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April 7, 2016

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Scrip Code : 532424

The National Stock Exchange of India Ltd
Exchange Plaza, 4th Floor, Bandra-Kurla Complex,
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Dear Sir,

Sub: Transcript of Concall held with Analysts on 2nd April, 2016

We attach herewith for your information, a communication which is self-explanatory.

For Godrej Consumer Products Limited

V. Srinivasan
Chief Financial Officer & Company Secretary

Analyst Conference Call to discuss Strength of Nature Acquisition

April 2, 2016

Moderator:

Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited conference call. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Godrej. Thank you and over to you, sir.

Adi Godrej:

Thank you. I welcome all of you to this call to discuss the acquisition of Strength of Nature, LLC by Godrej Consumer Products. Joining me today on the call are Vivek Gambhir, Omar Momin, V Srinivasan and Sameer Shah.

Strength of Nature is a USA based company with a strong global presence. It has a compelling portfolio of leading Wet Hair Care brands for women of African descent. Strength of Nature is a market leader in the USA in several Wet Hair Care categories. The company also has a strong presence internationally, with over 40 percent of its business from outside the USA. In particular, it has a growing presence in Africa. Its products are available in over 50 countries, globally.

Strength of Nature’s legacy began with one man’s dream. Mario de la Guardia Sr. brought his family from Cuba to the USA with no money and sheer ambition. He worked his way up at Carson Products that was later acquired by L’Oréal. He invented Dark & Lovely’s no-lye relaxer, a feat that revolutionised the hair care industry. His son, Mario de la Guardia Jr., followed in his father’s footsteps. Mario worked under his father’s wing for years before starting Strength of Nature in the year 2000. Since then, Strength of Nature has distinguished itself by providing affordable and innovative products to serve the hair care needs of women of African descent. The company has a portfolio of heritage brands to serve various segments and needs of women of African descent. These brands include household names such as African Pride, Profectiv Mega Growth, Motions, TCB, Soft & Beautiful, Soft & Beautiful Botanicals and Just For Me.

Strength of Nature is one of the fastest growing companies in the Wet Hair Care space, with growth in the mid-teens. For calendar year 2015, the company’s annualised revenues were around USD 95 million, with over 22 percent EBITDA margins. We expect that the transaction will close in the next two-four weeks. The transaction will be EPS accretive in the first year itself and will be funded through low cost USD denominated debt.

The acquisition enables GCPL to turbo-charge creating a strong platform for Wet Hair Care products in Africa. It also enables us to forge a stronger presence in the USD 1.8 billion global Wet Hair Care category. Strength of Nature complements GCPL’s portfolio in

Africa, building upon our leadership position in Dry Hair Care and hair colours in the region.

Just like in some of our earlier acquisitions, the seasoned management of Strength of Nature will continue to manage the business. We will form cross-functional teams in HR, Finance, R&D and Supply Chain. These teams will consist of both Strength of Nature and GCPL team members, who will work together to share learnings and find ways to further accelerate the growth trajectory. Finally, we will put the necessary control systems and processes in place so that these operations are well harmonised with our global operations.

We are very excited by the potential of this acquisition. It is a further step to accelerate GCPL's global 3 by 3 strategy and scale up its presence in Africa by being at the forefront of serving the hair care needs of women of African descent.

Africa is a key part of our growth strategy. It comprises about one sixth of our overall business and has been delivering excellent performance. We strongly believe that it holds tremendous potential. Africa has more than half of the world's fastest growing economies, a fast growing middle class population and increasing urbanisation.

Our operating model has enabled us to build a strong business presence in Africa. The integration of the Darling business has gone very well. We have a good understanding of the African market and know what it takes to be successful in the region. Our businesses in the region have been outperforming and we aspire to now double our business in Africa in the next four years.

Over the last few years, we have been successfully establishing a leading presence in Sub Saharan Africa to serve the Dry Hair Care and hair colouring needs of women in the region. The Strength of Nature portfolio will enable us to address the complete hair care needs of women of African descent. We believe that many hair care needs of women are being under-served and we intend to bring the best quality and innovative products at affordable prices to meet the needs of our consumers.

The USA market is at the forefront of innovation for hair care products and shapes global trends in this space. Through Strength of Nature's expertise and knowledge in the USA market, we will be able to draw on consumer insights and product expertise that will enable us launch more innovative products for women of African descent. Strength of Nature's strong presence in the USA, with deep distribution and world class manufacturing additionally provides attractive opportunities for growth given the growth in spending power and the fact that African American women spend more than three times on hair care than other women in the region.

This acquisition also catapults us to become one of the largest players globally, serving the hair care needs of women of African descent. Over time, we believe that we will be able to leverage this investment to create a strong global platform to become the leading choice of brands to serve the hair care needs of women of African descent. So, the platform potential of this acquisition is tremendous.

We are confident that we have the right building blocks in place to propel GCPL towards its goal of becoming a leading emerging markets FMCG leader. Along with continuing to drive our domestic India business to full potential, we remain committed to capitalising on the huge potential available to us in other attractive geographies. Our investment in Strength of Nature is an important lynchpin to enable us to meet our aspirations.

I would now request Vivek and Omar to share their thoughts on this acquisition.

Vivek Gambhir:

Thank you, Mr. Godrej. We are pleased to share with you the details of the Strength of Nature acquisition and I greatly appreciate all of you taking time on Saturday morning for this call. What I thought we would do is walk you through our management presentation for the acquisition. Post this presentation, we will be happy to answer any of your questions. As we have mentioned earlier, becoming more global is one of the seven key pillars of our strategy. Our first pillar obviously is to extend leadership in our core categories in India, our second pillar is about becoming more global. So through this footprint, we intend to accelerate innovation and renovation, build an efficient and ready sales system, make our supply chain more global and build a more agile and high performance culture and ultimately reinforce our belief around our shared values and Good & Green.

Turning to slide #6, if we look at our international growth, clearly the inorganic part and acquisitions have been the most rewarding route to international growth and we followed a very disciplined and focused strategy of 3x3 which is about our presence across three emerging geographies in three core categories. Over the last six to seven years we have seen significant gains from a very focused and successful inorganic strategy.

Turning to slide #7, what has been interesting is that as we made these acquisitions, the portfolios we have acquired has allowed us to reimagine our playing field and essentially expand and extend our core into attractive adjacencies. So from a Household Insecticides player, we have now become a broader Home Care play with a strong presence in Air Fresheners. From Hair Colors, through our acquisition in Dry Hair and other related categories, we are a broader Hair Care play. Even in Personal Wash we have been expanding the playing field to start participating in broader Personal Care.

As a result of these acquisitions on slide #8 you can see now international has become a very meaningful part of both our revenue and profit contribution. Thanks to the acquisitions, we enjoy leading market position in almost all the categories that we operate in, across our various geographies. A significant value creation has been enabled by our various acquisitions. So in that sense acquisitions have truly been a key source of value creation.

What is very important is that the model that we have used to integrate the acquisitions has been very distinctive. Our first focus has been on operational autonomy where we have focused on maximizing the potential of local brands through local innovation, local agility, at the same time we have tapped in to significant back end synergies in supply chain, HR and manufacturing. But we have stayed away from the typical MNC approach of copy and paste of standardisation. Largely our acquired businesses have been separate entities but we have made sure that we put in necessarily controls in place and integrate the key processes around HR, Finance, Risk management and IT. This cluster based structure which is based on federated decision making and operational autonomy has worked very well for us. It has enabled us to establish very strong local entrepreneurial cultures, retain the top management but supplement the team overtime. We have bound all of these companies together with a common set of values and principles. As a result, if you look at the investment thesis of every acquisition that we have done and if you look at the performance of the acquisition before we acquired the company versus post the acquisition, in all cases both the revenue and profit have significantly improved once they have become a part of Godrej Consumer Products.

What I will now do is just have Omar quickly walk you through the opportunity that we see in Africa, the strategies that we have been employing in Africa and where we see Strength of Nature actually becoming game changer for us. Over to you, Omar.

Omar Momin:

Thank you, Vivek. From a GCPL portfolio perspective, Sub-Saharan African has been one of our key priorities in terms of investment and medium-term growth potential. We have been focusing on investing in strengthening the platform that we obtained through our multiple acquisitions and now have a scalable presence in all key consumption markets of Sub-Saharan Africa.

We have indicated earlier that we hope to build our Africa business around three key strategic growth pillars. Firstly, we will continue to invest in increasing the geographic and consumer penetration of the Dry Hair category to get it to its full potential. Secondly, we will be investing in building a strong presence in Wet Hair Care through both organic and inorganic means. Lastly, we aim to build a Home Insecticides business in key markets in Africa by leveraging our existing capabilities in India and Indonesia. We have built a strong foundation across categories and brands over the last decade in Sub-Saharan Africa starting with Inecto and hair color leadership in more than ten Southern African countries. We have scaled up in Dry Hair through the acquisition of Kinky, Darling and Frika. Most recently we have entered into an agreement to acquire Canon Chemicals which gives us strong brands like Valon which we will extend into the Personal Care space.

Despite recent macroeconomic challenges, we continue to be very positive on the long-term growth potential in Sub-Saharan Africa. Like Mr. Godrej mentioned the key drivers for our belief are both a young and growing population as well as increasing urbanization and the development of a real middle class.

Lastly, we have seen significant improvements in key markets in both political stability as well as regulatory reforms in the last decade. The combination of these makes us believe that an early foothold with consumers in Sub-Saharan Africa will pay rich dividend in the years to come.

On slide #16, our approach has enabled us successfully navigate risk of doing business in Africa. We have a unique approach which is a combination of creating sub-clusters that are almost equal in size across Eastern, Western and Southern Africa. Also, our portfolio of countries serves as a hedge against headwinds in any particular country. We have invested ahead of the curve in developing talent across different functional areas and this has helped us sustain our performance through the last few years. We have also invested upfront in systems and processes. Local manufacturing abilities provide tremendous agility because we are not dependent on import variability and this helps us react strongly to changes in market conditions. We have invested in a robust distribution network which is one of the key competitive differentiators in being successful in Africa. This has enabled us to integrate the acquisitions both in a functional sense as well as driving higher business performance. Given this we see tremendous opportunities to further accelerate our growth in Africa, especially looking at the hair care space for women of African descent with a special focus on Africa.

Moving on to slide #19, the way we like to frame our opportunity is to look at people of African descent across the world and we estimate there are more than 1 billion people of African descent spread across Sub-Saharan Africa, the United States and the Caribbean.

As we have discussed earlier in our management communications we would like to divide the hair care category for women of African descent into two broad segment what we call Dry Hair Care and Wet Hair Care. In Dry Hair Care the two main categories are Braids and Weaves which form the bulk of our business across Darling, Kinky and Frika. And in the Wet Hair Care space we have a multitude of products that perform benefit around transforming looks, preventing damage to hair as well as providing nourishment needs. In terms of product categories, the key ones in the Wet Hair space include relaxers, styling products, maintenance products and of course shampoos from a cleansing perspective.

If we now move on to slide #23, the overall market that we see is a $4.5 billion market conservatively. This is split almost equally between Africa and the US with Africa being a larger proportion given the population's significance. Africa we estimate to be about USD 2.3 billion across dry and wet hair and the US is at USD 1.6 billion given the larger realizations in the US. The split between Dry Hair Care and Wet Hair Care is again approximately equal, being skewed slightly higher towards dry hair.

If we now look at the Dry Hair space in Africa which is the largest segment within this space, we already enjoy leadership in this space through the platform that Darling has provided us as well as our subsequent acquisitions. We now therefore look to create a significant presence in Africa in the Wet Hair Care space which is an equal opportunity and we believe we now have the founding blocks in place to be able to pursue that.

On slide #25 our efforts in driving innovative products, creating engagement with salons which are key decision makers as well as local manufacturing agilities, have given us tremendous advantages and we hope that we can extend these in terms of the business model to create an equally strong presence in the Wet Hair Care space.

On slide #27 and 28, I want to spend a few minutes talking about how the US is a big source of both innovation as well as credibility in this space. Firstly the trend as well as source of key innovations is the US today in both the Dry and Wet Hair Care space. You see a number of hair styles and new products originating in the US and then flowing in to different parts of Africa. The music and pop culture in the US has a significant influence on how the styles get defined. And lastly in the Wet Hair Care space, fundamental product technologies as well as benefits usually find their way in the US first and then flow in to Africa. So we believe the US market to be very critical in understanding and providing a leapfrog advantage in understanding trend as well as driving product and marketing strategies in Africa.

Spending a few minutes on the US market itself. The market that we are most interested in is the market for hair care of women of African descent in the US and this market has seen significant growth as well as holds interesting possibilities in two or three ways. I think firstly, it is an extremely fragmented market with very little brand building that is being done by the large players, so we see an opportunity in both consolidating as well as bringing systematic innovation to this market. Second, we have a very strong team in Strength of Nature in terms of the way they have driven consolidation of the market themselves and we can expect this to be a continuing trend. Lastly, hair care is a huge category in terms of just the extent of involvement of the consumer. We see both Dry and Wet Hair Care as possible areas that we will evaluate in terms of scaling up the opportunity in the US itself.

The combination of these points gets us to talking about the opportunity that is the business in Strength of Nature. We believe the portfolio of brands that Strength of Nature represents has very interesting potential in Africa. It provides us a strong base in terms of two markets in Africa where brands of this company already enjoy significant position, this is namely Nigeria and Kenya and the combination of a strong presence in the US. A robust portfolio of brand means that we can take these products and technologies from the US to Africa and accelerate our journey of building leadership in Wet Hair Care in Africa. It is a very strong business in the US and had high single-digit organic growth over the last few years and a reasonable part of inorganic growth as the relaxer category has been consolidated. EBITDA margins are more than 22% due to a strong cost base. The objective of driving further growth will be building on the cost advantages that the vertically integrated manufacturing provides as well as the history of innovation that they have had continuing in to the brands. The business itself has been built through a combination of organic as well as inorganic growth. The key brands for this business as Mr. Godrej mentioned are African Pride, Mega Growth, Motions and TCB which are more recent acquisitions from Unilever.

I think what we find very interesting about the way the company has seen growth outside the US is that it has been a very recent effort and despite that business outside the US has become a significant part of revenues for Strength of Nature. The key markets for Strength of Nature outside the US are Sub-Saharan Africa and within that the key markets again being Nigeria and Kenya, as well as a strong presence with Caribbean consumers as well as some in Europe and the Middle East.

In terms of what makes this company very interesting as well as a great candidate for driving our aspiration, I think the first that we would like to focus on is the history of innovation that it has had. There are a number of innovations that have led to the development of the category itself, the use of pre-measured single used relaxer packet, reversible straightening system that is far less damaging to the hair, as well as coloring relaxers that the business is looking at. A portfolio of brands built across a variety of categories, again organically as well inorganically, a very strong cost advantage and looking at addressing unserved needs so far through a combination of investing in both products as well as consumer communication. The combination of these factors have led to a very strong performance of the business in the last few years and with an expectation that we can drive it even further in Africa over the next few years.

A few points on the transaction itself, the acquisition will include both the domestic and international operations of the company and brands. We are looking to close the acquisition by middle or end of April 2016. The funding of the transaction will be through low cost debt. The management team that has built the business over these years will continue to lead the business. Like we have in other acquisitions, we will put in place both controls as well as cross functional teams to pick up specific synergies.

I will hand it back over to Vivek to talk through the investment thesis. Over to you, Vivek.

Vivek Gambhir:

Thank you, Omar. As Mr. Godrej and Omar have mentioned, we are quite excited by the potential of this acquisition and we believe that over time this can truly be game changing. The rationale in our mind is quite clear, scaling up Africa is a very important priority for us in line with our 3x3 approach and so far we have been striving for leadership in Dry Hair and Hair Colors. Wet hair is a very complimentary product and this acquisition will give us a very compelling portfolio of wet hair care brands that will enable us to address the complete hair care needs of women of African descent. And as Omar mentioned, the US market tends to be in the forefront as far as expertise and innovation is concerned. So our presence in the US will really help us accelerate innovation with cutting edge products and R&D and this company is known for its innovative products. What is also great is that the management team is a very seasoned management team with over a 100 years of collective experience in the Wet Hair Care category and overtime I think this will provide a very important platform for a future play in global hair care for women of African descent.

In terms of our value add, as we have demonstrated in our previous acquisitions, we clearly have a very deep knowledge of African consumers. We know the local business environment quite well and our manufacturing is local which is how we can provide a much more agile product development along with much affordable product. Over the last 10 years or so we have learnt how to operate in Africa and successfully run businesses there. Over time we do also see a lot of potential for our teams to add more designs and R&D support for the portfolio and clearly we will drive synergies in sourcing, IT, HR and finance as we have done in all our acquisitions. This acquisition now catapults us to become one of the largest players globally to serve the hair care needs of women of African descent. So over time I think the platform potential of this to further build and drive global leadership in this space is tremendous.

I will stop at that point and we will be happy to answer any of your questions.

Continue: - Q&A…

Questions and Answers:

Moderator:

Thank you, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Sir, can you give the market share in Africa and also what percentage of Strength of Nature sales comes from Africa?

Omar Momin:

In terms of market share, as we have shared before that exact market share are difficult to come by in Africa but the brands of Strength of Nature occupy positions between 1 and 2 in both Nigeria and Kenya, so that is the sense we have on market share. In terms of contribution of Africa to this business, it is about 15% to 20% of the total business.

Percy Panthaki:

What is the proportion of the size of the business you have in Africa versus the market size of that industry in Africa, if you can just give me a ratio of that just to see what is the upside over the next 5-10 years?

Omar Momin:

The size of our business in Africa today is about $200 million. We estimate the size of the dry hair market to be about $1.3 billion and wet hair is around $1 billion.

Percy Panthaki:

So wet hair is as big as dry hair in Africa and your sort of scale there is miniscule and therefore over a period of time the opportunity is huge, is that the rationale of the acquisition? Because you in this case straight away from the 3x3 matrix by acquiring a company whose majority part of the sale does not come within the three geographies that you have identified.

Omar Momin:

You are absolutely right, it is the opportunity we see in Africa in the wet hair care space.

Vivek Gambhir:

Yes, I just want to make clear that we have not strayed from 3x3. 3x3 is about presence in three categories and or presence in three core geographies. So in some of these cases the acquisition is intended to turbo charge our presence in Africa which is a very important part of 3x3.

Percy Panthaki:

Now that you will be present in America via this acquisition, are you also planning to sort of have a dry hair business in US at some point of time? And if so, what are your thoughts on that and how big is that category in US versus wet hair?

Vivek Gambhir:

It is a very interesting possibility. I think over time we will evaluate it. Similar to Africa the dynamics of dry hair can be quite attractive. So no specific plan yet but certainly something for us to keep in mind. The opportunity for dry hair is also quite significant, it is about $800 million market for dry hair in the US as well. So roughly similar to little bit smaller in size than Africa but higher realization. It is a very large market in the US as well.

Percy Panthaki:

Just can you give an idea of what is the track record of Strength of Nature over the last three years or five years, what kind of sales growth have they clocked and what has been the journey of the EBITDA margin, has it been stable, volatile or has it been increasing continuously, any color you can give on the track record?

Omar Momin:

In terms of the consolidated track record, the company has seen very strong growth. Like I mentioned earlier organic growth has been in high single-digits but they have also focused on number of acquisitions in terms of consolidating the space. So consolidated growth has been very strong. In terms of EBITDA margins, they have been around this range for the last two years and they have seen some improvement over the years.

Moderator:

Thank you, sir. We have the next question from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva:

Sir I have just one question on the deal parameters, could you give us some color on is there any particular conditions or has 100% stake been acquired or is there put options or anything like that?

Omar Momin:

The shareholding acquisition is 100% and there is also a deferred consideration that will be paid as an earn out and that is a significant part of the deal structure. So that there is an incentive for the management team to continue to deliver on performance.

Amit Sachdeva:

Can you give us more color on deferred payments?

Sameer Shah:

Unfortunately, at this stage some of the parameters are within the confidentiality clause, but as Omar mentioned substantial part of the overall value is in form of deferred payout such that there is incentive for the management to continue its outperformance through the next three to four years.

Amit Sachdeva:

Funding will be from debt, so can you give us some color on how much debt will be raised, what would be the cost of debt and since when it would start hitting the balance sheet and when exactly it will be paid, some sort of timing of this actual transaction?

V. Srinivasan:

As mentioned we will use the dollar denominated debt for this acquisition. As of now we do not see the debt equity ratio of the company on a consolidated basis going beyond 0.8x or so which is our comfort level, so we will be fairly within that. And since the consideration also is deferred it gives us time and cash flows from the business to use those for the operations and to payoff.

Adi Godrej:

But I think what is important in the case of GCPL is also the debt to market cap ratio which is currently 0.03x and is not likely to go beyond 0.1x.

Amit Sachdeva:

And what about the timing, when it should start obviously being reflecting in the numbers?

Omar Momin:

We expect this transaction to be closed over next three to four weeks, so I think somewhere mid of Q1 FY17 we expect the consolidation to kick in the overall financial performance.

Amit Sachdeva:

There is a lump sum payout which is for the 100% stake and there is a deferred payment subject to the performance which would be substantial given the performance later on?

Sameer Shah:

Absolutely.

Amit Sachdeva:

And when this performance clause kicks off, like after three years of sustained performance or every year of performance, how does this payout gets paid to them?

Vivek Gambhir:

It is after three years, but the formula is determined upfront.

Amit Sachdeva:

But the earn out to the existing management to run the show would kick in after three years?

Vivek Gambhir:

After three years, absolutely.

Moderator:

Thank you. We have the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah:

Thank you. Sir, the first question is, what is the meaning of vertically integrated manufacturing operations that you have spoken about in the presentation?

Vivek Gambhir:

Basically, a lot of other companies end up subcontracting the manufacturing to third party which increases the costs of the product that they are providing. What this company has done very well is that all manufacturing is done in-house, so in that sense they have been very vertical integrated. What we have seen is that for the brands that they have acquired over the last three or four years, they have been able to substantially improve gross margins by having a very tight control on both quality and world class manufacturing.

Nillai Shah:

And the same holds true for the operations in Africa too?

Vivek Gambhir:

They currently manufacture all their products in the US, so one of the opportunity over time is to be able to partner with them to establish some local manufacturing in Africa. But I think we will just evaluate that over time because one of our big advantages that we know is that we have a very strong local manufacturing in Africa. So certainly we will evaluate the potential of establishing local manufacturing in Africa to further drive growth and scale up that business.

Nillai Shah:

And as you scale up the business in Africa is the current manufacturing facility in the US sufficient to take care of that?

Vivek Gambhir:

For the US market it is clearly sufficient. They have been very strategic about expanding their capacity, so for the US market there is actually a lot of capacity and as the business starts growing significantly more in Africa, we will try and look at a more combined footprint to see how much more we can leverage the US market along with establishing local manufacturing in Africa.

Nillai Shah:

And the second question is on the deferred payment, can you give us some sense of what the parameters of deferred payment are?

Omar Momin:

Yes, it is a predetermined multiple of EBITDA for the consolidated business.

Nillai Shah:

What is going to drive it, is it the growth opportunity that you can realize in Africa, is it the continuing business in the US itself?

Omar Momin:

I think it will need a combination because taking those brands from the US to Africa, localising manufacturing will need efforts from teams both in US and Africa. And therefore to kind of keep it simple the objective has been to look at the overall delivery of the business.

Moderator:

Thank you, Mr. Shah. We have the next question from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.

Ritesh Vaidya:

Who are your key competitors in the wet hair care market in the US for Strength of Nature?

Vivek Gambhir:

The market is extremely fragmented with over 100 players in the space. The great thing is that Strength of Nature has a very leading market share in the US, in Kenya and in Nigeria, but there are literally over 100 players in this market.

Ritesh Vaidya:

And who would be your competitors in Africa for the same products?

Vivek Gambhir:

Again, it is very-very fragmented, there are 100 players in Africa also.

Ritesh Vaidya:

What is the price positioning or how are these products of Strength of Nature positioned in the market, are these premium, mid, what is the price positioning?

Vivek Gambhir:

The fit is very similar to the way our portfolio plays out which is superior quality product at affordable prices but they have a range of brands with different products serving different needs for various consumers for relaxing, straightening, moisturizing their hair. There is a range of products for kids as well. So the great thing is that they have a multi brand approach and the portfolio actually straddles consumers of different needs and different demographics as well within the African descent consumer. But generally products are actually priced at the mid-tier, a much more affordable products with very good quality.

Ritesh Vaidya:

Since the business in the US already makes positive cash flows to start paying off on its own for the debt that would be raised?

Sameer Shah:

So the free cash flows of the business should be sufficient to repay off the debt which we are taking for this business over a period of time.

Moderator:

Thank you, Mr. Vaidya. We have the next question from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh:

Is there a market leader in the wet hair category in Africa and or in the US or is it just completely fragmented that everybody has a very-very low share?

Omar Momin:

It is very fragmented, and I think even the leaders in different countries are different players. But suffice to say that even the brands that would enjoy leadership position would be a small percentage of the market.

Vivek Gambhir:

So for example in the relaxer space our estimate is that Strength of Nature has about 24% market share in the US, so leadership positions do vary quite a bit by various segment and this is where we see a significant opportunity to further drive and consolidated leadership through a much more systematic branding and innovation approach.

Sanjay Singh:

Can the shampoo, the conditioner category can be classified as of African descent? For wet hair, the key component is relaxers only which is more of African descent otherwise a typical African women might use a conditioner or a shampoo which anybody in the world is using, is that correct understanding?

Omar Momin:

So in terms of the products within wet hair care, you are right about shampoos and conditioners also spreading into more general usage so to say, but the products that are specific to usage by ethnic consumers are not only relaxers, there is a significant proportion of products that are both in the styling space, in the maintenance space as well as in the nutrition space. So the set of products that are unique to African hair usage are relaxers, maintenance products, nutrition products as well as styling products, these all form part of the core regiment and you have again different players and brands in different spaces. Strength of Nature just has one of the strongest portfolio that is focused on the ethnic usage space that are specific to these categories.

Sanjay Singh:

It seems that there are around 18 brands spread over $100 million seems to be probably quite a few brands are much sub-scale. So how do you see it, how can this be scaled up? So are many of these brands small and only two or three are big enough?

Omar Momin:

So the portfolio analysis and rationalization is very much in place. You are right about the fact that about three to four brands make up a significant majority of the business. We will be prioritizing our investments according to the opportunities for each of these brands.

Sanjay Singh:

What are the three four top brands?

Vivek Gambhir:

African Pride, Profectiv, Pro Brands, Just For Me and Motions. The other thing which is very important is that unlike other categories that we see at least in the US market is the significant importance of beauty supply stores. So typically almost half of the business for a lot of brands of women of African descent actually go to beauty supply stores, so that offers 50% of the business unlike other categories where you will see big box retail actually having a much higher salience of sale. As a result of which typically you will see a much higher degree of fragmentation of brand because of this channel as well. So in some sense it is dangerous to extrapolate trends of other categories and brands that serve Caucasian customers to this segment as well because the needs of women of African descent, the nature of brands, the fragmentation tends to be a lot more just given the issues involved with managing and maintaining hair of African women.

Moderator:

Thank you, Mr. Singh. We have the next question from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu:

What is the status of the business that was sold to L'Oréal many years back, do you have any idea about whether that portfolio is still existing today or they got over shadowed by what was introduced later by the same company?

Omar Momin:

So the SoftSheen Carson business was sold to L'Oréal and those set of brands have nothing to do with this business. Strength of Nature focuses on the brands that we have spoken about in our presentation, the Softsheen Carson brands have nothing to do with Strength of Nature as a company.

Richard Liu:

Are those brands still in existence in L'Oréal's portfolio today or they just fell off by the way side after the founders introduced the Strength of Nature products?

Omar Momin:

The biggest brand in that would be Dark & Lovely which is still very much in presence across US and Africa.

Richard Liu:

While the management team is going to continue with you, but is there sort of a non-compete clause nevertheless in the agreement and how does that work?

Omar Momin:

There is a non-compete but we would not be able to share details on it.

Richard Liu:

Within this 22% EBITDA margin that you were talking about, how does it breakup between gross margin and also in particular how does A&P feature in the whole financial scheme of things?

Sameer Shah:

If you just look at the gross margins for the business they would be very close to our consolidated gross margins, I would say it is hovering around 50% mark.

Richard Liu:

And A&P?

Sameer Shah:

A&P would be a factor of growth opportunity both in the US as well as in Africa, but what you would understand that Africa normally would not have very high levels of A&P investments. A good part of A&P spends would be more in the US market, but again those would be very much in the overall range of what we have for our consolidated business.

Richard Liu:

So to drive the portfolio rationalization and ramping up that you would have in mind, do you reckon that you will probably have to need to spend higher than A&P and therefore there is a risk to this 22% margin in the short-term but you think you can maintain this?

Vivek Gambhir:

Yes, I think we certainly actually see margin upside over time because again this company has recently acquired a set of brands from Unilever. So as the company starts utilizing its manufacturing expertise of those brands as well there will be hopefully enough opportunities to scale up A&P where necessary along with being able to maintain if not improve margins.

Richard Liu:

What is the size of the gross block and the net block that will come into this company once you consolidated?

V. Srinivasan:

We cannot share that information at this stage.

Richard Liu:

What is the of debt you have assumed for determining this EPS assertiveness in year one?

V. Srinivasan:

This is a dollar denominated debt and it will be around 2%.

Richard Liu:

Are you going to leave it unhedged as you have done with the earlier debts?

V. Srinivasan:

Typically, the cash flows in this business will be in US dollars.

Richard Liu:

So you have any target in mind as far as the Africa business is concerned as to what share of turnover you would like to get from Africa in say three years' time and beyond?

Vivek Gambhir:

I think our hope is that this business can grow over 25%, this part of the business in Africa. So I think that is at least a hope that we have but frankly I think in the next six months we will have a much better sense of what the growth opportunities in Africa could be.

Moderator:

Thank you, sir. We have the last question from the line of Harit Kapoor from IDFC. Please go ahead.

Harit Kapoor:

Would the senior management that's going to be there with GCPL include the founders as well and for how long is there a clause in place that the founders will be part of the business?

Omar Momin:

Yes, the founder is going to be the CEO of the business and we will supplement the team as and when necessary. But as we discussed, there is an earn-out clause in three years, so the management team is going to be there with us for at least three years. If they do well and if the relationship is productive they could continue longer as well because the relationship is quite strong with this particular company.

Moderator:

Thank you, Mr. Kapoor. Ladies and Gentlemen, that was the last question. I would now like to hand the floor back to Mr. Godrej for closing comments. Thank you and over to you, sir.

Adi Godrej:

Thank you very much. If you need any further information we will be happy to address your questions.

Moderator:

Thank you, sir. On behalf of Godrej Consumer Products Limited that concludes this conference. Thanks for joining us and you may now disconnect your lines. Thank you.

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