going to see some success and I think with wet especially during the COVID environment the consumer behavior was a bit different. We did not have the right product offerings to take advantage of that, we have different success stories. We have seen good salience coming through in East Africa, Kenya, Tanzania, Nigeria, a very good traction and South Africa not so much and very interestingly we

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wanted slow on e-commerce in South Africa. So the things that e-commerce became much more and this is because of all the multiple lockdowns that was experienced in South Africa. We were not ready for this. one of the things for example in Nigeria, we started with B2C direct to consumer model. We have seen a very great traction which we started with hair extension and now we are expanding it into a hair regimen which is wet hair etc. I think this question in a way is very similar to discussion about why I have a category structure. What was happening is we had a lot of different tangents, different look and feel, different product offerings in the various geographies. We were not synergizing, we did not come across from who is the consumer we want to win with and what is the price, what is the value offering etc., and then say how do we execute locally with the local creative execution etc., and this is an area that was missing. So we were very much opportunistic in this across different geographies and I think this focus is that I believe it will help us also understanding more. One of the things is that it gives us more ability to watch for the future because we often see a lot of stuff that is happening especially in the US. We were a bit slow to scale it across some of the key African markets. So now maybe really getting a sense check we were getting the inside twitter we are scanning the market team which are the competitors and what are people launching, what is the latest trend in the US that you could quickly take into Africa etc. You did ask a question about the US wet business right.

Mihir Shah: Yes, no I was just wanting to understand more from the Africa point of view I think that is all.

Dharnesh Gordhon: Okay

Mihir Shah: If I can just one more maybe small one, what is the percentage of sales from e-commerce right now for our Africa business.

Dharnesh Gordhon: So basically it is only Nigeria that is really a scale, but when you look at the month and month growth it is really coming through and we only did Nigeria, we only did Lagos in B2C to see if the model works. South Africa we are now listing in places like take a lot etc., and we have also started this concept called diva stores which is like Darling stores, Darling branded online store so it is called diva stores. So we playing with it now in Kenya, Nigeria and South Africa. The back end of e-commerce always being the challenge we need a different type of distributor, we need to figure out the logistics partners but from 0 to 0.1 run has been very quick so it means the opportunity is there and part of our play for this year is trying to push to be honest but we struggled a lot on the logistic side. We could get to the consumer but getting it to the consumer at the right price, the logistics cost, finding the right partner, finding the right way to manage the back office of this has been some of the learnings and I think we have learned a lot. But we think what we will be doing is



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adopting some play models. Let us play with this and see if it works and then work the model out but it is honestly like not even 0.2% or so but when we started it the traction is good and the repeat purchase is good so it tells us that we onto something right. We have to play with the model so we get it right and it is also about consumer acceptance or finding that for the last 20 years I bought my hair from the salon and suddenly I am going to buy it online and this is where the value of the brand comes in and I think this is what helping us a lot is we have good credibility of the Darling brand and it is easier to facilitate online shopping with a brand. I go to the US business it is not our business, but the category in the US is only about 3% online for hair extension and part of the issue is it is a lot about I want to see styles, I want to see colors, I want to see length, it is a very high touch kind of category when I am buying it but once I am into it and I know exactly my repeat purchase. We have seen that kind of sale coming through. In the US for example one of the things is that Walmart will put all our Darling products at Walmart.com and this I think will give us a lot of learnings for hair extension which is probably at a scale that we have not done in the past.

Mihir Shah: Right, no this is very insightful thank you so much for this Dharnesh that is all from me. Thank you very much.

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

Dharnesh Gordhon: Thank you everybody for your time we appreciate it.