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The National Stock Exchange of India Ltd.
Exchange Plaza, 4th Floor,
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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 January 30, 2017, post the announcement of Q3 results for FY 2016-17.

Yours Faithfully
For Godrej Consumer Products Limited

V Srinivasan
Chief Financial Officer & Company Secretary

Encl: as above

Investor and Analyst Q3FY17 Conference Call

January 30, 2017

Operator:

Ladies and gentlemen, good day, and welcome to GCPL's Q3 FY2017 earnings conference call hosted by HSBC Securities. At this time all participants are in listen-only mode. There will be a presentation followed by a question-and-answer session. Now, I handover the call to Mr. Amit Sachdeva from HSBC Securities.

Amit Sachdeva:

Good evening, ladies and gents. We're very pleased to host the Q3FY17 results conference call of GCPL. We have with us the management team of GCPL led by Mr. Adi Godrej to discuss the Q3 FY17 results, over to Mr. Godrej, please.

Adi Godrej:

Thank you Amit and good evening. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the third quarter of fiscal year 2017.

Joining me are Vivek Gambhir (Managing Director), Nisaba Godrej (Executive Director), Omar Momin (Head, M&A), V. Srinivasan (CFO and Company Secretary) and Sameer Shah (Head Finance (India, SAARC) and Investor Relations).

I will begin by sharing my thoughts on the overall environment and the major highlights of our performance. I will then hand over to Vivek to take you through the detailed results.

The shortage of currency, particularly in the first few weeks of the announcement of demonetisation, had an adverse impact on demand. However, since then, the demand for our products has improved considerably. Our go to market approach has been resilient and dynamic. We have been disciplined in our execution and have worked closely with our trade and retail partners to deal with the situation. As a result, we registered positive growth in December and expect to build on this momentum in the coming quarter as well aided by remonetisation. Importantly, our trade pipelines and channel inventory are at very reasonable levels. Our secondary sales growth is positive and higher than primary sales growth for 3QFY17, as well as on a year-to-date basis. Demonetisation should benefit demand in the medium to long term. Some latent demand, along with the tailwinds of a good harvest and MSP increases, among others, should aid demand in the medium term.

In our international business, Indonesia's performance was relatively soft due to the performance of our household insecticides business. The non-household insecticides portfolio performed well with double-digit growth. We continue to maintain our leadership positions across categories and are hopeful of better performance in the coming quarters.

Our Africa business continues to consistently deliver double-digit constant currency growth and effectively manage currency related challenges. The integration of the Strength of Nature business in the USA and Africa is progressing well.

On the profitability front, our operating margin further improved from an already high level in the base quarter. This was despite a double-digit growth in marketing investments. Our launches in the last few quarters are doing well and we will scale them up. We will also continue to manage our costs prudently and invest competitively in our brands for sustainable growth.

As we look ahead, now that the GST implementation has been announced from July 1st, it will lead to a significant boost to GDP growth and improved consumer demand. We expect tremendous vitality in the market in the coming year. We remain excited about GCPL's future growth prospects and believe that we are well positioned to continue to outperform the industry.

I'm also pleased to announce that the GCPL Board of Directors today has approved the nomination of Pirojsha Godrej and Ndidi Nwuneli as Directors effective April 1, 2017. Africa is a major contributor to GCPL's growth plans and Ndidi's significant experience and perspectives will be very helpful in our journey towards becoming the leading home and personal care player in Africa. Pirojsha has delivered tremendous results in his tenure at Godrej Properties and will be a valuable addition to the GCPL Board.

I now ask Vivek to share his views on our results.

Vivek Gambhir:

Thank you, Mr. Godrej. Good evening, everyone. It's great to be talking to all of you. What I'll do is a quick walkthrough through the results presentation, after which we will be very happy to answer your questions and take your feedback.

So, if we look at the presentation and if we look at Slide 3, as Mr. Godrej mentioned, there was a lot of external flux this quarter due to demonetisation. Despite its adverse impacts, we have delivered an organic constant currency growth of 6% at the consolidated level. On the profitability front, we have continued to grow EBITDA ahead of sales growth, aided by gross margin expansion of about 110 basis points during the quarter. We have continued to invest competitively in our brands with a 12% growth in A&P, which is ahead of our sales growth.

If you turn to Slide 4, the India net profit growth at 19% has been very healthy. Due to some Ind-AS impacts in the base, which are largely non-recurring and has been called out as exceptional of about Rs. 36 crore and some forex volatility - there was actually a gain last year in 3Q of about Rs. 10 crore versus a loss this year and hence, the international net profit has been impacted. On Slide 6, turning to the India performance, despite the challenging environment, we've delivered a resilient performance with sales in line with last year and strong EBITDA growth of 15% behind robust gross margin expansion and some positive impact from our cost savings project.

On Slide 7 and Slide 8, we address the impact of demonetisation and I'll spend a couple of minutes talking to you about our learnings and how we're thinking about our approach going forward. Clearly, as we've mentioned, there was lot of flux in this quarter due to demonetisation. We started the quarter with strong double-digit growth in October 2016, but experienced acute pain in the couple of weeks post demonetisation. Consumer offtakes dropped, the channel liquidity particularly in the cash dominated wholesale channel was significantly impacted with down-stocking by trade. Generally, staples and essentials were relatively less impacted and the impact was felt much more in the East and the North for us. The good news is that recovery has been faster than what we had anticipated, so we ended the quarter at 2% secondary sales growth. January, in fact, has been a lot better than what December was and our secondary growth of 2% has been ahead of our primary growth.

Even on a year-to-date basis, our secondary sales growth is ahead of our primary growth and we are operating at relatively low or very efficient inventory levels. There are some pockets like small rural wholesale, that are still under pressure, but overall replenishment is picking up and we expect things to be back to normal in a couple of months. Our team was very agile and adapted well to the evolving situation. We increased focus on more non-cash friendly channels such as modern trade and chemists. In fact, our modern trade business grew by 33%, which has been one of the best quarters for modern trade. We also created some special incentive systems for wholesale channel and we judiciously extended credit by only about six or seven days and we will try to be back to zero general trade credit, starting in February.

Our strong relationships with our trade partners also helped a great deal and our team spent a lot of time on the ground to build greater connect with our partners, which also helped us a lot. In terms of advertising, we have maintained a competitive level of spend. A&P as a percentage of sales has been around 11%, which is within the range in which we like to sustain our spends. We postponed some advertising for about three weeks from the last week of November to mid-December. But generally, we sustained our spends as we believe that this is a good opportunity to gain share from some of the less organised players or those who are dependent on wholesale.

We've also worked very hard to maintain our hygiene in the sales system. We've ensured that our primarily sales growth was lower than secondary growth and since we follow replenishment, we have been dynamically managing our inventory and keeping our distributor stocks under control. Going forward, we believe that we will continue focusing on our innovation. We're seeing a little bit more demand for low unit packs, so we'll intensify our focus on LUPs. We're also working on a program to intensify our direct reach. We will maintain a competitive level of investment in brand building and then, we are making a lot more renewed efforts in analytics to support micro analysis and better execution. So overall, while we did see a lot of pain for a couple of weeks post demonetisation, the recovery had been faster than what we had anticipated.

If you take a look at Slide 9 now, what you see is that our performance has been broad based across categories and our new launches also continuing to do very well. On Slide 10, we talk about our insecticides business where due to the demonetisation impact, our relatively urban-centric formats like LVs and aerosols did better while it caused some pressure in coils. Overall, we delivered a competitive performance given the market conditions, with secondary sales flat and ahead of primary sales growth. We've continued to invest competitively in our brands to sustain future growth. Strengthening our rural distribution has been our focus area and with demonetisation we remain even more committed to this initiative. Our recently launched personal repellents range is receiving a very good response and its demand has exceeded our expectations. We are increasing our production capacity to meet this higher demand.

On Slide 11, on the hair colour business, this was a good quarter for our Crème business. Godrej Expert Rich Crème grew in double-digits and reached its highest ever market share on an exit basis. Our *'Dekhbhaal'* campaign has done well and we have increased our distribution and penetration lead over our competition. Post demonetisation, we see an opportunity to gain market share from unorganised players and further strengthen our distribution for Expert Crème. On Slide 12, with regards to our soaps business, we are passing on some of the input cost pressures by withdrawing offers and promotions and also taking selective price increases, which resulted in some destocking at consumers and in the channel, similar to what we saw in the previous quarter. We are hopeful that we should be largely done with this transition. After a couple of quarters, we have been seeing a positive pricing effect and we expect this trend to continue in the next quarter as well.

On Slide 13, with regards to liquid detergents, this quarter is typically a key quarter for Ezee, but the delayed winter and the semi-discretionary nature of the category impacted demand, leading to some below historic growth rates. Our new launches on slide 14, we are very pleased with the response to our new launches and these continue to do well.

Turning to the international business on Slide 17, not much has changed in terms of the currency challenges that we face in our international business. However, despite these macro headwinds, our organic constant-currency sales increased 13% and this was despite flat growth in Indonesia. Our margins were down, as we had relatively higher investments across most of our businesses. As we mentioned before, there will be times where you will see some volatility in quarterly margins depending on the kind of investments we're making, but overall, we are pleased with the performance in our international portfolio.

On Slide 18, you'll see a snapshot of our geographic sales and EBITDA performance in our international portfolio. On Indonesia, while growth was flat, this was largely due to the slowdown in the insecticides business. The non-household insecticides business did quite well. There is still some continuing macro softness. The overall FMCG sector actually de-grew in volume terms by about minus 4%, but our volumes grew by about 3%. So in that sense, I think, while we had a couple of difficult quarters, we believe this should start improving marginally this quarter, and next year should be much more positive for the Indonesia business. So on Indonesia, on Slide 20, as I mentioned to you, the macro-environment remains soft. The EBITDA declined off a relatively high base on lower operating leverage and some upfront marketing investments. On NYU, which is our hair care launch, the initial response that we have been seeing has been very positive.

On Slide 21, on our Africa business, Darling continues to consistently deliver strong double-digit growth. The sales of Strength of Nature business was below what we would have liked, as we temporarily slowed shipments to Nigerian distributors due to dollar availability issues. We are closely monitoring the situation and hope that it will improve soon. Simultaneously, we're also setting up local manufacturing facilities in various countries in Africa. On margins, they were temporarily down due to some upfront investments in the business. Overall, the integration of Strength of Nature remains very much on track. I'm also pleased to share that Renew now has become both the value and the volume market leader in Caucasian hair colors in South Africa.

On Slide 22, in Latin America, we had a decent top-line growth and continue to invest behind innovation and effective marketing to navigate some of the macro challenges. On Slide 23, it was an overall good quarter for the European business with healthy growth and margin expansion. The remainder of the slides are a summary of financial information and some other details. At this stage, we will be very happy to take any of your questions and feedback.

Continue: - Q&A…

Questions and Answers:

Operator:

First question comes from Aditya Soman from Goldman Sachs. You may ask the question please.

Aditya Soman:

Wholesale and rural saw an impact, were there any other sub-segments that got impacted most because of demonetisation?

Vivek Gambhir:

The more discretionary categories like air fresheners, toiletries saw bigger impacts. They were growing much faster and they continue to grow much quicker than the staples category. But by and large, the essentials and staples were a little bit more resilient, whereas the growth impact was greater in the more discretionary categories within personal care and air fresheners.

Aditya Soman:

Was there no impact on insecticides or hair colours?

Vivek Gambhir:

No. Even in hair colours, generally hair colour crème, which is a higher-priced product than powders did very well for us with double-digit growth. Powders, which tend to have a higher salience in rural and is more wholesale-dependent, saw bigger challenges even though crèmes are almost 2x the price of powders.

Aditya Soman:

This seems a bit odd as compared to the staple versus discretionary trend that you saw in personal products.

Vivek Gambhir:

For hair colours, it is format dependent between crème versus powder. I don't think one format is more discretionary or one essential than the other.

Aditya Soman:

Do you expect soaps volume growth to recover in Q4 FY17 or given that you've taken price increases, it might take longer for volumes to stabilise?

Sameer Shah:

Directionally, we expect soaps volume performance to be better in Q4 FY17 as compared to Q3 FY17. Q2 and Q3 did see the impact of withdrawal of consumer offers and also little bit of demonetisation in Q3, but we expect Q4 to be better.

Operator:

Next question comes from Prakash Kapadia from Anived PMS. You may ask the question please.

Prakash Kapadia:

Could you give some perspective on some of the brands such as aer and which do you think is poised to become a larger contributor to our overall sales?

Vivek Gambhir:

Personal care is a big focus area for us in terms of future growth drivers. So, aer air fresheners, Cinthol deos and Ezee liquid detergents are the brands that you would see in that category and all those have been showing a lot of promise and growth. We continue to feel that both air fresheners and certain niches in personal care are important growth priorities for us. Along with this, the more premium part of hair colours, that is BBLUNT and liquid detergents are some of the growth vectors that we're creating for the future.

Nisaba Godrej:

The penetration is very low in some of these categories and if you can get the right mix between the product delivery and value, we see things really flying off the shelves. So just like in air care, even though the category size might not be big, with the right product at the right price, there's a lot of latent demand. So we're quite excited about the opportunities for us.

Prakash Kapadia:

On household insecticides, large part of these sales would be through chemist channel. Have they been affected to a lesser extent? If that stands true, then why did household insecticides show a tepid growth?

Vivek Gambhir:

The chemists channel as a whole is a very important channel for us, but relatively fewer sales of insecticides go through the chemists channel because of registration issues. The chemist channel has done very well and overall modern trade grew at 33% for us. So, we were very pleased but for insecticides, the chemist channel is not that important of a channel.

Operator:

Next question comes from Nillai Shah from Morgan Stanley. You may ask the question please.

Nillai Shah:

On the operating margins and the gross margins in the domestic business, we've seen a steady increase in Q3 FY17 despite the demonetisation impact. How do you see margins trending from here? What are the levers for margin expansion over the longer term? What does this mean for your aspiration of EBITDA growth ahead of sales growth?

Sameer Shah:

Let's understand the gross margin expansion both in India as well as International. The 150 bps expansion in India is behind lower consumer offers, more so in soaps, and very select price increases in household insecticides towards the end of Q2 FY17 and is also behind the cost saving project, Project PI. In international, it's behind the favorable geography-mix impact. Now, the lower consumer offers will not be in the base starting Q4FY17. So that driver, which we had in Q3, will not be there in Q4. To that extent, the gross margin expansion will shrink. Directionally, we would want our gross margins to be as close to what they would be in the base, but the overall direction still remains very much intact in terms of driving EBITDA growth ahead of sales growth, not necessarily for each quarter and for each cluster, but over a 3-4 quarter period the intent very much remains to drive EBITDA growth ahead of sales growth.

Nillai Shah:

There are some technical fees which are sitting in the standalone business but excluding that, there has been a very steady margin expansion that's happened. In that context, how do you see this trending over the next 2-3 years? What are the levers for that margin expansion?

Vivek Gambhir:

The first most important lever is the portfolio. As you look at higher growth coming from household insecticides and hair colors and also some of our newer innovations, which tend to be higher gross margins, the portfolio impact leads to the first lever, which is driving higher gross margin. Secondly, within this portfolio, we are launching newer products, some of which tend to be more premium in nature, the nature of our innovation is also leading to higher level of gross margins. Thirdly, there is an intense effort to continue to drive cost in a much more rigorous manner and that's ongoing. Every year we do believe there are opportunities to look at various elements of costs to see if we can make the P&L work better for us. And fourthly, we are putting analytics in place to get far more strategic about price management and price pack architecture and to be able to see some micro opportunities to extract a certain amount of pricing benefits. So as we look at all these four levers, the relative importance of these will vary, but the teams are working extremely diligently to try and find ways to be able to continue to drive gross margin.

The second part of margin expansion tends to be better deployment of advertising expenses. So whether it is through things like market mix modelling or trade spend optimisation, we are continuing to see if we can do more with the same amount of money that doesn't necessarily call for reducing A&P, but certainly if we can extract more A&P leverage through some more analytics. For instance, now implementing a trade spend optimisation tool will lead to a better amount of A&P leverage.

And then the third part is, as we get larger, we continue to look for ways to better optimise our fixed overhead and so the key is to make sure that fixed overheads don't increase at the same rate as sales growth. If we can manage our overheads to grow at slightly lower rate than sales, that also helps us create some cushion for additional brand building, but also allows us to try and have a model where EBITDA growth ideally should be ahead of sales growth.

Nillai Shah:

For the international business, which geography has the maximum potential for margin expansion over the next two or three years?

Vivek Gambhir:

In Indonesia, if we can maintain some of the margins, that will be a good situation. Let's see how some of the newer products do. There could be some margin expansion but that will be more incremental in nature. There are a lot of margin expansion opportunities in Latin America, particularly what we saw in Argentina over the last couple of years, we intend to try and replicate that in Chile and we will run Latin America in a more integrated manner between Argentina and Chile. That will provide some overhead savings as well. With Africa, the potential for margin expansion is significant, but we will have to wait and watch and see how much of an impact currency has. So on an organic basis, we do see opportunity for margin expansion in Africa. Definitely, we will see margin expansion in Africa. In the near-term I'm hesitant to give you a clear indication, simply because of the impact of currency.

Operator:

Thank you. Next question comes from Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

What is the innovation rate for Q3FY17 and for YTD FY17 in India?

Sameer Shah:

For Q3, the innovation rate in India would be more or less close to 16-17% and for 9MFY17, again more or less close to 16%.

Percy Panthaki:

Of all the launches that you've done in the last 24 to 36 months, which of them are tracking above your expectations and which of them are tracking below expectations?

Sameer Shah:

Directionally, launches of last three years - Fast Card, Expert Crème, Cinthol Deo stick, aer air fresheners, aer pocket have all done well. Couple of launches which could have done better would be Nupur Hair Colour Crème and Godrej No. 1 face wash while Protekt is still a work in progress.

Vivek Gambhir:

And the BBLUNT hair colour is also actually tracking quite well.

Percy Panthaki:

Where would you place your Anti-Roach Gel in this?

Vivek Gambhir:

Anti-Roach Gel did very well, when we first launched it, but we've gone back a little bit to the drawing board to figure out how to expand that opportunity. So, you will see a little bit more news on the non-mosquito part of the category over the next couple of years.

Percy Panthaki:

If the launch was good and a few months after the launch, it was still good, then why has it fallen off a little bit after that, any learnings there?

Nisaba Godrej:

Unfortunately, the product is too good and it's not a fast moving consumer good, because it works so effectively that people don't need to replenish this very often. So a small quantity of product works extremely well. It's almost like a pest control service product where they charge anywhere upwards of Rs. 1,000. So that's the quality of the products we offer.

Percy Panthaki:

In Indonesia, for the last three quarters or so, we've been facing problems in HI and every quarter it seems seasonality or weather is the issue, is there anything else that you would like to highlight apart from just bad weather?

Vivek Gambhir:

Clearly, one is the insecticide season and if you look at our market share, it is the best indicator of how we are doing. We've maintained to increase our market share on a MAT basis and on a brand health perspective; things seem to be on track, which means the only reason can be a very poor mosquito season. The non-household insecticides part of our portfolio has been growing 12% to 13% every quarter. And if you look at the FMCG numbers that are being reported from various panels, even the numbers for last quarter were a minus 4% volume growth. And in that scenario, our business grew by about 3% and that's actually a significant delta versus the market performance. So it's a combination of a poor mosquito infestation season, which goes on for multiple quarters and softness in the macro environment. The good news is, given the soft base from this year, we are hoping that next year is a very strong year for the Indonesia business.

Sameer Shah:

If you look at the value growth, it is flat over last three quarters, but what we have seen is 3.5% volume growth in Q3 FY17 and volume growth in Q1 and Q2 was more or less flattish. So that's a good kind of indication of gradual recovery and we expect that recovery at least in terms of volume growth to continue even in Q4.

Percy Panthaki:

Is there some heightened level of trade promotions and discounting which is going on, which is depressing the value growth, although the volume growth is robust?

Vivek Gambhir:

In Q3FY17, we saw that particularly for some players who work on a calendar-year basis. We did see a much higher level of intensity as far as trade promotions are concerned. So far in January, we haven't seen that yet. In Q3, there was a heightened level of price promotion, which also impacted our margins. Our margins, which actually are very high, did get impacted because of some of the increased investments that we had to make in sales promotion.

Percy Panthaki:

On the hair color category launch in Indonesia, over a three or a five-year period, what do you internally have in mind? How big can this become either in absolute terms or as a percentage of your Indonesia business? Are you at liberty to share a little bit more about what you're doing in household insecticides in Africa?

Omar Momin:

We've been in preparation as far as our mix goes, as well as the registration processes in different markets. So we haven't had the launch as yet to give you an update on the launch. Also we have been preparing, in parallel, on the wet hair care products in terms of their localisation of the SON business in Africa. So when we are in a position to share our path as far as these launches go with regard to each of these markets, we will be able to share more details with you.

Vivek Gambhir:

On hair colour, I don't want to talk about our aspiration for competitive reasons. The market is a very interesting opportunity. Early days but the last three or four month's results have been very positive.

Operator:

Next question comes from Manoj Menon from Deutsche Bank. You may ask your question.

Manoj Menon:

On India, given that GCPL operates on complete replenishment, will it be fair to say that the primary is equal to secondary for the quarter?

Vivek Gambhir:

Secondary sales were higher than primary. Secondary sales were about a 2% growth, primary was flattish.

Manoj Menon:

That should normalise as we speak in this quarter?

Sameer Shah:

Not just in Q3, but for last three to four quarters, our secondary growth has been ahead of primary growth anywhere by 1.5-2%. And then if you look at our stock levels, they are at historic low at least over last three years.

Vivek Gambhir:

We've been consciously trying to bring the stock levels down per distributor so as to try and improve the ROI as well. So part of this overall Distributor Delight program has been to try and get secondary sales a little bit ahead of primary. That would be a good way for us to manage the business over the next couple of quarters.

Manoj Menon:

In India, if you could give a sense about the growth ex-coils in household insecticides? Was the growth ex-coils in household insecticides just a wholesale/rural issue, whereas urban has been more normal, given that the category dynamics would dictate that it's fairly less discretionary?

Sameer Shah:

Directionally, let me just share with you that growth ex-coil was actually in a positive zone, and hence to that extent, your hypothesis is right that coils which is little bit more rural as well as wholesale dependent did have bigger impact as compared to both liquid vaporisers and aerosols, which are urban-centric for us.

Manoj Menon:

On Africa, given that SON has got a slightly higher margins than the blended margins in Africa, it would have been an up elevator for margins, but there has been an investment in the sales infrastructure, could you talk about this in detail? Secondly, what are these down elevators, other than the sales infrastructure which has pulled the margins down?

Omar Momin:

In terms of salience, there is a slight distinction between Africa and the US business. For Africa, Q3 is the highest salience quarter, whereas for the US business, Q2 is higher and Q3 is not that strong. Secondly, there is margin impact from the currency devaluation in Nigeria, the Naira devaluation. So that is still work in progress as we recover the pricing ability back in that market.

Manoj Menon:

On Africa's EBIT margins to be lower y-y, how much of it is one-off, i.e. the currency devaluation effect? How much of it would be the investments in infrastructure?

Omar Momin:

The majority will be the currency effect and some part of it would be the investment in infrastructure that's happening on a continuous basis.

Manoj Menon:

The Nigeria currency issue has been there for the last six months?

Omar Momin:

Correct.

Manoj Menon:

Does the hair colour category have a lapse rate? I presume that grey coverage is still the predominant of the category usage, so do the consumers drop out?

Vivek Gambhir:

Generally, till males lose their hair, their lapse rate seem to be fairly low in this category. Though in tougher economic times you do see people stretching the period between coloring hair. For instance, if people colour hair every six weeks, a lot of people can survive by delaying a colour by a week or so. Generally lapse rates particularly for women tend to be on the lower side, though we do see a little bit of higher lapse rates, particularly with some men as they get older. By and large lapse rates tends to be fairly low in this category.

Manoj Menon:

When I look at the growth trajectory for the category, it's largely a case of new consumer recruitment slowing down and not necessarily a lapse rate. So is it fair to conclude that it is essentially to do with the recruitment rates only?

Vivek Gambhir:

The biggest challenge in this category is to drive new recruits because generally for some people there are concerns about safety in terms of using hair colors and if you look at penetration rates in rural, they're still very low. So sampling and trials and constant communication are important objectives to be able to drive category penetration. But once consumers get over the initial inhibition of coloring hair, once they're in the category then lapse rates tend to be on the lower side.

Manoj Menon:

On soaps in India, the removal of promotions, higher pricing and hence the transient issues, do you see that normalising as we speak in the quarter? Or this category would decline going into the next quarter?

Sameer Shah:

We do see gradual recovery for us compared to some of the past quarters in terms of volume growth as well as added price-led growth on top of the volume growth recovery for the entire soaps portfolio.

Operator:

Next question comes from Prasad Padala from Investec Capital. Please ask your question.

Prasad Padala:

In International business, what is the volume growth?

Sameer Shah:

Indonesia had volume growth of around 3.5%. For Africa, the growth has been in early double-digits. For LATAM, there has been a slight dip in volume. And Europe, the volume growth has been early double-digits.

Vivek Gambhir:

Overall, if you add all of these things together, for International, it's been two-thirds volume-led and one-third price growth.

Operator:

Next question comes from Amit Sinha from Macquarie Securities. You may ask your question now.

Amit Sinha:

In the household insecticides segment, there is a strong opportunity to gain market share from the unorganised, which would be mostly operating in the coil segment. From a strategy point of view, would you want to increase your market share significantly in the coil segment given the lower margin in the business?

Vivek Gambhir:

The approach will not be to try and gain more share in the coil segment, but if we can convert that segment to either a Fast Card or even LVs, for which we will invest more overtime. That's the opportunity; not necessarily to increase our share of coils which is a lower margin format, but about trying to convert those users into other formats.

Amit Sinha:

Given the rural markets are primarily coil-dependent, so it will have to wait for a very long time to convert this segment to LV because the infrastructure is missing. Any comment on that?

Vivek Gambhir:

A lot of players that are very wholesale dependent arguably will find it challenging to be able to run their business in a post demonetisation world. But the consumer demand will still exist. So if other players, because of the business model, find it difficult to service the demand, as the market leader and given our distribution strength, that's where the opportunity lies for us.

Operator:

Next question comes from Prasad Deshmukh from Bank of America Merrill Lynch. You may ask the question please go ahead.

Prasad Deshmukh:

Could you please explain analytics being one of the drivers for margin expansion with an example?

Vivek Gambhir:

We're investing a lot more in terms of predictive analytics to be able to look at things like suggested order quantity, optimise our sales routes, along with also doing a lot more micro planning to better optimise our trade spends at a more micro level. Rather than approaching India in a monolithic fashion, through analytics we have the abilities to really now start drilling down into individual states and even within individual states to final levels of segments to be able to both deploy our teams as well as our spends in a much more granular manner. And the result of this should lead to both improved top-line for us and better deployment of our spends.

Prasad Deshmukh:

We had many strategic initiatives going on like Rural One, Project PI and there was this target on increasing direct reach and so on. So will demonetisation have any positive or negative impact on any of these initiatives?

Sameer Shah:

We don't think demonetisation will have any negative impact.

Prasad Deshmukh:

In case of increasing direct reach, your own distributors might have put in efforts this time to reach more outlets, so could that be a windfall?

Sameer Shah:

On direct reach, we had certain objectives and we are revisiting them to figure out whether we can intensify our direct reach. On One Rural, in terms of rural wholesale, we're looking at opportunities to drive greater share. Overall, the focus remains the same but the intensity is changing a little bit in terms of the opportunities that this can provide to us.

Operator:

Next question comes from Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari:

On the hair colour category and household insecticides category, can you tell how much category de-growth has taken place after demonetisation?

Sameer Shah:

For competitive reasons, we would not like to share the overall category size as well as the category level de-growth. Having said that, the research company normally has a lag in terms of what gets reported to what is on-ground situation. So at this stage, not much has come out in terms of the actual impact of demonetisation.

Rahul Maheshwari:

As compared to category, the company has reported significant de-growth or is at par with the category?

Sameer Shah:

Directionally, we have kind of gained market shares in hair colour. This implies that our growth compared to the category growth has been higher and so is the case in household insecticides.

Operator:

Next question comes from Arnab Mitra from Credit Suisse. You may ask the question please go ahead.

Arnab Mitra:

In Nigeria, how is the end-demand shaping up, has it been severely impacted? What we saw in South Africa, when currency depreciated was that you were able to gain lot of share and increase your constant currency growths very rapidly in that phase. Are you seeing the same thing happening in Nigeria or it will take a bit of time for that phase to come in?

Omar Momin:

If you refer to publicly available information on Nigerian economic growth or even some of the companies that are listed there, you will see that the overall demand environment is weak. As far as the second question goes, we have been able to accelerate our revenue growth in Nigeria. And like we've done earlier in South Africa as well, it will always be a balance between taking pricing in line with the devaluation over a period of time while using the opportunity to strengthen our position in these markets.

Arnab Mitra:

Do we see the SON supply issues in Nigeria, because of the lack of currency with some of the dealers, as a short-term issue or do we see that continuing for some more time?

Omar Momin:

It will be a short-term issue because irrespective of how the external distributor situation pans out, like we've mentioned, we are looking at localising our manufacturing in key markets in Africa. And when we do that, then this will no longer be an issue at all. So it is temporary.

Arnab Mitra:

Other than Nigeria, any colour on how the other parts of Africa have done? Are growths normal there or there are headwinds even in those geographies like Kenya or South Africa in terms of growth or market share?

Omar Momin:

East Africa has outperformed the overall Sub-Saharan African growth rate and East Africa also has higher demand growth than both Nigeria as well as Southern Africa. And even in the markets that our team sees weakness, we continue to outperform the markets.

Operator:

Next question comes from Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar:

On Good Knight personal repellents, the higher demand that you're seeing in this particular space, will you be able to meet with the enhanced capacity in the coming quarters or will you still require certain enhancement in the near future?

Vivek Gambhir:

The capacity we are putting in should hold us in good shape for at least the next 12 to 18 months.

Kaustubh Pawaskar:

Will you be able to fulfil the demand that is there in the market?

Nisaba Godrej:

Yes, that will not be a problem. Sometimes we conservatively plan for new launches.

Vivek Gambhir:

Typically, our capacity is pretty modular and within a few months, what we do is, we wait to see how the initial launch would do and then our flexibility is quite good to rapidly ramp-up capacity within a short amount of time.

Nisaba Godrej:

We're very excited about this space. We've talked about it before that the in-home usage is about Rs. 4,000 crore, this is a branded insecticide, while outdoor is only about Rs. 130 crore. It's not that mosquitos stay in the house only. So that's the opportunity in the insecticides market.

Kaustubh Pawaskar:

Do you expect this to be one of your key drivers in household insecticide in one or two years, in this particular space?

Vivek Gambhir:

In markets like Indonesia, the salience of out of home is almost 15% of the total household insecticides market. In India, it's very low single-digits today. So as we compare the potential, it is huge, but we have to develop the market and market development always takes a little bit of time and we want to do it the right way. The products are much differentiated so we are quite excited in terms of this being a new growth platform for the business. But it will take some time.

Kaustubh Pawaskar:

Can you give us some indication of the price increase that you have taken in the soaps category?

Sameer Shah:

Our volume has declined by high single-digit and our value decline in soap is around 6%. So, the differential between these is the price led growth. And also this largely is behind the withdrawal of consumer offers, which happened in calibrated way during the course of Q3. So the exit price led growth is higher than the price led growth which we had for the quarter and that is something which will run through most of Q4, and going ahead period also.

Operator:

Next question comes from Ritesh Vaidya from Ambit Capital. You may ask your question.

Ritesh Vaidya:

What is the organic volume growth in Africa?

Sameer Shah:

If we look at organic volume growth restricted to Darling business, which is like 85%-90% of our overall business over there, the volumes would be in early double-digits.

Ritesh Vaidya:

For the International business, what is the organic EBITDA growth and organic EBITDA constant currency growth?

Sameer Shah:

We had shared this when we acquired Strength of Nature's business in the US, because this business has around 25%-30% sales coming from Africa, lot of spends are getting intermingled. So, we are not able to break Strength of Nature profit into either Strength of Nature or specifically Africa. So, the reporting is Strength of Nature plus Africa. Going ahead we will continue to provide the inorganic EBITDA growth for any other inorganic business if any comes in.

Ritesh Vaidya:

Can you share the timeline as to by when can the manufacturing for the SON business be localised because supply disruptions could go on for long over here?

Vivek Gambhir:

It will happen during the course of calendar year 2017. There are different phases but we're hopeful that during the course of this calendar year you should start seeing local manufacturing.

Operator:

Next question comes from Rohit Joshi from Dion Global. You may ask the question please.

Rohit Joshi:

Has the consumer demand become normalised on y-y basis?

Sameer Shah:

It's still too early to call this out. December was positive in terms of growth rates on a y-y basis and we have started January on an extremely strong note. So to that extent, at least for the three categories in which we're in and what we're seeing in our business, we're seeing consumers and the demand coming back.

Rohit Joshi:

Can you elaborate some measures which you have taken to enhance your direct distribution reach?

Sameer Shah:

At a very higher level, we have worked hard in terms of enhancing our direct reach, we have also penetrated more in alternate channels like modern trade, chemist and self-service stores. We also supported our channel partners with calibrated credit to take care of the note ban issue at least in the initial weeks. So these are the largest three to four measures and we also incentivised some of our channel partners as well as field personal to fast track our direct distribution. So behind these three-four factors, we did see gradual recovery week by week in November itself. As I said earlier, December itself was in a positive zone for us.

Operator:

Next question comes from Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor:

From a two to three year perspective, is the thought process that the new product pipeline excluding the top three categories can actually contribute to a 200 bps to 300 bps growth level, going forward?

Vivek Gambhir:

The way we would like to run the business is to have innovations contribute to almost 40% of the incremental growth for our business. Some of it will come from the core, some of it will come from new categories. But given the kind of focus we are putting on innovation, the intent would be to clearly drive a lot of growth through both accelerating the performance in the core, as well as tapping into relevant adjacencies like the ones we've been doing so far.

Harit Kapoor:

On soaps, could you comment on the 9MFY17 performance in terms of shares, has it been broadly maintained and what the competitive scenario is?

Vivek Gambhir:

On soaps, it's been a challenging 9MFY17, because in the initial period we saw excess stock in consumer pantries. It was a result of a fairly prolonged period of consumer promotions driven by lower palm-oil prices and as palm-oil prices have been going up, we have seen some price led growth return to the market through withdrawal of consumer promotions. In terms of our brand performance, we've been happy with how

Cinthol has been performing. On Godrej No. 1, we've launched some variants, there is still a fair amount of work that needs to be done in terms of performance. We have lost a little bit of share in Godrej No. 1 and gained share to Cinthol. So net-net, our share positions have been somewhat flat. We are not happy with that. We would like to start seeing some more share gains in soap and so, our teams are working hard to try and see if we can get to a situation where we can drive share gains in the soap category. And this is one category, where share gains tend to be much more difficult to achieve, but certainly the effort is to try and see if we can get some improved performance from Godrej No. 1 as well.

Harit Kapoor:

On the SON piece, how much does localisation benefit over the next one or two years, firstly, on the incremental revenue growth, secondly, if it helps on the profitability front, and thirdly, what's the total estimated cost that you would have to incur on the localisation part?

Omar Momin:

Directionally, it would be a step jump in terms of what we could do with the wet business in Africa once we have these brands localised because it would give us much greater agility within the market. It would enable us to invest in these brands locally and grow them like we do all of our global consumer businesses. On the cost fronts, we will have significant advantages on import duty because we'll be manufacturing them locally. So from both perspectives it would be significant and we'd look to make wet hair care a very big part of both our growth plans as well as one of the large categories that we operate in Africa. Also, the capex will be very small.

Operator:

Next question comes from Amit Sachdeva of HSBC Securities. Please go ahead.

Amit Sachdeva:

The bulk of the margin expansion in Q3FY17 came from lowering other expenses and bit of margin expansion at the gross level. The bulk of the lever of other expenses seems to be sort of running its course, so are there any incremental initiatives which are still going to be incremental to this which can lower the other expenses further down?

Sameer Shah:

There are multiple drivers. One, the revenue growth management itself which we're rolling out should result in price increase and also price increase little ahead of the cost push especially in those formats or brands where we are very dominant market leader. The other big lever is going to be the cost saving project, Project PI, we're already in its third year. This year itself we are looking at savings of around Rs. 110 crore and we also have many initiatives, the benefits of which will start coming in from next fiscal year. The third would be optimisation of spends and over here we can look at optimisation of marketing investment, sales promotion investment, with the objective of driving stronger revenue growth and not just necessarily a reduction in spends. And lastly, fixed overheads also will be very closely monitored and the desire would be to have fixed overheads growing at much lower rate than the revenue growth. Behind all of these drivers we still remain extremely confident that we will see our EBITDA growth ahead of sales growth. Again, this direction is for period of three to four quarters, not just necessarily for one quarter because you could have some upfront marketing investments or some other big initiatives, which would take some cost but we still remain extremely confident of clocking EBITDA growth ahead of sales growth on the three to four quarter horizon period.

Vivek Gambhir:

What is not appreciated in this is the benefit of operating leverage because of scale as this was the quarter where you had 0% growth. So, in a scenario where we return back to double-digit growth, the sheer amount of leverage actually provides a fair amount of opportunities. It gets much harder to drive margin improvement when the sales growth been like in the last quarter or so.

Amit Sachdeva:

This was the last question and I hand over the call to the management team for the final comments, if any.

Vivek Gambhir:

Thank you everyone for joining this call. If you need any further information, clarifications, we will be very happy to provide them.

Operator:

Ladies and gentlemen, this concludes the earnings call. You may now disconnect your lines. Thank you for your time.

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