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Sub:-Concall Transcript

Dear Sirs,

We enclose herewith for your information, a transcript of the concall held with Investors and Analysts on July 29, 2016, post the announcement of Q1 results for FY 2016-17.

Yours Faithfully
For Godrej Consumer Products Limited

Shivshankar

R Shivshankar
Deputy General Manager (Finance)

Encl: as above

Investor and Analyst Q1 FY17 Conference Call

July 29, 2016

Moderator:

Ladies and gentlemen, good day and welcome to the GCPL Q1 FY 2017 Earnings Conference Call, hosted by IDFC Securities Limited. As a reminder, all participants' 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. Harit Kapoor from IDFC Securities. Thank you and over to you Sir!

Harit Kapoor:

On behalf of IDFC Securities, I would like to welcome you all to the Q1 FY 2017 call of Godrej Consumer Products Limited. From GCPL, we have with us the senior management team led by Mr. Adi Godrej, Chairman of Godrej Consumer Products. I would like to now hand over to Mr. Godrej for his opening remarks post which we can open the floor for Q&A. Over to you Sir!

Adi Godrej:

Thank you Harit and good evening. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the first quarter of fiscal year 2017. Joining me are Vivek Gambhir (Managing Director), Nisaba Godrej (Executive Director), Omar Momin (Head, Africa and M&A), V. Srinivasan (CFO and Company Secretary) and Sameer Shah (Head Finance (India, SAARC) and Investor Relations).

During the first quarter of fiscal year 2017, the consolidated sales of our business increased by 9%, and EBITDA by 20%, in constant currency terms. We delivered this performance despite the sluggish business environment across many geographies that we are present in. Additionally, sales was also impacted by the unfavourable weather conditions in some of our key geographies. We delivered healthy profits driven by judicious cost control and commodity tailwinds. Our India business performance was impacted by a stretched summer and the late onset of monsoon, which resulted in a weak performance in Household Insecticides. Our India business sales, excluding Household Insecticides, increased by 7%. We have recently initiated a distributor delight programme with the objective of improving distributor returns. In line with this, we reduced their inventories which resulted in our primary sales growth being around 2% lower. In our international business, we delivered a competitive sales growth of 18% and EBITDA growth of 29%, in constant currency terms.

I will now recap our key business imperatives and assess how we have performed on these priorities during the quarter. After this, I will discuss the highlights of our financial performance during the quarter. We will then be happy to answer your questions.

One of our most important imperatives is to extend leadership in our core categories - home care, personal wash and hair care. We remain focused on delivering superior ahead of the market growth, driving consumption and penetration in our core categories, as well as extending into attractive adjacencies. The performance of our Household Insecticides business was temporarily impacted by a stretched summer and the delayed onset of monsoon, as compared to the previous year. This resulted in sales declining by 11%. Growth rates are however improving, post the monsoon picking up. We continue to maintain our leadership position across formats in the category. We also remain focused on driving our innovation momentum.

In our Soaps business, we delivered an early double digit volume growth. However, sales increased by 1% and was impacted by deflationary pressures. As shared earlier, we are building a value added soaps portfolio. Post the successful launch of the Godrej No. 1 Honey & Glycerin winter soap, we have launched the Godrej No. 1 Germ Protection soap in the health and wellness space. We are backing our new launches with effective media investments and continue to remain competitive on sales promotions and consumer offers. Our margins continue to benefit from lower palm oil prices.

Hair Colours sales increased by 4%, led by high double-digit volume growth in Godrej Expert Rich Crème. The new communication on Godrej Expert Rich Crème has helped further improve sales momentum and penetration levels. Godrej Expert Rich Crème has now become the first crème hair colour in the country to reach one crore households. In powders, we have launched a new media campaign and expect it to benefit sales going ahead. In addition to sustaining our leadership positions in our core categories, we are also strengthening our presence in our emerging categories.

The recently launched aer pocket has been well received by the consumers and we are seeing a strong offtake. Disruptive innovations like this, backed by strong execution, are enabling us to gain market share in the overall air freshener market. Godrej aer now ranks number 2 in the overall air care market. Our other recent innovation, Cinthol deo stick for men and women in a disruptive cream format, too has received a very encouraging response from the consumers. We believe that this new format, available at an affordable price point, will enable us to democratize the category and drive growth. We are supporting this launch with innovative consumer engagement initiatives and communication.

This month, we expanded our BBLUNT range of premium hair care and styling products with the launch of 'Salon Secret' high shine crème hair colour. We expect this product to widen BBLUNT's consumer franchise. We remain optimistic about the growth opportunities in the premium hair care market. The second pillar of our strategy is to drive growth in our international business. Our international expansion is guided by our three by three strategy, of focusing on three core categories of home care, personal wash and hair care in the emerging geographies in Asia, Africa and Latin America. We believe that these emerging market geographies hold tremendous long-term potential. Our strategy in these markets will be to drive innovation led growth in the categories where we are leaders and have a competitive advantage. We also understand the dynamics of these markets, which is a significant advantage for us.

Our Indonesia business delivered a competitive and profitable growth during the quarter. Our constant currency sales growth of 3% was impacted by sluggishness in the FMCG industry growth. This, in turn, remains impacted by the overall macroeconomic slowdown in Indonesia. Our Indonesia business operating margin increased by 230 bps year-on-year, driven by a favourable mix and lower commodity costs. HIT is now the no. 1 player in overall Household Insecticides category in Indonesia. We cross pollinated our learning in hair colours to launch a new range of 'NYU' crème hair colours in sachet format in Indonesia this month.

Our Africa business, including Strength of Nature, delivered a constant currency sales growth of 52%. This was led by inorganic sales of INR 114 crore from Strength of Nature and Canon Chemicals and an organic constant currency sales growth of 14% in our Africa business. Our Africa business operating margins improved by 330 bps year-on-year, driven by calibrated price increases in hair extensions, effective cost control and favourable mix. We will focus on leveraging the acquisition of Strength of Nature to turbo charge building our wet hair care platform in Africa.

Our Latin America business delivered a constant currency sales growth of 10% in a challenging operating environment. Our Latin America operating margin declined by 340 bps year-on-year, owing to a lag between price hikes and the increase in input costs due to currency depreciation. Our hair colour brands, Issue and Ilicit, continue to gain market share in hair colours. Ilicit clocked its highest ever volume and value share this quarter.

Constant currency sales in our European business declined by 3%. This was due to the impact of unfavourable weather conditions on the sales of Soft & Gentle and Riemann, and counterfeit issues in Bio-Oil. Our Europe business operating margin increased by 180 bps year-on-year due to a favourable mix and relatively lower contractual Advertisement & Promotion spends.

Our third strategic pillar is to accelerate the pace of innovation and strengthen our brand portfolio. Our focus on innovation allows us to not just build on our core categories, but also find new, emerging footholds in adjacencies and thereby broaden our portfolio and drive additional sales. We are ramping up our innovation pipeline and investing significantly in technology and Research & Development. Innovation is a key driver of our growth strategy. Over the last few months, we have stepped up our innovation momentum like building the naturals platform in Household Insecticides with launch of Good knight Neem Activ+ liquid vapouriser, fast card and coils LUP pack, Godrej aer pocket, Cinthol deostick, a Germ Protection variant in Godrej No. 1 and 'Salon Secret', a high shine crème hair colour under the BBLUNT brand. Also, we introduced crème hair colour in sachet format under the brand 'NYU' in Indonesia and new styles in Darling hair extensions in

Africa. Moreover, we also have a robust pipeline of innovative products to be launched over the next few quarters that will aid stronger growth and market share gains.

Our fourth strategic pillar is to create a future ready sales organisation for our India business. We are driving multiple initiatives to enhance our go-to-market approach. Rural remains an important focus for us and we are strengthening our presence through various initiatives like One Rural. We see significant scope to further increase rural salience. We will continue to build on our existing strong rural sales and distribution foundation and drive further category penetration. We are also integrating technology for better analytics and decision making. Simultaneously, we are establishing a strong footprint in emerging channels like e-commerce.

Our fifth pillar is to build a global best-in-class supply chain. Leveraging a global, best-in-class supply chain to become more agile, is imperative for us. We are strengthening and enhancing supply chain processes across our businesses. We have made significant improvements in labour productivity through effective shop floor engagement initiatives and are extending this to various geographies. We are making good progress on 'Project PI', our cost transformation project and have also launched this in Indonesia. We are also setting up a new manufacturing unit in Jammu and Kashmir.

The sixth pillar of our strategy is to foster an agile and high performance culture. We take much pride in fostering an outstanding workplace and are fully committed to providing our team members with great careers, great rewards and a great work environment.

In India, GCPL was recognised among the top 10 best large workplaces in Asia and was the number 1 FMCG Company to work for by Great Place to Work. We were also ranked among Aon Hewitt's Best Employers in India 2016. We are now extending this commitment to shaping culture and values and developing local talent, to our other geographies.

I will now cover the highlights of our financial performance.

For the quarter ended June 30, 2016 our consolidated net sales increased by 9% in constant currency terms. Our EBITDA growth, in constant currency terms, was much stronger with 20% growth led by 14% growth in India business and 29% growth in International business.

Our consolidated EBITDA margins of 17.9%, expanded by 200 basis points led by better margins across most businesses. In India, EBITDA margins expanded by 240 basis points year-on-year. This strong expansion in profitability was delivered despite a subdued revenue growth. In our international operations, our EBITDA margin of 16%, expanded by 190 basis points year-on-year led by strong performance in Indonesia, Africa and Europe.

Earnings per share (non-annualised) stood at INR 7.17 for the quarter.

The Board of Directors has declared an interim dividend of 100%, which translates into INR 1.00 per share.

We are hopeful that the good monsoons in India should lead to a pickup in rural demand later this year. We should also see a boost to consumption in India, following the implementation of the Seventh Pay Commission and the passing of the Goods & Services Tax.

We are relentlessly focusing on our strategy and investing strategically in creating new growth vectors for the future. At the same time, we are driving our core to full potential, ensuring execution excellence and building on our agile and high performance culture.

I now conclude my opening remarks on the quarter's performance and open the floor for questions.

Continue: - Q&A…

Questions and Answers:

Moderator:

We have the first question from the line of Abneesh Roy of Edelweiss Securities. Please go ahead.

Abneesh Roy:

On the hair colour in India, the last three quarters have been muted. What will lead to a revival because next quarter the base is even higher at 17% versus 12% in Q1? Could you tell us what is the mix between powder and crème? Secondly, will a new brand campaign be enough for the revival of powder?

Vivek Gambhir:

We are continuing to see a very good momentum in Godrej's Expert Rich Crème Hair Colour, which has now reached over 1 Crore households. Continued momentum in Expert Rich Crème should drive growth. As you pointed out, we have launched a new campaign for powders with R. Madhavan and Anil Kapoor as two of our brand ambassadors. So, that should see a further uptick and we have also launched a BBLUNT Shine hair colour crème, which is also a very innovative product at a very disruptive price point of Rs. 199. It is a great product and we are hoping that the combination of all of these three things should lead to a good performance in the hair colour category.

Abneesh Roy:

What is the mix between hair colour powder and crème? Secondly, is BBLUNT targeting a new segment altogether or will it be targeting the bigger MNCs in the premium end?

Vivek Gambhir:

The salience of crème continues to increase and we are quite comfortable with that journey. On BBLUNT, it is a mass premium product but priced significantly higher compared to a regular crème hair colour. So again in terms of what we did with Expert Rich Crème, the idea is to bring innovations at a very disruptive price points. In the consumer tests that we have done, this product compares very favorably with products that are significantly priced higher in the markets today.

Nisaba Godrej:

We are seeing that people who colour their hair in salons are looking for that kind of quality and finish. So from both our consumer testing and salon testing, this product is much superior than any other product in the market. It is also a three parts system versus the two parts system. It also has something known as a Shine toner, which gives real extra boost to shine in the hair. In a consumer testing survey, 85% of consumers said they would rather buy this product over their current premium brands. We have also got Kareena Kapoor endorsing the brand. So we are quite excited because we believe that at these price points, the consumer is very much underserved. This is also a 'no-ammonia' product. So at this price point, there are no other products like this that are available in the market.

Abneesh Roy:

On soaps, a very good performance in the current context. Have you gained any market share or is it because of the promotions or new launches?

Vivek Gambhir:

On the market share wouldn't want to comment on it as there is always a bit of confusion with some of the research numbers. But, at this kind of volume growth, logically we would be gaining market share but we would not want to comment too much about that.

Abneesh Roy:

The new crème launch in Indonesia will be targeting the current crème market, so is this product also on a disruptive pricing in the market? What is the right to win for the product?

Nisaba Godrej:

Similar to India, the pricing is disruptive. There is only 10% penetration there. So in terms of the market size, there is a lot to grow. A lot of the other companies are just dumping products from other countries and have not really looked at the consumer insights. The product testing results that we have got are extremely strong and this product also has an added benefit of hair vitamin. The packaging and the whole product really stands out.

Abneesh Roy:

On the standalone numbers, in Q1FY17, the dip is 4% on the A&P and in Q4, it was 21% decline. We are launching so many new products but that is not visible in terms of the ad spends, could you please explain?

Sameer Shah:

We should read A&P spends along with the gross margins. From the overall kitty of advertisement and promotions as well as sales promotions and consumer offers, some part of spends have gone towards consumer offers, which are sitting in gross margins and that is the other reason why gross margins in standalone is down by around 200-basis points on a y-y basis. In Q1FY17, there has been a bit of reallocation of spends from traditional media to more of consumer offers, predominantly driven in soap categories. Hence, the A&P as a percentage of sales is more or less flattish in standalone on a y-y basis. Also some of the launches which you have had, whether it be building the natural platform in Household Insecticides as well as BBLUNT, we will see pickup in spends in Q2. The spends, which got very heavily supported in Q1, were on Cinthol deo stick and aer pocket.

Vivek Gambhir:

Typically, we look at A&P spends somewhere between 11.5% and 12.5% of sales. So we are very comfortable with that level of spends and some of the promotional spends were more geared towards soap, but we are definitely investing competitively behind all of our new launches.

Moderator:

The next question is from the line of Percy Panthaki of IIFL. Please go ahead.

Percy Panthaki:

Could you give an idea in terms of pricing on a per application basis between your Rich Crème Hair Colour, the new BBLUNT product that you have launched and other competition such as Garnier and L'Oréal?

Nisaba Godrej:

Our Rich Crème Hair Colour is at Rs. 30 for a 40 gram product and the BBLUNT'S crème is a 100 ml product, which is priced at Rs.199. So that can be used for two or two and a half applications, it comes in at about three times the price for application of Rich Crème Hair Colour.

Percy Panthaki:

What would the competition be at?

Nisaba Godrej:

L'Oreal is somewhere between Rs. 550 and Rs. 600. Garnier Colour Natural, which is an ammonia product, would be around Rs. 150. So we feel that at that price point, the market is very underserved and we are very confident about this product. We have also done quite a lot of work around the colour shades.

Percy Panthaki:

So BBLUNT in terms of the product is more comparable to a L'Oreal than a Garnier?

Nisaba Godrej:

We have tested the product against even more premium priced products. We tested it with salon's quality level products and it has done really well. It is the same strategy as Expert Rich Crème i.e. deliver a very superior product but at a disruptive price point.

Percy Panthaki:

Just moving to Household Insecticides, as per Nielson, what is the market decline this quarter? Secondly, are you seeing any increase in competitive intensity or in promotions in the last three to six months in Household Insecticides?

Sameer Shah:

We will not be able to share any details or data from the researcher's end.

Vivek Gambhir:

On competitiveness, it has always been competitive but there has been no such significant spike we have seen over the last three to six months.

Adi Godrej:

Our shares have been maintained at a high level. After a very poor April and May, the sales picked up very considerably in June and in July, they have been excellent. That is in response to the good monsoon. So the April and May poor performance was across the industry and mainly because of the excessive heat.

Percy Panthaki:

Given the innovation pipeline, A&P will pick up and gross margin benefits will complete a year and be there in the base soon. On standalone, you do have a decline this quarter. In this scenario, how do you look at your bottom-line delivery for the rest of this year?

Vivek Gambhir:

The biggest question will be around sales growth. If the environment improves and our sales growth improves, the leverage we get will lead to better profitability. There is also a fair number of cost reduction projects that we have already kicked off. Those will start to see more impact in the second half of the year. At this stage, we still feel comfortable to have a profit growth ahead of sales growth.

Percy Panthaki:

If your sales growth does not improve, would you be open to ratcheting down your A&P spends to deliver the bottom-line?

Vivek Gambhir:

If sales environment does not support adequate number of launches, then we will take those calibrated calls. It is a balance between investing for the long-term and also doing what is right for the quarter.

Adi Godrej:

A&P has also a lot to do with what competition does. If sales are not ratcheting up, then competition also tends to spend less.

Moderator:

We have the next question from the line of Kunal Vora of BNP Paribas. Please go ahead.

Kunal Vora:

Palm oil prices have suddenly increased year-on-year in the last two quarters, so when do we expect price increases?

Sameer Shah:

When you look into Q1 performance, we have had a very strong early double-digit volume growth and value growth was around 1%, so we have had more of a consumer offers and hence relatively higher deflation. Going ahead, while this will be more driven by competition, we perhaps could see withdrawals of consumer offers and post that, there could be a scenario depending on the direction of palm oil whether price increases are taken or not.

Kunal Vora:

What is your revenue contribution from Nigeria? The currency has depreciated sharply, would this have any impact in the next quarter?

Sameer Shah:

The overall contribution of Nigeria business to our global revenues would be around 2% to 3% in terms of revenue. To that extent, we had the translation impact, but again it is just too small in the overall scheme of things.

Moderator:

Next question is from the line of Amit Sinha of Macquarie. Please go ahead.

Amit Sinha:

On Household Insecticides business, was the sales decline broadly same across the products?

Vivek Gambhir:

It is seasonal, but typically Aerosols do quite well because they are a top-up kind of a solution. But across the board, what we saw was April and May was slow and we have been seeing a pick up since June onwards. So, this happens every few years, this is nothing unusual, we know it is a seasonal category. Whenever there are issues with delayed rains or less rain, the Household Insecticides business does get impacted, but we have seen that it is only temporary.

Amit Sinha:

Is it fair to assume that the low-ticket item like fast card would have been much more impacted because of seasonal impact?

Vivek Gambhir:

From a contribution perspective, the bulk of the business is still from liquid vaporizers, etc. But, across the board, all have got impacted. The contribution of paper itself is quite small.

Adi Godrej:

Aerosol was the least impacted.

Amit Sinha:

Unilever Indonesia reported a very good set of numbers, so wanted to understand are you seeing any pickup in the macro off late for your Indonesian business?

Vivek Gambhir:

The industry numbers were negative volume growth at an overall home and personal category levels. So, versus that we still have done quite well. In terms of the macro situation, things have not improved yet, but there has been a cabinet reshuffle, which has been well received so the team is still quite hopeful that we should start seeing an improvement.

Moderator:

We have the next question from the line of Prasad Deshmukh of Bank of America Merrill Lynch. Please go ahead.

Prasad Deshmukh:

On Indonesia business, can you give colour on the category-wise performance?

Vivek Gambhir:

Both air fresheners and baby tissues did well. Household Insecticides, because of the seasonal issues, the performance was depressed. The good news there is that in spite of depressed performance in insecticides, HIT now is the number one brand in insecticides in Indonesia.

Prasad Deshmukh:

June is the month of Ramzan or Lebaran and typically it leads to the stocking up of goods, but despite that, this quarter seems to have been very bad for the industry in Indonesia. Is there a worse slowdown than generally is believed in Indonesia or was it a one off?

Sameer Shah:

Firstly, the macro still continues to be soft as what we said earlier, the HPC, in terms of volumes for last quarter was declining. Also within our business we had seasonal impact because of very heavy rains in Jakarta, on the household insecticides category. So it was a mixture of both, which resulted in relatively soft performance in Indonesia sales growth.

Prasad Deshmukh:

On India business, was there any issue in the wholesale channel about this PAN card disclosure?

Sameer Shah:

There were some issues in the second fortnight of June, but nothing material enough.

Prasad Deshmukh:

How much of your revenues from wholesale channel?

Sameer Shah:

Close to around 50%- 55% of revenues are from wholesale channel.

Moderator:

The next question is from the line of Amit Sachdeva of HSBC. Please go ahead.

Amit Sachdeva:

On Indonesia margins, they have come strong in the time where revenue growth has been difficult to come by due to poor macro. Also, we are starting to hit a higher base of margins now. So can you split the margin improvement between what has come from your own cost saving initiative mix and from commodity tailwinds? How do you see the year going forward when the macro does not need improve and margins are at a high base? What is the outlook for earnings from Indonesia?

Sameer Shah:

Q1 margins are close to around 24%, higher by around 230 basis point on a y-y basis and this is at a rate of 3% sales growth, which means we are hardly at any operating leverage behind scale. Going ahead, we are quite optimistic that sales growth will pick up, post launch of new hair colours as well as once the seasonal issues is done with in household insecticides category. So we should see the margin expansion and scale improvement. The base quarter, we will have relatively higher margin, but still at this stage, there is nothing much to believe that on a full year basis why EBITDA growth conservatively will not match sales growth.

Amit Sachdeva:

Largely earning growth will be driven by the sales growth in Indonesia, is this a fair understanding?

Sameer Shah:

That is a fair guidance. We also will have to support the new hair color product, which we are launching in the market. One more point is that we have also cross pollinated cross savings in Indonesia from India and that should also help in terms of funding margins.

Amit Sachdeva:

What sort of margin expansion has come from your own cost savings and also from commodity tailwinds?

Sameer Shah:

A good part of cost savings project, which we are working on, the margin expansion will come in Q2 FY17. Q1 saw more of margin expansion behind commodity tailwinds. Important to remember that crude has a longer lag. We expect to see margins moving up behind of the cost saving program, but some of it definitely will get reinvested back.

Amit Sachdeva:

There is a 2% sales growth impact due to some inventory reduction of wholesalers by your own initiative, is this the correct understanding? Is this a one-off impact?

Sameer Shah:

This is a larger initiative which we are rolling out in India known as Distributor Delight program. So amongst the many things that we are doing within this initiative, is to reduce down the inventory levels at a distributor level, not at wholesaler level, so their working capital gets released. We are looking and getting them dealer financing. So there are few initiatives which will be rolled out within this larger Distributor Delight program with the objective of improving distributors' ROI and eventually also sharing some part of increased ROI in terms of returns either through higher sales growth for us or even deploying more feet on ground for us.

Amit Sachdeva:

What has really caused this change in your thought process?

Sameer Shah:

This is for creating a win-win situation for both the Company as well as for our channel partners. It could be a gradual process and not just for one time.

Amit Sachdeva:

How much part of your distributor chain has been already covered within this? Where do you stand in terms of rolling initiative out?

Sameer Shah:

It differs from initiative to initiative. It is very difficult to dissect as to which initiative has been covered up by most of the distributors and which initiative is still in kick off stage.

Moderator:

We have the next question from the line of Shalini Gupta of Quantum Securities. Please go ahead.

Shalini Gupta:

Just wanted some colour on the extraordinary expenses, which we have seen during the quarter. Will we see similar expenses through the year for FY2016?

Sameer Shah:

The exceptional for Q1 FY2017 is more of restructuring expenses, which we had in our Latin American business. The exceptional items in Q1 FY2016 comprises of call put option related impact and few other impacts which have come in behind Ind-AS. What I would suggest you to refer is the Ind-As presentation which we had shared with investors and analysts, in which we have explained the quarter by quarter impact in the exceptional line item for the whole of FY2016.

V. Srinivasan:

The presentation is available on our website.

Moderator:

Next we have Nillai Shah of Morgan Stanley. Please go ahead.

Nillai Shah:

On the new hair colour launch under BBLUNT, why use BBLUNT as a brand for what is fairly a mid-market product?

Nisaba Godrej:

We are building BBLUNT as a more premium, younger, more style -focused, salon-endorsed brand. So selling under BBLUNT brand, at that price point, made sense.

Nillai Shah:

The brand building of BBLUNT beyond the top cities, so how do you take care of that especially when it competes with the likes of Garnier and L'Oreal?

Nisaba Godrej:

The business is going to have a general trade and mass media launch. As I mentioned, Kareena Kapoor is endorsing it. We are going to be spending behind this brand on mass media and this is also a category that does well on digital. If you see the work that BBLUNT'S brand has been doing in digital is quite effective. Kareena Kapoor has been going to BBLUNT Salons for years, so if you see some of the PR and stuff that we are getting on digital media is quite strong.

Adi Godrej:

These sort of products does not have much rural consumption, even if you look at L'Oreal products also.

Nisaba Godrej:

This should be quite widely distributed in urban.

Nillai Shah:

Can you give some colour on the Indonesia margin trends, going forward? Can you spell out some details on Africa, excluding the new acquisition of SON?

Sameer Shah:

It is very difficult to get this for Africa and SON's margin separately because a lot of spends for SON's business in Nigeria and Kenya is routed through Africa business, so spends are basically intermingled. Having said that, the overall Africa margins including SON on y-y basis are expanding, some because of the margins of SON, which is higher than what historically Africa margins have been, and some also because we have seen expansion in Africa in the core business. But going ahead, we should see decent expansion in Africa incl. SON business margins.

Moderator:

The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

On the overall demand, not just for GCPL, there seems to be a weakness in the consumption space. Are we seeing demand further decelerating and therefore it might take up few quarters before we get back to the older levels of growth? Or is this phenomenon more temporary? Is this a good time to go with a lot of innovations and distribution expansion in this kind of a market?

Vivek Gambhir:

Excluding Household Insecticides, the volume growth was about 13%, which is pretty good. The overall environment is subdued. In a subdued environment, we delivered 13% volume growth in non- Household Insecticides, this shows the strength of our execution platform and the fact that that some of our recent innovations like aer pocket, deo Stick are continuing to work. So we are seeing the impact of launching innovation, which is why even in Household Insecticides we have had a couple of very interesting launches over the last week or so. A couple more may come over the next few weeks as well. We have hair colour as well. So the idea is to continue investing for the longer term, so every launch that we are doing is disruptive and that gives us enough confidence that as the environment improves and then we have a bunch of initiatives that are already in place like One Rural, etc. So a combination of these will continue to allow us to outperform the market and hopefully in the second half of the year, we should start seeing the demand environment improving. We will have to wait and watch how quickly it improves.

Adi Godrej:

With good monsoon, seventh pay commission implementation and in case of GST coming through the next financial year we can see considerable improvement in demand.

Arnab Mitra:

On the soap business, the deflation still is quite high while your gross margins actually are now y-y down. In a scenario where standalone gross margins are down, what is actually stopping the soap category pricing from moving up? Is it that demand is weak and it requires promotions or is there competitive intensity?

Vivek Gambhir:

Some of these actions are determined by the market leader as well. We will have to see how the market leader ends up reacting and certainly if palm oil prices inch up we could start seeing price led growth. A little bit too early to say but let us wait and watch. In second half of the year, we could see a little more price led growth in the soap category.

Arnab Mitra:

On the J&K manufacturing facility, if you could just tell us the capex here and do you expect your excise rate and income tax rate to go down because of this facility? Is it more to maintain the current levels of excise and tax rates because some other facilities might be exiting exemptions?

Sameer Shah:

It is more of the latter. This will ensure that excise rate as a percentage of sales remains at similar level because we are gradually moving out of tax exemption in Himachal Pradesh and on MAT, we will continue to remain on MAT for foreseeable future.

Moderator:

The next question is from the line of Sanjay Singh of Axis Capital. Please go ahead.

Sanjay Singh:

For Strength of Nature, we have got Rs. 114 crore sales in 1Q, which seems to be a little lower. Is there any seasonality there?

Vivek Gambhir:

The result only includes numbers for May and June for Strength of Nature and the results are in-line.

Moderator:

The next question is from the line of Vishal Gutka of BNP Paribas. Please go ahead.

Vishal Gutka:

How has the performance been for rural versus urban this quarter?

Vivek Gambhir:

For this quarter, for the first time we have seen both rural and urban having more or less the same growth rate.

Moderator:

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

Latika Chopra:

Would it be possible to share some colour on underlying growth rates for Strength of Nature business in constant currency terms and also would the Darling Business be growing at 13% to 14%? Any update on your plans to expand the presence of SON's portfolio in Africa?

Sameer Shah:

Africa business growth, excluding Strength of Nature on revenues, is around 14% in constant currency terms.

Omar Momin:

For SON, we still are getting a sense of the business in terms of the spread across the US as well as Africa, so the numbers are a little mixed up. We will be able to give you more color in the coming quarters.

Latika Chopra:

Would there be any cost synergies that are significant in Africa?

Omar Momin:

Our objective is to use this portfolio and platform to accelerate and ramp up our revenue footprint in wet hair care across Africa. Given that it is already a very high margin category, what we are trying to do is really create a plan for maximizing the revenue footprint. There will be some synergies as we get both of these businesses to achieve this objective, but our focus right now is on revenues.

Latika Chopra:

On Latin America, would incremental price hikes help growth rates to improve from what you reported in Q1?

Vivek Gambhir:

It was a timing issue more than anything else. Hopefully, we should see a better performance in the quarters ahead.

Moderator:

The next question is from Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari:

On the standalone financial advertising and promotion, is there a feeling within the industry that even if you do a lot on ATL side, the demand is how it is and so there is no point in spending that much. So, rather focus on promotions and actually get some additional volumes through this measure. Is there a thought process over here across the industry right now?

Sameer Shah:

It is dependent on which category the business portfolio is predominantly into. So as I mentioned earlier, we have seen a bit of reallocation from otherwise what the ad spends would have been to more skew towards consumer offers and again within our portfolio, more towards soaps. That is the reason why optically we are seeing 4% decline in our advertisement & publicity spend and 200 basis points decline in gross margins in standalone.

Vivek Maheshwari:

Is it also in a way that demand is not improving so there is no point in spending so much on ATL, and thus let it flow through the bottom-line? Is this how the industry is currently thinking?

Sameer Shah:

There is a shift in trend over the last three to four quarters in terms of more trade promotions and consumer offers and a bit less on traditional media.

Adi Godrej:

In our case also the household insecticide category having suffered from the weather patterns, it would not make much sense for advertising at such a level.

Vivek Gambhir:

It is more of a timing issue more than anything else. With the advertising and promotions, we do not look at it on a quarter-on-quarter basis because new launches, seasonality, etc, make a bit of a difference. So there has been a bit of a shift towards promotions, but overtime that will come back again to investing behind advertising.

Vivek Maheshwari:

Subtracting Standalone from Consolidated, the differential, despite SON acquisition, at the subsidiary level, the A&P is down 8%, so anything specific to call out towards that?

Sameer Shah:

It is more to do with the mix. Just to refresh, Darling as a business has a very low A&P spend, and Africa, which again would be predominantly Darling, has grown at 14% in the overall international business.

Vivek Maheshwari:

Other expenses are down by 8% on standalone basis, is anything specific there? Staff costs, would be essentially EVA based and thus such a big decline?

Sameer Shah:

The reduction in employee cost is more driven by lower performance linked variable remuneration on a y-y basis. Other expenses have come down for a couple of reasons, one is because of the mix. We have processing charges for Household Insecticides category, which sits in Other Expenses. In Q1 FY2017, we had 11% decline so the processing charges have gone down to that extent. Also, we are seeing lower utility costs on a y-y basis in standalone, driven by the gas cost. So these are the major reasons why other expenses are down on a y-y basis.

Moderator:

The next question is from the line of Gautami Desai of Chanakya Capital. Please go ahead.

Gautami Desai:

BBLUNT products are available in BBLUNT salons and in modern retail. How would you make a larger set of people try out these products? Would you try other salons and would they allow because BBLUNT is a competitor to them? What is the strategy going to be?

Nisaba Godrej:

The strategy for BBLUNT is not to be a salon brand. The strategy for BBLUNT is to be a retail brand with salon endorsement. This is a very common model abroad. If you see Toni & Guy, Charles Worthington, John Frieda, etc they take their salon equity and put it into retail. We are already in retail stores with the hair color, and we will distribute it even wider. The other channels that are very strong and growing for BBLUNT is the e-commerce channel, where there is high involvement and a lot of the customers are online.

Vivek Gambhir:

We have a very strong footprint in cosmetic stores, chemist channels, urban stores, but the idea is to leverage our general trade distribution for BBLUNT.

Moderator:

The next question is from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur:

What is the category growth in the Household Insecticides segment and Hair Care segment?

Sameer Shah:

We would not want to share any details provided by the researchers.

Vivek Gambhir:

All we can say is that we have largely maintained or increased our market share.

Ajay Thakur:

Looking at it from a five year perspective, this is the first time that we have seen a decline in the Household Insecticides segment category, so in what the main reason for losing the momentum?

Vivek Gambhir:

I would not read too much into it, because it happens every two or three years. It is a very temporary phenomenon. This is a very seasonal category and we also had a couple of slow months. But, we are seeing a pick up again with a good monsoon.

Sameer Shah:

In Q2 FY2015, in the Household Insecticides category, we grew at just 2% and in Q3 FY2015, we saw the growth rate of 16%. So that is the kind of seasonality impact that we have normally seen in the past. So, as shared earlier during the call, June did see a pick and July has been excellent in terms of growth rate. That is the way this category behaves. The best way to look at this category as well as its growth is more on a four to six quarters accumulated period basis rather than just one quarter's performance.

Ajay Thakur:

If I were to look at on a cumulative or aggregate basis for the last four to six quarters, the momentum is actually coming off. So which lever is losing momentum?

Adi Godrej:

In general, the FMCG momentum is low.

Vivek Gambhir:

So from the perspective of our brand share position, our distribution, innovations, whatever is controllable, it is going quite well. As the economy improves and as we start seeing consumption increase, things will again actually start improving.

Moderator:

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

Richard Liu:

There is about 8% decline in Other Expenses in the parent's accounts, which is due to various cost savings program, but at the same time, there is a 17% growth in the subsidiary's account. I reckon that a part of this would be because of the SON addition into the international business. A similar trend is in staff costs where there is a 23% y-y decline in the parent's business, but the subsidiary's staff cost has actually grown by 22%. Any comment on this diametrically opposite pattern in terms of costs between the India business and the International business?

Sameer Shah:

It is more to do with the mix. On the employee cost as a line item, the standalone employee cost has come down driven by lower performance linked variable remuneration, but in the International business, Africa business has grown at close to 14%. That business has a relatively higher level of employee cost. So, it is more to do with the nature of business than anything else. In addition to that, we also have new business additions like Strength of Nature and Canon Chemicals. So, it is more driven by the geography mix as well as addition of new businesses.

Richard Liu:

On the line item, there is a gross margin compression in India and drastic reduction in fixed costs whereas in the subsidiary, there is a gross margin expansion and an increase in expenses. So, say if the SON business added about 5% to the International business revenue and 10% to the subsidiary's account, but then at the same time there is around 20% increase in respective line items. So is it also to do with some line moving between COGS and overheads?

Sameer Shah:

The gross margins, which we are seeing optically in standalone does have delta impact of around 250 basis points behind higher consumer offers. Excluding consumer offers, the gross margins in India would have been higher by around 50 to 60 basis points on y-y basis. As I mentioned earlier, this is more of spends reallocations on A&P line to consumer offers and hence sitting in gross margins. So optically, gross margins are down but excluding consumer offers, gross margins are up by 50 to 60 basis points on y-y basis. In terms of International businesses, gross margins have moved up, it is more driven by the fact that in large businesses like Indonesia as well as Africa, there was gross margin expansion because of commodity tailwinds, cost saving programs as well as because of scale.

Richard Liu:

Any major area that you can outline that led to this sharp 8% decline in Other Expenses?

Sameer Shah:

Household Insecticides business, which is roughly half of our India business, has de-grown by 11% in Q1 FY17, so the processing charges on Household Insecticides will come down. Secondly, the utilities cost and within that, the gas, which is the larger component, has come down dramatically on a y-y basis. So these are primarily the two sets of reason why Other Expenses have come down by around 8% in standalone.

Richard Liu:

What is the net debt at this point in time?

Sameer Shah:

In terms of movement, Strength of Nature was added in Q1 FY17 and we did share the value that we paid to Strength of Nature at the time of the call. So that was the only major addition, which we will see in debt from March 2016 to June 2016.

Richard Liu:

Have you paid down some gross debt and also lowered your cash position?

Sameer Shah:

It would be the routine repayment, which we normally have on a periodic basis, but nothing material.

Moderator:

I would now like to hand the conference over to Mr. Harit Kapoor for closing comments.

Harit Kapoor:

On behalf of IDFC Securities, we would like to thank the Management of Godrej Consumer Products as well as all the analysts and investors on the call. I would like to hand over to the management for any closing remarks.

Adi Godrej:

Thank you. With that, we would like to bring this call to a close. Thank you all for being on the conference call.

Moderator:

Thank you very much. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.