Godrej Consumer Products Ltd.
Regd. Office: Godrej One,
4th Floor, Pirojshanagar,
Eastern Express Highway,
Vikhroli (E), Mumbai - 400 079, India.
Tel : +91-22-2518 8010/8020/8030
Fax : +91-22-2518 8040
Website : www.godrejcp.com

CIN : L24246MH2000PLC129806

August 08, 2022

BSE Limited
Corporate Relations Department
1st Floor, Rotunda Bldg., P.J. Towers,
Dalal Street, Mumbai 400 023
Scrip code: 532424

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai-400 051
Symbol: "GODREJCP"

Transcript of Conference call with Investors & Analysts held on August 04, 2022

Dear Sir / Madam,

Please find enclosed herewith transcript of Conference Call of Godrej Consumer Products Limited with the Investors and Analysts held on Thursday, August 04, 2022 at 10.00 a.m. The aforesaid information is also being hosted on the website of the Company at the below mentioned link:

https://www.godrejcp.com/public/uploads/financial_presentation/GCPL_Transcript_1Q_FY2022_23.pdf

Please take the same on your records.

Thank you.

Yours faithfully,
For Godrej Consumer Products Limited

Rahul Botadara
Company Secretary & Compliance Officer

"Godrej Consumer Products Limited
Q1 FY2023 Earnings Conference Call"

August 04, 2022

ANALYST: **MR. JAYKUMAR DOSHI - KOTAK SECURITIES LIMITED**

MANAGEMENT: **MS. NISABA GODREJ – EXECUTIVE CHAIRPERSON - GODREJ CONSUMER PRODUCTS LIMITED**
MR. SUDHIR SITAPATI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - GODREJ CONSUMER PRODUCTS LIMITED
MR. SAMEER SHAH - CHIEF FINANCIAL OFFICER & HEAD INVESTOR RELATIONS - GODREJ CONSUMER PRODUCTS LIMITED
MR. PRATIK DANTARA – ASSISTANT VICE PRESIDENT (M&A AND INVESTOR RELATIONS) - GODREJ CONSUMER PRODUCTS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Godrej Consumer Products Limited Q1 FY2023 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jay Doshi from Kotak Securities Limited. Thank you, and over to you Sir!

Jaykumar Doshi: Thank you. Good morning everyone. On behalf of Kotak Institutional Equities I welcome you all to Godrej Consumer Products 1Q FY2023 earnings call. I will now hand over the call to Pratik Dantara, AVP, M&A and Investor relations for initial introduction. Over to you Pratik!

Pratik Dantara: Thank you Jay. Good morning and welcome to the call. We will be covering the results for the quarter ended June 30, 2022. On the call with me from GCPL are Nisaba Godrej, Executive Chairperson, Sudhir Sitapati, MD and CEO and Sameer CFO. We can start. Sudhir over to you!

Sudhir Sitapati: Thanks Pratik. Good morning everyone. I hope you and your families are doing well and thank you so much for joining us on the call today. I will first start with an update on our quarterly performance. On the face of it Q1 FY2023 appears optically poor but we are actually quite encouraged. We declined volumes 5% grew by 8%, declined EBITDA by 13% and PAT by 16%. However, given the various COVID disruptions, headwinds and tailwinds in the last two years we think that the right way to evaluate underlying performance is to look at 3-year CAGR and how the trajectory is changing over quarters. Our three-year CAGR volume is 3%, sales 10% and EBITDA 5%. If one takes the core geography of India we grew 4% underlying volume growth, 12% sales and 11% EBITDA on a three-year basis. This compares favorably with a three-year CAGR of the prior two quarters of 7% sales and 0% EBITDA.

We are also quite happy with the quality of results globally. Our gross margins contracted by 560 BPS and our media increased by 140 BPS but driven by cost savings we were able to limit our EBITDA drop to 420 BPS. Our performance has been largely driven by areas where we made structural interventions, media across the board i.e India Hair Colour, India Hair Care and Kenya.

Our Household Insecticide businesses in India while again having an optically poor one-year performance has significantly increased improved its 3-year CAGR trajectory versus the previous few quarters.

Indonesia delivered a particularly weak performance with sales declining at 12% and EBITDA at -40%. While again here the performance looks optically very poor, there are some green shoots. If one excludes the base of Saniter which will reduce by Q3 FY2023 and look at sell outs (we continued to and will continue to reduce stocks including this quarter), we actually grew offtakes by 4%. The macros in Indonesia are also looking better. Weak sales compounded by cost inflation and 120 bps investment in advertising and promotion, which we continue despite the gross margin fall has meant that EBITDA drop has been very large. With our strong market positions media investments resulting in recent share gains in Indonesia and our determination to reduce our trade pipelines we expect the Indonesia situation to start improving by Q3 FY2023 onwards.

GAUM continued its double-digit momentum on a three-year basis. The dry hair category grew in mid single digits driven by disappointed performance in Nigeria while the FMCG category grew in high double digits. The growth flywheel in GAUM has started to move but we need to simplify business and significantly strengthen governance which we are working on. The EBITDA margin decline in GAUM was largely due to higher marketing investments.

Our prognosis for FY2023 remains broadly unchanged. We anticipate double digit topline growth with low to if we are lucky mid-single digit volume growth. With inflationary pressures abating we expect sharp margin recovery from H2.

Our game plan is to enhance category development driven by relevance, access and marketing investments and funded by a digitally enabled simplification of our organization. We have scheduled a slew of category development initiatives in Q2 which we believe will build relevance for our categories.

For instance within household insecticide where we are the market leaders in India we have recently repositioned Goodknight liquid vaporizer as a protector of sleep under the campaign "Neendon ko nazar na lage" and relaunched Hit as well.

Within air fresheners to drive premiumization in the category and get nonusers to start using Aer Matic based on the insight of when guests come home your bathroom or room needs to smell good we have launched a campaign which says, "if rooms could speak they would use Aer."

We have recently launched Magic Ready to Mix Body Wash in India with Shah Rukh Khan as brand ambassador which we hope will not just develop the body wash category in India but make a significant difference to perceptions on plastic usage in the country.

On journey on simplification is making good progress. Our cost to serve is down 370 bps in Q1. With inflationary pressures abating we expect that these controllable cost savings along with the marketing investment will give us significant fuel for growth and digital transformation. Thank you very much. Happy to answer any questions you may have.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks Sudhir so my first question is essentially on the steps which you have taken post joining so essentially past few quarters numbers have been optically weak in some of the quarters and your three-year growth is still looking decent so my question is based on the steps which you have taken say better emotional messaging in your advertisement, better go to market focusing on core and higher A&P also, the numbers, etc., obviously we cannot decipher the impact of these steps because they are optically weak so my question is any anecdotal evidence or any initial case study you can share in terms of all these four, five steps which can give us more comfort?

Sudhir Sitapati: Abneesh more than anecdotal simple way of looking at the numbers is to look at what was our trajectory pre-COVID and now we are in a post-COVID period and as our trajectory changed this quarter over the last few year quarters is simple question to ask. Especially if you look at India where things are stable (Indonesia we have been doing a lot of pipeline corrections), if you take our last two quarters our three-year CAGR was about 7% and it has now moved to 12% in this quarter so that in itself is quite encouraging for us because when we look at three-year CAGR polarity we feel it is changed in Q1. Anecdotally, a lot of the initiatives where we have put what have we changed we have fundamentally increased our media spend, we have fundamentally simplified the organization, the media spend increase is evident to you in the numbers. Simplification of the organization results in cost savings; those cost savings are again pretty evident in the numbers because if you knock off gross margin and media, you will see that significant reduction in everything else which is cost to serve. In terms of the media working apart from the polarity the good thing is that where we have made interventions. We have hair colour, we have hair care, but even in home insecticides (HI) where we have significantly stepped up our media investment, we are seeing changes in three-year CAGR trajectory.

Abneesh Roy: That is helpful Sudhir. Two quick follow-ups on that one is in terms of HI seasonality is a very big factor for the industry and we cannot do too much about it but this better emotional connect in terms of the advertising message and say in terms of more advertisement against illegal and maybe even more disruptive innovations because this is a tough category very highly commoditized could you tell us when do we start seeing more action here for example disrupting innovations is it more in FY2024?

Sudhir Sitapati: In our view there are two things in the HI category that we probably need to do which is our two core formats in HI which are aerosol and electrics have relatively low penetration in India and Indonesia actually and one of the way of increasing penetration is just increasing media and distribution and we have done that. We are anyway seeing results on a more long-term basis. The second in the case of liquid vaporizer in India which has been a bit of an issue for several years we have repositioned the brand where we have moved it to "Neendon ko nazar na lage," our insight has been that perhaps for consumers this brand was created as "meethe sapne" or "Goodknight dost" and the name is Goodknight and good sleep. Perhaps we have moved a little bit away from that and there was little bit of hesitation among consumers to use liquid vaporizers to sleep at night when kids are there, etc., and therefore we have taken a pretty strong shift from talking about efficacy in performance to talking about sleep of infants so I think a combination of these two in our view is starting to yield result. I know it is not evident in the result basically during COVID there was an unnatural increase in the use of household insecticides which were now clear to us that consumers were at home they were very scared to go to the hospitals, etc., but overall a longer-term trajectory we are actually quite enthused by our HI performance in the quarter.

Abneesh Roy: Sir last question is on Africa business so in FY2022 annual report also and today also you have called out two things simplification and governance could you give us some steps on both these facts and when do you see both these issues getting fully resolved?

Sudhir Sitapati: In the simplification part of the business we have started the process there which is to focus on the core of our business to reduce our SKUs to put most of our investments in core markets to start advertising, etc., so again on the simplification journey see in Africa over the last few years Abneesh we have seen good topline performance but relatively muted bottomline performance. The topline performance I think will continue to be good and I am hoping that the steps that we have taken to simplify the business and governance, governance is a slightly longer haul thing because it is strengthened it is a cultural thing and we have got to do it across and there are lots of investments to be made but simplification is relatively a lower hanging fruit so I am hoping we should start seeing results pretty soon in terms of margin performance in Africa as well.

Abneesh Roy: Sure thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Hi good morning Sudhir and team. My first question is on Indonesia in your understanding how much of the issue that you are seeing on the ground are right now let us say external factors and how much of those will be something which are more internal and you would be able to address those in next let us say couple of quarters?

Sudhir Sitapati: I think Vivek in the case of Indonesia there has been two sets of issues one is that in the past few years the macros were indeed quite poor in Indonesia and I think over a longer period we have probably not invested enough in Indonesia. In both cases we have changed our investment patterns in Indonesia over the last five to six months and we are actually seeing macro improvement in Indonesia in the last few months and the very first measure that we have of whether there is light at the end of the tunnel is to see offtake and that has actually quite encouraging in this quarter not spectacular but encouraging. There has unfortunately been a very large pipeline buildup in Indonesia over the last few years and that pipeline buildup will take up to I think the end of Q3 for Indonesia to really start optically looking good but on Indonesia there is some kind of light I would not say we are out of the woods yet but there is some kind of light there.

Vivek Maheshwari: Got it and when you say pipeline how are you ensuring that is it like cutting down on SKUs, is it that the levels of push was higher in the past, how exactly that is happening and is there something similar happening in India as well because our checks are suggesting that even in India you have cut down quite a bit on SKUs?

Sudhir Sitapati: Cutting down SKUs is a good thing to do in terms of simplification and structural cost that thing we are doing everywhere. In India we do not have an issue of inventory in the pipeline so in

Indonesia we have that for that we are just reducing our sales and only basically if you have 90 days of inventory and you want to reduce it to 60 days you are knocking off 30 days of sales.

Vivek Maheshwari: Interesting. Just last follow-up on this I think you have indicated by third quarter it should be done after that do you think Indonesia should ultimately get back to double digits in foreseeable future?

Sudhir Sitapati: I do not know about double digit Vivek but I will certainly get back to high single digit growth. In our portfolio Africa and India will probably go structurally faster over a long period of time just in terms of the macroeconomics and so on, so I do not know whether Indonesia will get to fully double-digit growth and I am reasonably certain India and Africa will but it will certainly not be where it is right now.

Vivek Maheshwari: One more follow-up given that you have mentioned that point the delta between high single digit and double digit that has to be bridged by macro factors if you are saying that it can be high single digit and not double digit you can actually look to get into newer categories if macro is conducive right so what will bridge the gap between high single digit to double digit is it just the macro external factor or there can be internal factor which can push up this two double digit?

Sudhir Sitapati: I think the honest truth in Indonesia is Rajesh has just gone there and right now our mandate is to come out of where we are which is having a double digit decline to bring this back to stable growth, recover good part of our margins we have got clear plans on India and Africa on how to kind of accelerate growth I would say our step one for the next even 6 to 12 months is probably to get Indonesia back to a steady footing and then we will think about what should we do in Indonesia, should we kind of get in to new categories, etc., that is not what we are thinking about right now in Indonesia.

Vivek Maheshwari: Okay got it. That is fair and the second and last question on marketing spends it is very good to see you talking about growth amongst various other things on the simplification side but Sudhir if I still look at your advertising spends and I know denominator is different given the inflation and the price hike that you have taken but if I go back in the history your spending in India business is almost 11% kind of A&P or marketing spend that was and at a consolidated level at about 8% are you happy with the current spending levels because absolute numbers in the last five years have also not moved up as much so where do you think this number settles at from the current levels of about 6 to 7%?

Sudhir Sitapati: This is increased journey you see it is not prudent this is a quarter in which we declined our gross margins by 560 bps but despite that, increased our media spends by 140 BPS this is quite unorthodox right to spend this kind of media increase in a time of high cost inflation if your question is this where we are going to end up at no, but we are going to do this sensibly because there is no point just generally increasing media because there are lot of other things that have to go with it, quality of communication, we have to see what the return on media investment is, etc., etc., but I think we should show some commitment of our business that regardless of gross margin, regardless of cost pressure we feel that we will continue to invest. We are already seeing green shoots and as we see the return in investment of this media playing up it will become more and more as time goes on.

Vivek Maheshwari: Okay and just a follow-up on this again do you not think that time is conducive right now to actually spend while gross margins are going down for you so is the case with competition and this is the time for you to basically maybe outspend some of the competition and basically gain share so is that not the fair strategy given that you do not have any balance sheet concern, you do not have any other cash flow related constraints?

Sudhir Sitapati: Vivek the core of strategy is not competitive and share gain for GCPL it is category development and therefore we have to put whatever is appropriate for category development, see the results, modify it and then put more so there are obviously pockets where we are competing and etc., etc., but the thrust of our strategy is to develop the categories and it is prudent. As you correctly said it is not because of the balance sheet but one has to be prudent about how much one is increasing and the result one is getting. I can just say that in Q1, I am personally I know it is not easy to decipher it in the middle of all this data but I am personally quite happy with return on media investments that we have seen in relationship to category development and this is therefore a journey that will continue going forward.

Sameer Shah: Just to add to what Sudhir is saying I think directionally we will invest in expansion and gross margin which is expected to kick in the rest of the year, in terms of either gaining market share but more importantly also driving category penetration.

Vivek Maheshwari: Perfect thank you Sudhir. Thank you, Sameer. All the very best.

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

Percy Panthaki: Hi everyone good morning. My first question is on HI so just like you have given the three-year CAGR for the overall business in India at around 11% to 12% what would be the three-year CAGR in home care?

Sudhir Sitapati: So Percy we do not now declare HI results separately but I think it is suffice to say that there has been significant polarity improvement in HI in Q1 on a three-year CAGR versus the prior quarters.

Percy Panthaki: We do not report HI but we report home care so home care three-year CAGR is it possible to give?

Sameer Shah: Percy just in terms of data and direction I think three-year HI CAGR is close to double digits for us.

Percy Panthaki: Secondly I just wanted to ask Sudhir I think you were not there so maybe Sameer can give a perspective across time period when this illegal incense stick problem had come up immediately we had launched a natural incense stick and we had also communicated that in due course of time we would be launching an active molecule incense stick but since the regulatory approvals, etc., take time it would be maybe one-and-a-half years for the launch but now it has been over four years so just wanted to understand why is that we have shelved that project?

Sudhir Sitapati: Percy my personal view is we are of course working on burning formats and things like that but I think our personal view here is that globally the world is into aerosol and electrics and our job is to develop electrics and aerosol and when those two formats are compelling to consumers then a lot of the proxy and illegal products will disappear so our strategy continues to be category development with what we are good at which is aerosol and liquid vaporizer within that of course we will figure out what to do tactically and I think Sameer gave you a sense of number which kind of enthuse us we think that is the right way to compete with the illegal incense sticks.

Percy Panthaki: Got it. Shifting gears to Africa your margins are still in single digit can you give some roadmap as to by when we can reach that 15% kind of mark which is a respectable margin how long will it take and secondly what will be the drivers to go from this 8%, 9% to 15%?

Sudhir Sitapati: I will answer the second question first. I think there are two issues see firstly Africa has been a tale of two parts, topline has been good it has been driven frankly by FMCG growth and distribution improvements right so we are on a good journey there, and bottomline has been bad. Bottomline has been driven by two factors the first is we constantly get governance hits like we got in the last quarter in Africa which erode profitability and two structurally for the size and gross margin of the business that business is too heavy and it is too complex so what we are now doing is tightening the governance so that we do not have these onetime governance hits but more importantly simplifying the business taking a look at our portfolio saying which parts of our portfolio will be plain, which parts of our geographic portfolio will be plain and if it means giving up some business in Africa and so be it and that is the kind of strategy going forward so kind of choiceful topline growth, definite focus on bottomline I hope we get to the numbers that you are taking to by 2025.

Sameer Shah: I think couple of other drivers to this also will be favorable mix because our strategy is to invest more in FMCG which is going to be a favorable mix from a gross margin perspective and also experiment of scale leverage cos saving programmes to kick in to get to that 15 to 16% EBITDA by 2025.

Percy Panthaki: So when you say FMCG you mean wet hair care here?

Sameer Shah: Wet hair care, household insecticides, soaps and hair colour there is a basket of FMCG which is close to 45% of our overall salience.

Sudhir Sitapati: But the core of the business Percy is wet hair and the next core will be household insecticides, so this is two businesses there.

Percy Panthaki: What really went wrong in dry hair care we were quite positive on this category when we did the acquisition in 2012 what went wrong here?

Sudhir Sitapati: There has been long history of our business in dry hair care but in the recent past it has been doing quite well in terms of topline but not as well as we want in terms of bottomline. If you are asking me for historic reasons Sameer is a better guy to talk but in the recent past the governance and the complexity reasons are the reasons why this business has a low EBITDA margin, on a longer-term basis Sameer you may want to talk.

Sameer Shah: I think a shift in strategy to sort of make hair extension cash flow right to create a tool for investments for FMCG I think the growth will come in from both the categories and it is not about completely defocusing on the hair extension but making it much more simpler than what it has been historically whether it be number of SKUs, the number of styles and then in turn simplifying rest of the business operationally so that is the shift in strategy otherwise it is very much going to be integral part of the portfolio going ahead in Africa.

Percy Panthaki: Sure. I have more questions. I will take them offline. Thank you very much.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: So my first question is with regards to the body wash segment of Rs.45 that you have launched so wanted to understand who will be our target consumer segment in this launch that we are targeting while the mass or the mid premium guys would be soap and it is only the top end guys who are using the body washes so what kind of strategy you will be targeting here?

Sudhir Sitapati: Gaurav look the body wash offers some significant benefits to soap for everybody whichever high income or low income the reason that only high-income consumers in India use body wash is the price index to soap is 1:3 so bringing the price index to 1:1 we are hoping that body wash becomes a mass market offering. It is a game changing innovation but it is mass innovation aimed at mid income and low-income consumers.

Gaurav Jogani: So my next question is with regards to the price mix that you have taken down over the past five to six months though the hair colour is growing the Rs.15 launch or for example even this body wash launch for Rs.45 or the HI piece that we have done the relaunch of the older version so how it is expected to impact our margin profile given that this will be a bit lower price point products?

Sudhir Sitapati: The margins firstly in India are healthy and I think a lot of analysts rightly say that we should invest in consumer value and therefore our number one priority as I have said before is to drive volume growth back and if you get volume growth with the kind of leverage you will get it is very unlikely that they will have an impact on margins. They are structurally and fundamentally high margins they may be slightly lower than what we are selling today in the market but we are better off selling a lot more at 70% gross margins than a lot less than 80% gross margins products.

Gaurav Jogani: Okay Sir got it. Thank you.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Hi good morning. Thanks for the opportunity Sudhir and Sameer. I have two questions one is on India business and when I see that you have reported on slide 13 personal care growths at 25% I just wanted to understand what is the price and volume in personal care?

Sameer Shah: I think for competitive reasons we do not share the cutoff category for unit basis but if you double click towards personal care in soaps I think good part of growth is pricing less but equivalently in hair colour which is the other major component in personal care good path of growth is actually volume led so I would say the underlying volume growth (UVG) would be reasonably steady over there.

Shirish Pardeshi: Thank you Sameer but at least for India business will you be able to share what is the volume growth?

Sameer Shah: Yes we have done that. On the same slide actually you see India's UVG on Y-o-Y basis has declined by mid-single digit and on three-year basis it is actually close to mid-single digit.

Shirish Pardeshi: My second question is on the margin front. Yes we know Indonesia will turn around after Q3 onwards but I am not saying in terms of guidance but the bigger thing which I am seeing and I think some earlier participant also raised this, the advertisement spend right now we are seeing on average we are doing about 200 odd Crores but in the past we used to about 250 to 300 Crores so I do get what Sudhir has often said that we want to be very competitive and we got the benefit but it is just not the advertising but if you can spell out what is exactly the spends, are we spending on category development in terms of the below the line or you think advertisement spend is not materially going to help at this time and maybe in future we will look at it?

Sudhir Sitapati: Advertisement spend is going to materially help this time and it is helping in this time so quarter-on-quarter we will increase the advertising spend by 150 bps which is a pretty significant jump for quarter versus quarter. We may not directly go back to the peak quarter that we had before. We are also constantly iterating. Bulk of this is in mass media which is largely on television and then on digital which is basically on You Tube and OTT and it is largely towards category development and focused on the core so the other big difference is that this kind of media increase is not spread out over a huge number of small projects they spread out over market development on the core of our business so even qualitatively the way we are spending big money is on few big things.

Sameer Shah: Also the advertising spend what we refer to as "below the line" spends have actually come down in the quarter which is reflected in the overall cost to serve coming down by 350 plus bps so the strategy is to kind of have more of media investment and reduce down trade promotion spends and other aspects of the controllable spends to again create that route for investment.

Shirish Pardeshi: Sameer how do we should model is that about 7% for full year is a good enough thing I am purely asking from the modeling purpose?

Sameer Shah: I think it is difficult to give the guidance on that Shirish but Sudhir did mention in his opening remarks right and as of today on full year basis we do expect conservatively our margins at overall level will be maintained but what will be more important over there is the quality of profits. They will significantly improve in terms of gross margins hovering up, in terms of advertisement spends hovering up, the cost to serve is coming down so that is what we are pretty enthused about and net-net I think on a full year basis at least sitting over here at this point in time we do believe that we will be able to maintain our margins.

Shirish Pardeshi: Thank you Sameer and Sudhir.

Moderator: The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Thank you very much for taking my question. Hello Sudhir. Hello Sameer. My first question was with respect to the category development which you have talked about Sudhir I understand around HI what the plan is but on the personal care side do you think that we will be expanding this category beyond body wash, are we thinking about going deeper into the personal care category in the course of next couple of years and a sub question to that is do we have plan around our distribution target which we plan to reach in the next 2 to 3 years this is across the spectrum so this is my first question?

Sudhir Sitapati: See in personal care we have two businesses which are large today one is soaps and one is hair colour. I think soaps is not a category development task it is a market share task; the category development task is really in hair colour and that is going to be the focus of our development. The one of the things that we have done is to launch an access pack and that is yielding good results so far. I would say that while of course we have done Magic Body Wash and that is kind of something that can really do well for us. I would still say that the focus of our personal care business in the next short term will be in developing the crème market in hair colour. On distribution in India our distribution of soaps is very good and that is the lead category and all the development category are subset of soaps so given the fact that our focus is on category development it is not as much of going to new outlets as much as taking these categories like aerosol or liquid vaporizers to outlets that we already cover so it is to leverage our distribution for category development; however, in Africa and Indonesia I think there is definitely a very strong drive in Indonesia to improve our general trade distribution and in Africa to increase our general distribution which is today very, very wholesale focused so I would say Africa followed by Indonesia are our distribution priority. India is much more efficient about using what we have for category development.

Sheela Rathi: My second question was in the media spends I know there has been lot of questions on that but just wanted to confirm have we called that accent would be ad spent would be double digit as a percentage of sales over the next 12 to 24 months?

Sudhir Sitapati: No we have not called this out. I think many companies in personal care globally do spend those kind of amounts in ATL. I do not think one should have a target spend on ATL that is not the right way of doing it. I think one can keep sort of saying that we have gone too low or too high and then one has to constantly increase it, iterate it and see what the return on investment is right because it is just not an ideological thing that we want to spend so much money, so it is not proper for us to go directly from A to B because this is the right amount to be spent in personal care. This quarter we have done 150 bps we may been on that kind of rhythm for some time and if we do not see good results sort of iterate a little bit and say hey what is going wrong if we see good results increase it a bit more so I think that is probably how we will phase out our media increase. I think it is fair to say that we will continue to increase our media spends but probably not right to give a number and when we will get to it.

Sheela Rathi: This will not be at the cost of margins I would believe?

Sudhir Sitapati: The way we think about this is that our number one priority is volume growth and we should do what it takes to get to volume growth especially in core markets in India and Indonesia and at the same time we are putting a lot of work on costs so you can see it in our results. This time you knock off gross margin, you knock off media and you will see how much saving we have got some of the savings are one time like bonus provision but even otherwise the savings are quite high so I think these are two separate tracks that we are on. Volume growth driven by investment and kind of ruthless cost savings and wherever they add up to, they add up to and I suspect they will not add up to EBITDA dilution.

Sameer Shah: I think just to add Sheela in medium to long term we do not think so that the increase in ad spent will come at the cost of margins especially in rest of the year we do believe the gross margins have bottomed out, we will see gross margins maintenance took expansion but in very short time like I have demonstrated in Q1 if we are going to invest we will not shy away either right even if it does at the cost of margins because the benefit of higher kind of media spends will result in sustainable volume growth in medium to long term.

Sheela Rathi: My third question was on how do you see the future say in the next 3 years especially when we are talking about simplifying Africa business, rectifying Indonesia business do we have a number in mind in terms of what the share of India business would look like in the next three years will it be higher than where we are now or will be it similar to the current level?

Sudhir Sitapati: Well, I think there are two ways of looking at it Sheela one is the share of India business from a revenue perspective and then share of India business from a profitability perspective as we have called out Africa is equally important, we do expect sustainable sales growth has been demonstrated since last 7, 8 running quarters and profitability is something which kind of scale up over the next 3, 4 years over there. India we do expect again sustainable profitable sales growth and Indonesia after couple of quarters should be on gradual recovery path. We do not have any such cuts or ambition in terms of what should be India's salience in terms of revenues or profitability but it is very market specific and in the past period also highlighted that within our portfolio 80% kind of salience comes from the mix of market which is India, Indonesia, Nigeria and Bangladesh and we will continue to invest in those markets geographically.

Sheela Rathi: My final question was with respect to the dividend policy how is the company thinking about paying out dividends starting this year or what is the plan there?

Sudhir Sitapati: You see it is a Board decision at the end of the day. We are thinking at least for the last couple of years not so used the free cash flow towards retiring our debt by net debt in net cash in a way but there is still a gross debt but we will keep on evaluating multiple options of using the cash flow either retiring the debt or rewarding the shareholders through all the possible options during the course of the year.

Sheela Rathi: Thank you Sudhir. Thank you Sameer.

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

Avi Mehta: Hi Sudhir. Hi Sameer. Just two questions. Sudhir on this HI focus does the focus on communications entail more a market share gain kind of thought process rather than category development would that be a right way to look at this at least in the near term?

Sudhir Sitapati: No Avi I do not think so. I think that firstly the HI solution is a combination frankly of three things of relevance which is communication driven trial which is sampling driven and access which is to get the right price points in the category that we operate in. We have started off and it is most visible because of media spends, etc., on relevance. If you see for Google the latest Goodknight communication it is not a market share kind of communication it is growing the pie kind of communication.

Avi Mehta: The reason is when you kind of mention it you said that to counter the incense stick it is felt that you are trying to gain share from incense stick through this communication if I remember in the earlier conversation you said you want to develop the base and the product development would allow us to expand the category to that extent?

Sudhir Sitapati: If that is what you mean Avi this category is 75% to 80% penetrated in India, large amount of it is coils and incense sticks and when we say develop the category I mean develop the category for aerosols and liquid vaporizers not to win share within liquid vaporizer and aerosol but to really upgrade people from burning format into these formats is the consumer task so if you are saying share of overall HI then the answer is yes because there are not that many people in India who do not use any HI through the year so in that sense yes.

Avi Mehta: The second bit is I wanted to just clarify this. In Indonesia you said change in investment patterns was this just that there was lesser marketing done on the core and that is what you are changing or is there a diversion or difference in the way marketing is being looked at now versus even pre-COVID?

Sudhir Sitapati: As I told you there are two issues but since you are asking the question on marketing was more acute symptom of what overall company was but the overall ATL spends were way too low in Indonesia for a very long period of time, as a consequence EBITDA was very high and as a consequence growth has been not very good growth in Indonesia for few years so there is a structural change that we are doing like we are doing everywhere else in the world in Indonesia it is the most acute so that is what we are changing in Indonesia.

Avi Mehta: So if I were to extend this further the normalized margin would you have a thought in mind of where you would want Indonesia to be because obviously the 22% odd that we saw ever pre-COVID was on the back of very low ATL so is there a number?

Sudhir Sitapati: Pre-COVID Indonesia was running at 26%, 27% margins, again it is not 22% it is very higher margin There have been quarters which it has crossed 30% but I think that again is not probably the right question. I think the right question to ask is what is the amount of media investments that we need to put that media investment, whatever the consequence on EBITDA is then on the same time I ask the question on what is the cost savings possible so again on Indonesia the nature of businesses if you ask me that we are operating in Indonesia if we are efficient about it can operate with higher ATL roundabout the EBITDA that we are operating at without being exact about it so in another word there is enough scope for efficiency even in Indonesia for us to fund significant ALT increases.

Avi Mehta: Perfect that helps. That is all from my side.

Moderator: Thank you. The next question is from the line of Alok Shah from Ambit Capital Private Limited. Please go ahead.

Alok Shah: Hi good morning. Thank you for the opportunity My first question is Sudhir in the previous quarter in the 4Q conference call when there was question on HI you said that we will discuss that in detail in 1Q, in this presentation and the conference call what we understand is about the new marketing message, etc., so am I missing something over here or is my understanding correct that the change is largely on the marketing piece?

Sudhir Sitapati: I did not quite get the first part of your question I think on HI so let us ask the question what is that we have changed in our HI business what is that we will work towards and what is the early results so that is probably the good way of looking at it and let us look at India because Indonesia there is lot of noise around the data. I think we have increased our marketing spends that is a fact. We have changed the positioning of Goodknight it is a significant change moving it from efficacy and performance to good night sleep we are doing a reasonable amount of trial generation and we are figuring out what to do to make the premium parts of this category more affordable this is what we are doing and what we are trying to do. The results that we can measure given the various bases of HI and COVID which we have been saying for some time that COVID had a massive tailwind on household insecticide we can look at our market share which was enthused by and we can look at our three-year CAGR versus our trends in three-year CAGR and as Sameer said that our structural growth rate pre-COVID in HI used to be in the low single digits. The three-year CAGR of this quarter has gone into high single digits so there has been a polarity change whether it is only a one quarter phenomenon so optically while home care looks like poor result this has been a pretty significant polarity change. We will wait for one more quarter because on HI I do not want to call victory too soon. We will wait for another quarter which is this quarter and see if that polarity continues which is our three-year CAGR momentum has moved up. If it has moved up two quarters in a row which are generally not COVID quarters or no external change then we can say yes what we are doing is working.

Alok Shah: Got it and Sudhir my follow-up to this is that in terms of your marketing message moving away from efficacy to the new message now I am clear maybe my understanding could be wrong but when this illegal incense stick came up it was more about problem solving in terms of efficacy right people found a product with an immediate solution so do you think that you can match up on the efficacy using the LV using the time that it takes to burn and spread across in the room and the efficacy is not a problem but the communication was the problem statement and that is what we are trying to address?

Sudhir Sitapati: See we have two brands in our portfolio Hit and Goodknight. If you see our Hit communication which I have not spoken about in detail actually ratcheted up positioning on instant efficacy so consumers have two big needs in this category one is instant efficacy and we have got a brand Hit which is going to do that single mindedly and they have another need in the category which is to help sleep well at night which Goodknight is going to do so what we are now doing is both brands have clear roles to play one on efficacy and one on good night sleep and these are the two big needs in the category. If you ask ourselves sometimes you will find mosquitoes in the room you want to kill them immediately you need efficacy, sometimes you just want to sleep well and not have that noise of mosquito coming in the middle of night and sitting on your hands you need a good night sleep which is what LV is and I guess that is the change because the two brands are taking fundamentally different positions which is what I get good positioning is about.

Alok Shah: My second question is on the powder to liquid body wash that you launched you already had the powder to liquid hand wash so what are the learnings from that and basis of consumer feedback did you find that consumers need to mix it and use it in the right proportion, etc., to get the efficacy, was that not an issue and if that was how would you sort of address in that body wash because this plays larger part of your overall hygiene versus just a hand wash?

Sudhir Sitapati: We launched hand wash three or four years ago and we have been quite enthused by the response of Magic Hand Wash we have taken a pretty strong position especially in volume and usage terms in the category I think number two in terms of volumes now in the hand wash category and we have done a steady gain and we find that consumers are willing to go through that slight bit of effort of getting their recipe right as it were because of the big benefits that they get in value so in the hand at the end of the day is 1% of the body the body is 99% right so if hand wash we can have pretty significant business in three to four years if the same hypothesis works on body wash that is a huge benefit it is huge market that we are playing in. Again on innovation I think Magic Body

Wash is a good illustration of innovation right it is not that as a company we are only dong category development but not doing innovation but we are doing innovation that can become massive for us so these are not incremental innovations these are innovations that can game change the category of course with all innovations there is a risk associated how much time it will take so we built into the business case, we do not build in these numbers into our annual plan and so on because we know that innovations take time but we will be able patient and persistent because fundamentally that if you can give a body wash at the price of soap in India there is no market why the market over a period of time should not upgrade in a pretty large sense.

Alok Shah: Fair enough and one last question for Sameer is that the investment in subsidiary this time around has gone up largely to Mauritius Africa holding so any specific reason for this increase in investment is what I wanted to know?

Sameer Shah: This was largely to kind of support on this operating entity because of the very tight liquidity and challenges which they are facing on ground also the way this works out is that good part of it comes back from the local entity to the operating entity because there are lot of inter-company transactions and in process of doing that we end up also saving bit of forex cost in some of the entity.

Sudhir Sitapati: But Sameer is it right to say that structurally this is not putting new capital into Africa it is African capital going back to Africa so one of the general principles that we are operating with is no new capital into Africa.

Alok Shah: So this is the capital which you got back in the day and which is again getting infused?

Sudhir Sitapati: Yes.

Alok Shah: Got it thank you.

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

Latika Chopda: Hi Sudhir. Hi Sameer thanks for the opportunity. I heard your comments on some of the categories. I just had a few follow-ups the first one was on HI. It seems that you are reducing your focus on burning formats and incrementally the focus is on the premium side which is aerosol and vaporizers so is it fair to assume that probably the next big intervention that could possibly come in this category from you are the lower price points in these premium factor and the second part was if you could want to share some thoughts on the non-mosquito part of that business that seems to be doing well what more can be done there that is the first question?

Sudhir Sitapati: Latika on question one definitely aerosol and liquid vaporizer is where our focus is and we are appropriately playing within burning formats were required for example a jumbo fast card which we have dropped to Rs.10, etc., and we will definitely work towards market development on these categories. It is not correct for me to say what exactly we will do in the future but definitely focus in India on development of all categories so that we will do. I think on the non-mosquito the big area of development is cockroach products and cockroach penetration in India is very low. While we are solving mosquito the second big insect that we are working on is cockroach and there also we are seeing very good result, there are a few others that exist but I would say that we would first win in mosquitoes then in cockroach and then go on to the others.

Latika Chopda: Second one was on hair colour. This Rs.15 price pack is it now nationally launched and any initial learnings here is it leading to new consumers into the category for you, is it leading to market share gains or are you seeing some cannibalization versus the earlier MKUs that were present?

Sudhir Sitapati: To answer you first question yes it is national, the response has been for a quarter and as we can see in the personal care results the response has been quite encouraging. In general, what happens when you launch a democratized pack it actually takes time to build it does not happen overnight so initially you will have a lot of excitement and actually cannibalization is not usually it is from my past experience massive and it has been in the case either as I thought it would be but we are seeing again examples of category development. It is not that you launch it and forget about it. You have to go into rural outlets and say Rs.15 hair crème available here so it is a hard journey and I think it has begun well. I think the numbers are pretty good. It has begun well but none of these things are magic bullet Latika so they take their time.

Latika Chopda: The last one is for Sameer. You called out very specifically 2025 margin expectation for Africa. Just looking at how you are trying to focus on volume growth for the India business and clearly there is a little bias also towards some of the premium formats in HI we used to do like mid 20% margins, 25% for couple of years before COVID do you think those kind of margins are something that you would like to achieve over the next three to four years for India or we are as a company pretty okay to operate at low 20s for a while and just concentrate on building topline?

Sameer Shah: I think couple of things Latika. One is what will be very important is the quality of profits and not just the margin optics right. We definitely do want to shoot up our gross margins. We will see meaningful reduction in cost and we will see increase in marketing spends. At this point in time we remain relatively confident that in market like in India we should reach to mid-20s in terms of margin profile.

Latika Chopda: Alright. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Sumeet Agarwal from ICICI Bank. Please go ahead.

Sumeet Agarwal: Thanks a lot for this opportunity. Just one thing that I wanted to understand for the company is the strategy in terms of what you guys are looking in for, are you looking to be in mass categories or looking to premiumize the brand also because what I see every time there is to and fro in terms of your strategy, in HI it was incense sticks, now we are aerosol which is slightly on the premium side Godrej No 1 on soap side it is more of mass side, you tried on Cinthol to premiumize, similarly for hair colour it was crème then there was some focus on the powder side then again on the crème but with a lower price point so what is the strategy in terms of where do you want the Godrej brand to be is it a mas product or is it a premium product?

Sudhir Sitapati: I think there are several questions that you are asking so let me answer them separately.

Sumeet Agarwal: So there are a lot of to and fro in the strategy that you guys have been adopting in the last 5 to 7 years. I agree you were new but probably Sameer has been there both Sameer and you can talk about how you are now going to take it because you have not been very successful in taking the brand to premium side. Godrej No 1 was good soap brands say 7 to 10 years back but now it is considered to be a lower end brand, similarly for other categories that you have been there.

Sudhir Sitapati: I have not been in the company but there are many things I have said about the company and criticized but I do not think by the way the company has been toing and froing even from outside on this particular one. I think it has been a company that has broadly been democratizing beauty and hygiene businesses as simple as that. It is an assumption to say that aerosol is premium and this and that. I think our focus is on the belly of the Indian market. It is to take great products and to make them affordable and that is true about everything that we have done in the past and some exceptions maybe like BBlunt, etc., we are no longer in that business but vast majority of our business has been looking at middle and lower income India and democratizing great product so I think that broadly been pretty consistent by the way about the company and even in aerosols the strategy is not to premiumize from aerosol into more premium aerosol it is to make aerosol more accessible because aerosols have natural benefits to consumers in terms of efficacy, in terms of usage and to figure out ways in which we can make the aerosol format more accessible and more democratic to everybody so I would firstly say that there is a clarity in our business and we are democratization business and we are going to democratize products in India and I would say it is being done reasonably consistently in the past. Now to come to the questions on brand and where they are we are company with several brands. Godrej No.1 is certainly playing in the kind of middle of the market, it has been consistently gaining share and it has been doing quite well and different brands have different roles and I certainly do not agree with this thing about Godrej No.1 being a premium brand in the past and now a mass brand I think it is a loved brand for a whole host of consumers in north India in particular and it continues to do that and it continues to do well. I am quite happy by the way to take criticism but I do not see a major yo-yo in our strategy. It has been consistent on democratization. Democratization does not mean that if you go to aerosol and take liquid vaporizer and make it accessible and relevant for low income, democratization has not to do with the product, it has to do with the consumer you are talking to right and that the consumer has been middle income consumer and low-income consumer.

Sumeet Agarwal: Sir one more thing, air purifier brand you have done a fantastic job in creating this brand how big is this air purifier brand now?

Sudhir Sitapati: I do not think we can share the numbers of the category because we do not share specific category details but I think the air purifier again is an exciting category right. You see it is category that across the world has pretty high penetration and very high consumption and in India our job is to democratize this category so it goes back to your question on are we premiumizing air purifier no we are taking the air category which is great benefit and trying to see how we can make it accessible to all we are very bullish about the future of the air category both in India and Indonesia for that matter.

Sumeet Agarwal: Apart from this powder hand wash and powder body wash are you looking for further category additions in the FMCG side or you would first look at the powder body wash and then add on?

Sudhir Sitapati: I think it is not proper for us to say what we will do in the future but I think it is enough to say that bulk of our energy and effort will be on category development and when we do innovations they will be heavily supported and hopefully game changing, but the vast majority of our effort will be going behind developing what we already have and we will not be in hurry to keep launching things without having the space within the P&L to support these and to do them properly.

Sumeet Agarwal: Thanks a lot Sir.

Moderator: **N**ext question is from the line of Manish Shah from Investec Capital Services India. Please go ahead.

Harit: Hi this is Harit from Investec so just had two questions. In your release you mentioned that we expect recovery in consumption with inflation coming up just wanted to get your sense about whether you are already seeing this on ground and any early signs especially on the consumption side inflation probably has not come off so much for the end consumer but any on ground trend that you are seeing even post Q1 that you can kind of just talk about this is specifically for India?

Sudhir Sitapati: I was just talking to Sameer as I told you we are quite enthused with our Q1 three-year CAGR which is the right way to look at it. Lot of people ask questions on what is happening to the rural slow down, urban slow down my answer is look at three-year CAGR on rural urban and you will them pretty similar so I do feel that given the polarity has changed a little bit in Q1. I am sure some of it has to do with consumption coming back in India so it is hard within the quarter to judge when you see a green shoot is it because of your action or is it because of a macro trend of course it is a combination of the two and therefore I would say that I am more bullish on consumption of the country than let us say it was in Q3, Q4.

Harit: Got it. The second question is on Africa one was on the change in mix side, so when you invest in FMCG in Africa I think one of the elements is also higher in marketing spend because competitive intensity in wet hair is probably very different from what dry hair is so just wanted to know in terms of interplay there is higher gross margin get offset by higher marketing spend if you have to put on these category?

Sudhir Sitapati: Again on the wet hair category that we operate in Africa it is consumer task in market development it is not competitive intensity has much as to drive the category themselves and category will require high media and the FMCG especially personal care category operate with high GCs and high ATL investments and they generally tend to have EBITDA that starts coming to scale and leverage so we have to look at these two businesses separately in Africa one which is relatively low gross margin business which is dry hair which has to get driven through efficiencies and one which is a small but high gross margin FMCG business especially in wet hair which gets driven through media investments.

Harit: Just to follow-up on Africa you said that apart from getting the whole compliance element correct, etc., there will be some people that you will have to maybe look at reducing focus on certain smaller market their continued focus on the larger pieces, I just want to understand if there is any kind of correction that we can expect in Africa, not like Indonesia I think that size of correction is little larger but something like that in the quarters going forward as you kind of realign?

Sudhir Sitapati: I do not think we will expect a correction like we have seen in Indonesia and Africa because Indonesia was a unique issue with the market slow down plus a few mistakes on our part leading to very heavy inventory buildup which had to be reduced I do not think that is the problem in Africa. The African issue is slightly different and which we have to rationalize our portfolio, rationalize some of our operations to simplify our business but that will not have the kind of impact on topline the way the Indonesia corrections in the last one or two quarters on this quarter is having.

Harit: On margins Sudhir you think any one-time kind of impact that you may have to take write off, etc., over the next 12 to 18 months some small cuts here and there which could come through?

Sudhir Sitapati: It is difficult to now judge the future and what will happen but as I see it now in the foreseeable future nothing in Africa that we will have to surprise that is there but one of thing about surprise is that you never know right.

Harit: That is it from me. Thank you. Wish you all the best.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Edelweiss Mutual Fund. Please go ahead.

Ashwini Agarwal: Good morning Sir. Sir I have got few questions are we planning to develop more of the products since we have our distribution network, are we planning to go more into detergents, toothpaste and shampoos, which are the categories which we are not still catering to?

Sudhir Sitapati: Thanks Ashwini again it is not proper one way to say what we will get into and what we would not get into but I guess the answer remains the same that our business is going to focus on the core and on category development and a few blockbuster innovations where we genuinely believe we can solve the consumer problem in a differentiated manner. I do not think we will get into categories for the sake of getting into category and Magic Body Wash is a good example. It is entry into body wash but it is a very differentiated entry into that category but those will be few and far between, a bulk of our resources will be on developing what we have.

Ashwini Agarwal: In terms of soap we have got only two products Godrej No.1 and Cinthol so any plans of introducing body wash for these two soaps or introducing any kind of winter soap because people would use these soaps for summer or non-winter season but in winter they would switch to another soap so why leave the customer for that period as well?

Sudhir Sitapati: I think both Godrej No.1 and Cinthol together have less than 15% of share of the market so we have a long way to go on these brands and they have lot of tailwind and lot of momentum so again I guess the answer is same which is we have got a lot of ground to cover on what we have before we start thinking of new things.

Ashwini Agarwal: Okay Sir thanks.

Moderator: Thank you. As there are no further questions we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Pratik for his closing comments

Pratik Dantara: Thanks everyone for joining the call. If you have any further questions do reach out to the IR team. Thank you.

Moderator: Thank you. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.