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 8040/8065/8069
Website : www.godrejcp.com
CIN : L24246MH2000PLC129806

June 16, 2016

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

The National Stock Exchange of India Ltd
Exchange Plaza, 4th Floor,
Bandra-Kurla Complex, Mumbai 400 050.

Sub:- Concall Transcript

Dear Sirs,

We enclose herewith for your information, a transcript of the concall held with Analysts on June 6, 2016 to discuss the Indonesia Business.

Yours Faithfully
For Godrej Consumer Products Limited

Shivshankar

CONSUMER PRODUCTS LTD. MUMBAI 400 079

R Shivshankar
Deputy General Manager (Finance)

Encl: as above

Analyst Conference Call to discuss Indonesia business

June 6, 2016

Moderator:

Good Day, Ladies and Gentlemen, and Welcome to the Godrej Consumer Products Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Shah. Thank you and over to you, sir.

Sameer Shah:

Thank you. And good morning. I welcome you all to the Godrej Consumer Products Limited Conference Call to discuss the performance and strategy of our Indonesian business. Joining me today on the call are Naveen Gupta – Head Indonesia and Middle East Cluster and V. Srinivasan – CFO and Company Secretary. I would now like to hand over the call to Naveen to share his thoughts, post which we will open the floor for opening remarks for Q&A.

Naveen Gupta:

Thanks, Sameer. Good morning, everybody. It is my pleasure to be dialing in from Indonesia on this call. As most of you would know, Godrej Indonesia was acquired and became part of GCPL in May 2010. So we have just completed exactly six years of our acquisition. I am proud to say that the business has over delivered on all the pre-acquisition metrics.

Just to give some numbers and perspective, we are in IDR terms around 3x on sales and nearly 4x on the bottom-line in the last six years of performance since acquisition. Our market shares are on historic high in two of the three core categories of insecticides, air fresheners and baby wipes. We are also lucky to be leading and running the company with highly engaged team members. During the acquisition we had identified 35 core managers that we needed to continue with us and out of those I am proud to say 33 are still with the company with only one retired en route and one departed en route. Of course, we have expanded the scale of business and the scale of team subsequently.

Last but not the least, I think most of you would be far more learned on the whole macroeconomic Indonesia piece, so just to give you a feel of the things on the ground:

There has been a slight economic slowdown likely due to the global factors and particularly because of the slowdown in China as the Indonesia economy is dependent on resources like agri, coal, minerals and palm oil. So the China slowdown, to some extent, has effected

Indonesian economy as well. Also, the fact that there is a new government at the helm for the last 1.5 to 2 years.

However, I would say that there are a lot of positives which I can see in the horizon especially comparatively stable political situation with the President having slowly created a strong hold in the Parliament. He started off with a minority Parliament control and today has already reached a level wherein through a coalition of various parties he has got a strong control in Parliament. Even the economic situation seems to be improving, largely dependent on two initiatives by the government – one is the infrastructure spend that the government is doing as well as the tax amnesty which is expected to come in the second half of this year. Net-net, I would say overall some positives are visible in the horizon and hopefully Indonesia would be back to its regular growth era. You may see some quarters with current growth trend continuing, however, I think the long-term trend is surely positive and Indonesia can continue grow at levels as we have seen in the past.

Continue: - Q&A…

Questions and Answers:

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

Out of the total 250,000 outlets which the top companies have, you have currently around 110,000 distribution outlets. So what is the plan in terms of closing this gap?

Naveen Gupta:

Yes, Godrej Indonesia has direct distribution of around 110,000 outlets. When I say a direct distribution, what you need to remember is it's a slightly tweaked model versus the distribution in India, or for that matter even the multinational distribution model in Indonesia. In Godrej Indonesia we have nearly two-third of the distribution in-house. When I say that, our own company employees, our own company sales representative covers the shop, accepts the order, our own delivery van delivers the goods as well as our own collection agents and our own merchandiser merchandises the goods and our own collection agent picks up the money from that outlet. So across Java, Makassar, Sulawesi as well as Bali, they are 18 stock points across the country. We have 102 distributors which are largely in Sumatra, Kalimantan, Northern Sulawesi as well as East Indonesia which is the Papua part of the country. So to draw a parallel, one-third of the distribution is similar to what you are aware of in India or the MNC model of outsourced distribution and two-third distribution is in-house. The 110,000 outlets delivers to us approximately around 250,000 to 300,000 of auto distribution via wholesale. Another leading FMCG MNC player tracks around 250,000 to 300,000 direct distribution which further leads into an auto distribution of nearly 700,000 - 800,000 outlets. Every year the sales team have their own respective targets to expand distribution. In current year we are driving distribution expansion much faster which will happen through two parts - one, possibly creating new stock points of our own where the quality of distribution goes up. Secondly, also adding some smaller stockists from distributor point. And my expectation is that over a five year cycle, while we may not be able to reach Unilever distribution because they will continue to expand further, our assumption the 110,000 could be nearly doubling up in the next three to five years cycle.

Abneesh Roy:
Doubling will be uniform or will it be more back ended?

Naveen Gupta:
No it will be uniform, very much uniform. So every year there are targets to expand. In this particular year there are special projects underway where the expansion might even be stronger.

Abneesh Roy:
Earlier your pace of new launches was a bit weak for the 12 months and Q4 it has picked up a bit and now you plan to scale it up further. I want to understand the logic behind this, because if you see macro of Indonesia continues to remain challenging. So what has changed in the macro that now the pace of launches will accelerate?

Naveen Gupta:
So it does not necessarily have to do anything with the macroeconomic conditions. Each of the brand team across our three core brand lines have their own new product pipeline. Given the macroeconomic conditions, slight change has been brought to their plans. So earlier we were looking at up trading consumers, we were looking for more premiumisation, etc but given the sudden change in macro-economic conditions there has been some down trading happening and hence marketing teams also had to undergo a slight tweak into their own respective pipelines. Today we are poised for both kind of plans, so there are plans to both bring in new consumers and democratize various formats wherein we bring in new consumers using our product category as well as simultaneously keep on up trading or creating better occasions of usage for our existing consumers. So that is a reason why you are seeing innovation rate come back. Also, we will be expanding in to our new category in the next year. I cannot give you a specific date or a quarter right now but we have already stated expansion plans into hair care which is a category we are not currently present in. So there are plans to expand into hair care in the next one year and hence you will see a further extended innovation rate.

Abneesh Roy:
What is the breakup of the urban and rural, and similarly a modern trade and general trade, if you could give us the breakup and how have been the growth rates for the last one year?

Naveen Gupta:
So urban rural in Indonesia is very different than the urban rural that we are aware of in India. The leading FMCG MNC player has 40% business coming from modern trade and 60% coming from general trade. In case of Godrej Indonesia, 60% of our business comes from modern trade and 40% comes from general trade. This clearly shows that there is a potential upside available to us in terms of general trade distribution expansion. Modern

trade is approximately around 25,000 - 28,000 outlets across the country. Alpha Mart and Indo Mart both together constitute around 22,000 - 23,000 outlets which are organized retail or organized mom & pop shops. Besides that, there are around 2,000 - 3,000 other super market and hyper market outlets. In terms of the kind of growth rate, modern trade salience has been increasing and my personal belief is that it will stabilize someday. Alpha Mart and Indo Mart's expansion will also stabilize to a certain extent and general trade is not something which is going away while its growth rates will be slower than the modern trade. For us, given the fact that our general trade coverage is much smaller and that our products were largely, historically tailored towards modern trade, as we launch more democratized SKUs we will get towards a higher general trade growth also. So in the three to five-year horizon, we should see relatively better growth from general trade while modern trade, which is our stronghold, will continue to grow in line with the overall modern trade growth.

Moderator:
Thank you. Our next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai:
The penetration of home insecticides in Indonesia is much higher than in India, like at least four to five times and Malaysia is much higher than Indonesia, like four five times Indonesia. Also, malaria cases are very much higher in Indonesia than in Malaysia. So can I draw some kind of a parallel that because of this there is a long way to go and Indonesia could probably mirror Malaysia in the years to come?

Naveen Gupta:
So just to give you some numbers and I would not use the Indian metrics but I would use specifically Indonesia. So any household insecticides category usage in Indonesia would be in the high 80s to low 90s. In case of Malaysia, I am told that it is in the range of high 90s, so that is the gap between Indonesia and Malaysia. However, Godrej Indonesia operates in only two of the four segments. So as you would know from India there is mosquito coils, electrics, aerosols and personal repellents. We do not operate in coils and personal repellents in Indonesia, we operate purely in electrics and aerosols. The category penetration for electrics and aerosols in Indonesia would be half of the overall household insecticides category penetration. So Godrej Indonesia has two opportunities clearly ahead of itself, one, as the more premium formats of electrics and aerosols keep expanding versus coils and personal repellants. This is one area of opportunity that Godrej Indonesia will enjoy given the fact that it is the market leader and is leading the democratization of these two formats. Secondly, if we are able to develop, innovate and come up with better consumer offering which helps move the coil users and personal repellant users to Godrej Indonesia brand Hit, I think there is a second opportunity there as well; for example we

did the launch of Hit Magic Paper which is what you see in India as Good knight Fastcard in a slightly different avatar. So given the fact these two sizable opportunities exist, I am pretty confident that there will be a growth opportunity in the years to come. In terms of per capita consumption, in Malaysia there is nearly $4 to $5 of per capita consumption for household insecticides products across the Malaysian population. In Indonesia this number sticks at around $1.5 while in India, I do not have the exact number but my assumption is around some $0.20 - $0.30. So there are various opportunities that exist. In Indonesia, given the fact that it is a tropical country, it has many cases of dengue, malaria and mosquito borne diseases, the sanitation levels are not as good as Malaysia, which is comparatively a slightly more developed economy versus Indonesia. So there will be opportunities as per capita consumption keeps going up for various formats in household insecticides in Indonesia. Secondly, within the category we believe the more premium format of electrics and aerosols will keep on growing at a faster pace and that is where HIT is bound to benefit more. And thirdly, if Godrej Indonesia team can create some kind of a better offering for the consumers of coil and personal repellent users, there is that opportunity as well.

Gautami Desai:
What is your overall Indonesia business mix and going forward how do you anticipate this could go?

Naveen Gupta:
At a very broad level approximately 40% of the revenues come from household insecticides category, around 30% comes from air fresheners and around 20% comes from wipes. So these three core segment and brands constitute nearly 88% of the total Godrej Indonesia business. We do have some smaller categories which constitute around 10% and include specialized fabric care or bleach where we would be a strong number two or a potential number one, in car care we have a strong brand in car wash segment which is number two brand there. We also have a brand called *Polytex* and *Susemi* in scourers segments where we are pretty strong competing with *Scotch Brite* in the mass market segment. These are largely the distribution drivers for us. So one of the reasons why we continue to keep these three categories within our portfolio is because these are more general trade oriented and these help expand our distribution in the general trade. These are largely an Indian equivalent Rs.2 to Rs.2.5 price point or IDR500. And if we look back in Abneesh's question that some of the smaller categories, while we would be a number two player and the salience will be lower, they help expand the distribution and get us the scale when we get to a retailer outlet. In terms of salience going forward, I would believe that the three core categories would continue to constitute a larger part of the business possibly anything between 75% - 80% with these three core categories in five year from now. I hope the new category of hair care to give us another 10% to 15% salience and hence create a much larger business. And last but not the least, I believe these three smaller businesses of i) bleach or specialized fabric care - note that bleach is a separate segment altogether it is used largely

for white cloths which are used for praying by the Muslim population and hence there is a need for bleach, ii) scourers and iii) car care segment will also continue to expand and I am confident that overall we will have a much larger business going forward.

Moderator:
Thank you. Our next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:
My first question is on the hair color segment, if you could just tell us about what is the kind of market shares, who are the main players here and what do you think is going to be your right to win here, given that you do not really have a personal care brand in Indonesia and would it require basically breakthrough innovation to kind of crack it in this category?

Naveen Gupta:
You are 100% right, first of all, I never said hair color. I would classify that by saying I am only talking about hair care so please do not presume that we will do only hair color in Indonesia. We will be doing hair care in Indonesia. On what is our right to win in hair color - the market is currently carved out between L'Oréal, Revlon at the premium end of it and to a certain extent even Schwarzkopf and then there are a couple of smaller local players. There is also a sizable part of powder hair dyes which comes from India and which is equivalent of the various things that we have seen in the Indian market where Godrej Expert wins against those players. We believe the team has come out with a pretty clear and a strong positioning for a brand that we will launch. We are pretty confident that we have a highly innovative product format as well as a highly innovative positioning and more importantly, we have a strong pipeline so it would not be only one product, my confidence level is that every three to six months we will have new offering going out to the consumers. So it will mean some kind of sizable investment in the hair care segment and we are pretty confident and ready for it. I believe between a $10 play and a $0.5 play there will be some play available for our brand in the market.

Arnab Mitra:
And what would be the category size of just hair colors as it stands today?

Naveen Gupta:
AC Nielson or for that matter Kantar unfortunately does not track this market. Our internal estimates speaking to various market and industry players would be in the range of $75 million to $100 million for the hair color segment itself. However, hair care in Indonesia is far bigger. We will not go into shampoos and conditioners which is the wash part of the segment. I think if you see our portfolio in India, I think today even the Indian portfolio is far bigger and here we are not working only with the India R&D, we are also taking help

from our Latin American team and hence we are expanding and we are looking at a complete hair care portfolio rather than only hair coloring.

Arnab Mitra:
And just challenges last year from one of the strong market players, if you could just take us through what exactly was happening there and do you think you have been able to come out of it? And you also mentioned that even wipes, you market shares are at all-time high so how has it played out in the last one or two years of this competitive challenge?

Naveen Gupta:
So first of all in wipes around 2.5 years ago we did have one of the sizable baby care brands of Indonesia coming into the wipes segment. Their whole approach to the market was that we are the largest baby care brand and hence why not have wipes. They came with a value offering where everything was buy one get one free, and hence over a period of time they did erode into our market share. However, over the last 1 - 1.5 years we have got our act right through consumer meaningful innovation. One of the idea that we had was who are the largest users for wipes – it's the mother who has a 0 to 12 months baby because she needs to clean the baby for the bum wipe as well as for the body wipes. What we launched is a slightly thicker and slightly larger wipe because the mother who is cleaning requires a better offering. We re-launched and re-positioned ourselves to be pretty clear and we also went in with the same one plus one kind of an offering. We have pulled the shares back in a strong way. Apologies, if I gave an impression that even in wipes we are on historic high. We would not be on historic high shares but our business would be historic high scale with our share percentages around plus minus 50% today. The lowest that we reached down was around 35%. Our historic highs would be around 58% - 60%, we are not around there yet. I am pretty confident going forward given the innovation pipeline that we have even in wipes, hopefully we should see those historical shares.

Moderator:
Thank you. Our next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh:
One question on cost control initiatives, so last year you had done cost control initiative in India and on the earnings call it was mentioned that this also will be extended to Indonesia. What exactly are you doing in Indonesia for that?

Naveen Gupta:
In India, I think our business did conduct over the last 1.5 - 2 years very strong performance improvement focused project which is exactly what we are rolling out in the current financial year in Indonesia. There has been commodity tailwinds in the last 1.5 - 2 years for

us and we believe if and when commodity turns there will be some kind of margin pressure. In our case, of course the business is not too much focused towards or dependent on commodity because our largest dependence is purely on the LPG that is all that we use which is linked to crude. However, overall when crude moves there could be some kind of pressure. We have taken proactive measures and learnings out of the Indian business along with an Indonesian partner who is helping us run this project. What we are doing is, there are nine teams working on various category lines, various channel lines wherein they are overhauling or they are relooking at it. So each of these 9 teams are now looking at channel margins, they are looking at what kind of promotion, budgets that we run, what kind of cost controls across the value engineering that we can do across product lines, the kind of backend initiatives that we need to take in terms of operation, be it automation or for that matter be it even better sourcing, last but not the least even working out renewed formulations which are giving better quality to the consumers within same or lower cost. So that is the kind of projects which are currently underway and even relooking at the whole overheads. We believe over time cost do creep in into the business and hence it is critical to keep going back and checking if there is any kind of fat coming into the business and hence trying to continue to stay lean. So these are the various projects, themes that are running out there. I am pretty confident that there will be some gains which will be visible in the second half of this year and more importantly even continue in the next financial year. So there will be some kind of delta improvement. While there is a target which has been given out to the team, my only advice would be to see the kind of margin improvement that you have seen in India and draw some parallel from there, so that is what I would believe will happen. This effectively will mitigate any kind of cost inflation that we may face from commodity in basic terms, more importantly it will give us the kind of delta margins we need to drive the new category and stabilize and invest behind the new category. So we are pretty confident that without taking out any money from the three core categories we will be able to fund the expansion into the four categories.

Prasad Deshmukh:
With the investments in new category, cost control initiatives and so on, do we see margins getting impacted in the near term or it is like the overall company level guidance that operating profits will grow faster than revenue will still apply to Indonesia even when you are investing so much?

Naveen Gupta:
As I said, given this Project PI, I am very confident that we will be able to find that delta margin which will be used to fund the expansion and investments into the new category. As shared earlier about GCPL's aspirations, bottom-line growth has to be marginally ahead of the top-line growth. So that is the general norm that we carry unless there is some years where we have some dramatic or extremely innovative growth planned for the top-line; otherwise by and large I would believe bottom-line will marginally grow faster than the top-line.

Moderator:
Thank you. Our next question is from the line of Aashish Upganlawar from Elara Capital. Please go ahead.

Aashish Upganlawar:
What are the growth rates of your three core categories? And are you banking more on market share gains assuming that macro does not turn positive from here on. So do you think that distribution, new products, innovation, etc will take care of market share gains and that is why you are betting on that to drive growth?

Naveen Gupta:
Category growth rates would be available from Euromonitor as well as AC Nielsen, so I would not go into specific details. But let me just put in some rough numbers there, so household insecticides CAGR over the last five to six years would be in the high single-digits, this gets pulled down to single-digits because of coils and personal repellents which are growing slower than the aerosols and electrics. So aerosols and electrics will be in the double-digit kind of growth rates. In case of air freshener again, the market growth rates would be in double-digits. In terms of wipes, the category penetration is in the range of low 30s while the diaper penetration would be in the range of around 40%. Having said that, only around 20% of the diaper users are using the wipes and hence clearly there is potential to double up the baby wipe penetration itself while there will be adult usages for the freshness and facial wipes, etc and that will continue to happen. In case of potential growth rate, distribution expansion is going to happen across all the three segments as well as the smaller ones that I mentioned. So that is one growth engine that we will continue to invest behind. In terms of household insecticides, I think there is upside in terms of higher growth coming from aerosols and electrics, plus in Godrej Indonesia identifying completely new format which will be offered to the coils or repellant users. There is no point in us coming with a copy cat format because that will unnecessarily give us lesser margins. We believe if we can come up with a better offering there will be consumers who will shift to the largest insecticide brand which is *Hit* today and that also increases the overall *Hit* franchise. Given the fact that we are market leaders, in all the three segments, I am not too fussed about market share growth or market share gains but we do realize that there will be continuous pressure from other competitors who will try to nibble into our market share as a market leader. And hence this is an area where our own in-house distribution comes into a dramatic strength to us because of our ability. Just to give you a perspective, we have around 700 sales people on the ground managing the front line sales, around 1,400 sales promoter girls in the super market aisles of those 2,000 - 3,000 hyper and super outlets. With that kind of a feet on street, our ability to take on and compete or push back on any kind of a competitor action is pretty strong. Hence I would say that is an area where the sales and distribution team will continue to be pretty agile and ensure that we do not lose our edge on the frontline execution. However, our growth will have to largely come from, one, distribution expansion and secondly, innovation where within each of the

categories where we are a sizable part of the market and hence we will have to come up with new formats which will then effectively continue to democratize and expand the market, help expand our market share. Plus new category which we will be launching. So these factors should help sustain our growth.

Aashish Upganlawar:
Probably even if the economic conditions do not improve, so there seems to be a kind of disconnect between the category growth that you mentioned which seemed to be pretty robust versus what the economic growth is. And probably you see that continuing for may be three to four years, is that the understanding as of now?

Naveen Gupta:
Rather than looking at individual categories we look at nominal GDP in the country. So today Indonesia's nominal GDP would be in the range of 8% to 9% and like other management teams our thumb rule is to try and go for 1.5x to 2x depending on the category penetration levels. That is the kind of growth rate for our own respective businesses. Given the fact that Godrej Indonesia categories are sitting largely on 30% or 40% kind of penetration levels, I would believe that we would be more towards 1.75x to 2x kind of a nominal GDP growth rate. With about 8% - 9% nominal GDP or 1.5 x or 2x, we are talking about a 13% to 18% kind of a continued growth rate. Now to what extent can we push this harder will depend on one, how the economic cycle undergoes a change and I am pretty confident Aashish that current economic cycle is not going to last more than 1 to 1.5 years for the kind of slowdown that we have seen and I am pretty confident with the amnesty as well as the infrastructure investment, there will be an uptick which we will start seeing in the Indonesian economy. Secondly, our own specific plans which is category wise that I have shared, I believe we should continue to see a decent growth rates in the years to come.

Aashish Upganlawar:
The growth rates on the category that you have mentioned, was it more pricing led as such and volumes were lower, is that the case?

Naveen Gupta:
You need to see nominal GDP, the real GDP will give you volume growth. Secondly, the category penetration expansion will give you volume growth while the inflation which is what is feeding into the inflation of nominal GDP will give you price increase. Overall a very broad level, over a six year CAGR, volume and value growth rates would approximately be in the range of 60% towards volume and 35% to 40% towards price. And when I spoke about the category growth, I am talking about value growth which includes volume growth as well as whatever price increase for inflation growth that is happening in the category.

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

Richard Liu:
After these six years how much of cash has now accumulated in Indonesia and what are the plans with respect to the use of that cash? Are there any plans for going into nearby countries and for that will there be further acquisition?

Naveen Gupta:
In terms of specific amount of cash, I think Sameer and Srini will be the best guys to be able to answer that to you. We are cash rich company and whenever I need the money for any kind of investment or expansion I think the finance team ensures that that kind of money is available. In terms of further expansion, I continue to be M&A guy at my heart. Yes, one of the things that I personally do manage even in this business is to keep looking out for new opportunities. There is already a plan for various assets which we would love to have within our portfolio if available. Unfortunately we do not find too many sellers in Indonesia yet. There are wish list of assets shared with various investment bankers, some of them are working on some of the assets that we would love to have with us as part of our inorganic growth strategy. So within that same framework we will continue to expand into Indonesia as well.

Sameer Shah:
Just to kind of answer your first question, so we had little less than $300 million of loans when we bought this business in 2010. I would say that over last five to six years more than half of that loan has got repaid off with the free cash flows which the business has generated.

Richard Liu:
How much was this 110,000 outlets direct reach that you talked about at the time when you actually bought the company six years back and how much of the 3x increase in sales that you have talked about is on this account? And also will it be possible for you to share with us how much was Unilever at that time versus the 250,000 outlets that they are right now, just trying to benchmark how much faster you are expanding versus other companies?

Naveen Gupta:
Historically, when we acquired this business, the distribution coverage would have been in the range of 60,000 - 70,000 outlets which has more or less now doubled up over the last six years. Going forward, I think the expansion rate will increase for a couple of reasons, as we are largely focused on Java island and have never gone into the Sumatra, Sulawesi, Kalimantan or for that matter the Indonesia Papua part of the country. So that is an area

where we will continue to expand much faster. Again, when I say that, this is the part which is being comparatively lesser touched or lesser pushed by our team, so we are getting our complete distribution go to market model right in terms of managing the distributors, etc as we had focused largely on the branch operations historically. I would not be able to benchmark versus Unilever so let's stay with the larger FMCG piece per say. I would say their distribution expansion may not be as faster as us because possibly for them the salience is already in line with the larger market salience of 60:40 which is what 60% for general trade and 40% for modern trade. In our case we never even had the products or the focus to go towards a more general trade part of the market. So I think that is an area where we will be expanding going further in terms of the kinds of offering that we are taking to the market.

Richard Liu:
Of this 19% - 20% EBITDA margin that you are reporting in the Indonesia business, what would be the margin for HI and the price issues that buy one get one free that you have talked about for baby wipes, would that have significantly dented your margin? How much was it dented by and did you get everything back now that you are back to almost there in terms of market share?

Sameer Shah:
So I think for competitive reasons we would not like to share our category wise margins.

Naveen Gupta:
So I would not be able to get into category wise margin but I would say more or less each of the categories operate at around the same kind of margin. The wipes did go down slightly over the last 2.5 - 3 years ago and if you guys go back into our historical margins you will see some kind of a dip which happened. But again, category salience to our business is only 20%, so overall it did not have a sizable impact at the company reported margin. Over the year as we have come back with the innovation as well as better offering, our margins are more or less in line with the overall company margin. So I do not see that as any concern any further.

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

Vivek Maheshwari:
You have seen quite a strong margin expansion in FY16 of almost 400 basis points, now your endeavor to grow bottom-line ahead of top-line is great but how would that happen if crude prices have already started moving up and are almost 85% up from the bottom, don't you think that would be a difficult task in the current context?

Naveen Gupta:
As I mentioned earlier to one of the questions, our Indonesia business is not highly dependent on crude per say, but yes there is a surrogate impact which does come across categories. Having said that, that is exactly the reason why our teams are working on the Project PI which is a proactive initiative that they have taken to ensure that we continue to maintain our margins as well as possibly even further expand on them. The second point of the 400 basis points that you have seen, the impact or effect from crude was minimal into that, the larger impact was through automation and the kind of backend productivity improvement that the teams have been doing. Also better value realization or premiumisation that we have been able to push through on the front end. So that has what has fed into the margins and going forward also the teams are continuing to work equally hard to ensure that this continues. What you may not see is us driving bottom-line margins dramatically higher. As I mentioned earlier, our endeavor is to, one, mitigate any kind of commodity headwinds that we may face; two, find that delta margin that we can plough back into the new category launch and; three, if some part of it flows down to the bottom-line I think it is only healthier for all of us.

Vivek Maheshwari:
Is it possible to quantify how much would be the inputs, like you mentioned about LPG packaging by and large would be crude dependent?

Naveen Gupta:
I can only say it's much smaller than the Indian business because it is not only crude but there is also the palm oil in India business. There is no such palm oil implication on the Indonesian business. So commodity impact is far smaller for Indonesian business.

Sameer Shah:
I think one other point to add to perhaps the bottom-line story in Indonesia is scale. So the hope is that gradually we are seeing bit of recovery in macro and also in FMCG space. So compared to 9% constant currency growth of FY16 if we are able to clock better growth rates that itself will give us lot of scale leverage to not only reinvest some part of the profits into new product launches but along with Project PI hopefully be very close to FY16 levels of EBITDA margins in the business in this fiscal year.

Vivek Maheshwari:
Why is it so difficult for competitor to not aggressively go after the market leader, even if somebody focuses on the modern trade it would be a relatively easier task compared to how would be in India. Is there a threat to margin if somebody launches attack on your business in terms of discounting household insecticide category significantly?

Naveen Gupta:
Theoretically your question is very valid and theoretically there is always the risk which is available. However, let's look into the reality of the situation and what is the ground reality. So few points on why Godrej Indonesia's distribution allows us the kind of leverage that we have in terms of the market control. Firstly, the front line is managed in-house while some of the other competitors outsource their distribution. So that is one edge that Godrej Indonesia possesses. This is comparable only to the Wings group which competes with Unilever or for that matter Indofood which is the largest FMCG company in Indonesia. So these are the only companies which have that kind of distribution network and that is the edge which Godrej Indonesia enjoys. Secondly, do not forget that we are also the market leaders and hence we are also the category captains in most of the categories. We try and control the kind of displays we have, we are working very closely with all the channel partners in terms of what is the kind of consumer in-sighting or the shopper behavior insight that we have which helps us maintain that kind of an edge and that kind of a relationship in terms of how the market is maintained. Last but not the least, please do not forget modern trade will largely keep only a few brands in the shelf because they are looking for value throughput out of the shelf. Yes, they would love to have a competitor or a discounter coming into the category, however they are also not going to do it easily because that erodes their own value realization per unit sold from the shelf or per square meter of space from the shelf. So that is a beauty of modern trade environment that it is a cycle which feeds into itself. Yes, our risk is more from modern trade becoming unbearable on us which is why as I mentioned earlier, there is an upside available to us on the general trade and while the trend of the country converting towards slightly more stronger modern trade will continue, our belief is Godrej Indonesia does have a potential opportunity in the next 3 to 5 years cycle in terms of expanding its own distribution purely in the general trade.

Moderator:
Thank you. Ladies and Gentlemen, we will be taking the last question from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor:
In terms of investments in the business over the last six years and as well as if you have been able to reduce the working capital intensity because in 2010 we acquired the business, the sense was that the working capital environments were far higher than the India business, while that may still hold true, just wanted to understand whether we have been able to squeeze out some more in terms of capital from the business and make it more efficient. So if you could just qualitatively or quantitatively comment on the same?

Naveen Gupta:
So I would not get into the specific quantitative answers on this but qualitatively I can tell

you. Indonesia by the whole structure of the business requires slightly higher working capital than the Indian business, purely because of this is a modern trade environment where there will be trading terms and there will kind of credit that we need to give to the modern trade outlets. So generally this is all in the range of around six to eight weeks kind of a cycle. What we have done is with the one third part of our business which is the distributor part of the business, we have over a period of time been scaling down our inventory levels and making it a far more replenishment based cycle wherein today we are down to possibly in the range of some six to eight weeks and in some cases down to a week or maximum three weeks. So over a period of that that is the kind of stronger supply chain management and hence a far stronger TOC based replenishment that our supply chain team has been able to deliver which has also reduced the kind of working capital exposure. Even on the supplier side we have expanded our supplier credit. Overall, I would simply say, when we inherited the business we were operating at in the range of around 120 days, today we are down to a much smaller number. Our endeavor is to someday reach a zero working capital. While our Indian business operates on a negative working capital I do not think we will be able to get to a negative working capital but our endeavor is always to go as close to zero as we can and yes, I think I believe we can get there in the next one or two years.

Moderator:
Thank you. I now hand the conference over to Mr. Sameer Shah for his closing comments.

Sameer Shah:
So with that we would like to bring this call to a close. Thank you all for being on the call.

Moderator:
Thank you very much. Ladies and Gentlemen, on behalf of Godrej Consumer Products Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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