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November 28, 2016

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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 November 7, 2016, post the announcement of Q2 results for FY 2016-17.

Yours Faithfully
For Godrej Consumer Products Limited

Ramesh Iyer
Dy Company Secretary

Encl: as above

Investor and Analyst Q2FY17 Conference Call

November 07, 2016

Moderator:

Ladies and Gentlemen, good day, and welcome to the GCPL's Q2 FY 2017 earnings conference call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Percy Panthaki from IIFL Capital Limited. Thank you and over to you, sir!

Percy Panthaki:

Hi, we are pleased to hold this Q2 FY 2017 results concall of GCPL. At this point, I would like to hand over the line to Mr. Adi Godrej for his initial comments. Over to you Mr. Godrej.

Adi Godrej:

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

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 macro economic conditions in many of the countries we operate in remained soft in the last quarter. We, however, expect consumer demand to improve in the quarters ahead, particularly in rural India. That should lead to better growth for the FMCG industry. We are seeing several tailwinds such as a good harvest, benefits of the pension scheme and MSP increases that will lead to revival in the sector. In our international markets like Indonesia, we are also hopeful of better macro-economic conditions going forward. In some of our African markets, we remain watchful of currency depreciation and its associated challenges.

Despite a sluggish environment, we delivered a reasonably robust performance during the last quarter. We continue to deliver ahead of the market and profitable growth. Our consolidated constant currency sales grew at 15%, with EBIDTA in constant currency terms growing at 17%. Our India business delivered a strong sales growth of 7%, driven by a healthy volume growth of 9%. Incidentally, we have delivered 9% or higher volume growth in India in five of the last six quarters. This shows that we have been consistently outperforming the home and personal care sector. We hope to sustain or better this performance in the quarters ahead.

Our performance in Indonesia was relatively weaker due to adverse weather conditions impacting our household insecticides business. While sales de-grew marginally, the non-household insecticides sales grew in low double-digits in value and volume terms. In terms of market share, we sustained our leading positions across categories. We hope to see a better performance in the subsequent quarters.

The organic constant currency sales growth in Africa was strong at 18%, backed by equally healthy volume growth. Our teams are resiliently navigating the challenges of currency devaluation. The integration of the Strength of Nature business in the USA and Africa is on track.

On the profitability front, most of our businesses have expanded margins, despite historic high margins in the base and upfront marketing investments. We are also maintaining our rhythm in innovations. During the last few months, we have launched several new, exciting products in different categories. We believe that these launches will further enhance our position in our core categories as well as enable us to tap into attractive adjacencies.

As we look ahead, we remain confident of a stronger performance in the second half of the year compared to the first half. As consumer demand picks up, we believe that we are well positioned to continue to outperform the industry.

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

Vivek Gambhir:

Thank you, Mr. Godrej. Good evening to all. What I will do is, I will spend a few minutes just walking you through some of the key slides in our Performance Update presentation.

Starting with Slide #3, where we summarize our Q2 FY17 financial performance, as Mr. Godrej mentioned, despite the tough operating environment in many of our geographies and adverse weather conditions for Household Insecticides in Indonesia, we have delivered a constant currency growth of 15% and an organic constant currency growth of 7% at the consolidated level.

Our operating profit growth has been stronger at 17% in constant currency terms. This has been delivered despite increase in A&P expenses by 21%.

As you know, we have launched some exciting new products recently and so we are investing behind them. This kind of investment, we believe, will set out well to deliver a stronger performance in the quarters ahead.

On Slide #4, there are no major items in exceptional items, except for the base quarter, which had some Ind-AS related adjustments.

If you turn quickly to our India performance starting with Slide #6. In India, we delivered ahead of market top line growth of 7%. From the information available from external research firms and from what our peers have been saying the growth in the home and personal care sector for Q2 FY17 seems to be around 2% to 3%. So we have significantly outperformed the industry growth.

In terms of a further break down on our growth, our urban business grew at 8% and rural at 7%. So, rural growth has clearly been a challenge that would hopefully show a much better trajectory in the quarters ahead. Our modern trade business continued to grow very well in this quarter.

If you turn to Slide #7, where we show our volume growth, as Mr. Godrej mentioned, with 9% volume growth in Q2 FY17 we have delivered 9% or higher volume growth in five out of the last six quarters. This shows the resilience of the overall portfolio and our ability to deliver consistently and sustain this level of growth. Like in any portfolio, not everything tends to grow at the same rate. So, there are some categories in the portfolio, which we believe will show better growth going forward than they did in this quarter.

On Slide #8, which talks about our performance in the Household Insecticides category; in this quarter, we delivered very strong growth in Household Insecticides. We have been able to sustain this double-digit volume led growth due to our relentless focus on innovation, distribution, and superior execution. As shared with you earlier, being a market leader we are also leading the category development and simultaneously strengthening our leadership positions with awareness creating and habit-forming communication. Our recently launched personal repellents range has received an encouraging response from both trade and consumers. The out-of-home market is very under developed in India and so we will focus a lot on developing this segment to help our consumers better protect themselves from the risk of dengue, chikungunya and malaria.

Slide #9 talks about our performance in Hair Colors. Our growth in Hair Colors was subdued on a high base of 17% growth in Q2 FY16. We are pleased with the fact that the crème format continues to perform very well for us. Crème hair colors sales increased by high teens. Our BBLUNT range of hair colors are being rolled out in the market and the initial response has been positive.

On Slide #10, we talk about our performance in the Soaps category. The entire Soaps category saw a value and volume decline during the quarter. This is due to the temporary impact of withdrawal of promotions. So basically, when these promotions are withdrawn there is some resistance from trade as they try to lift the promotional stock in the channel plus there is a certain amount of excess pantry stock in consumer homes. And so, this is largely the effect of the significant promotions we are seeing in the category over the last few quarters. Typically, in a category that is highly penetrated, in the long run fundamental demand does not increase because of promotions. So, we are witnessing a temporary period of adjustment in both the channel and with consumers. The growth rate should normalize once all of this settles down. Also if you look at unit growth that has been much better than the volume growth performance.

On Slide #11, we talk a little bit about our new launches. We are very pleased with the response to our new launches and they continue to do well. While we have seen some of the other players in the industry go slow in terms of innovation, we have sustained the momentum and in some ways, have stepped up the accelerator. We believe that maintaining the rhythm of innovation is very important and this continued focus on new launches will help us in the quarters ahead.

Let me now turn to our International business performance. On Slide #14, as you can see, reported sales in International business grew by 16%, and reported EBITDA grew ahead of sales with 17% growth. The macro headwinds, including currency challenges, continuously impacted the International business.

In organic constant current terms, our sales increased 6% and this was despite the weather-related challenges in Indonesia, which impacted our Household Insecticides business.

On Slide #15 is a snapshot of our geographic revenue performance. As you can see, Africa and Latin America have done well; Indonesia and Europe have seen some challenges.

On Slide #16, the good news is that we are seeing healthy margin improvements across most geographies. While we did see a dip in our Indonesia margin, this is on the base of a very high margin and at 22% margin the Indonesian margin is still very healthy. The margin decline in Indonesia is due to some upfront marketing investments we are making for our new hair care launch NYU that we are excited about along with ramping up our investments in other categories.

And as I mentioned, on Slide #17, in Indonesia the demand for our Household Insecticides products, which is our largest category, was impacted by some excess rain. Excluding Household Insecticides, our Indonesian business delivered 13% value and volume growth in constant currency terms and EBITDA declined on lower sales and upfront marketing investment. During the quarter, we entered the Hair Colors category in Indonesia and the initial response has been positive.

In Africa, on Slide #18, Darling continues to deliver strong double-digit growth. We are also very excited about leveraging our Strength of Nature acquisition to fast track our Wet Hair Care platform in Africa.

On Slide #19 in Latin America, we had a good performance in our LATAM business with decent sales growth and margin expansion. The picture on market share is also very positive across our key brands.

Europe, on Slide #20, was impacted by subdued demand with uncertainty post BREXIT. We also witnessed increased competitive intensity in deodorants. The business continues to be managed in a frugal manner as reflected in margin expansion.

The rest of the slide summarizes our reported performance results. Before we turn to Q&A, I just want to cover Slide #28. We had received some very positive feedback from a lot of you. Thanks to those of you who gave us feedback in terms of how we can improve our Investor Relations process. There are some specific actionables we have outlined that came from the Investor Relations survey and Sameer, Tapan and team along with Mr. Srinivasan will make sure that we continue to find ways to productively engage you and improve our Investor Relations process.

We can now turn to Q&A. Thank you.

Continue: - Q&A…

Questions and Answers:

Moderator:

We have the first question from the line of Kunal Jagda from KeyNote Capital. Please go ahead.

Kunal Jagda:

Can you explain the variation of Rs. 50 crore in sales, around Rs. 27 crore in EBITDA and Rs. 41 crore in PAT?

Sameer Shah:

Most of the changes in the base are because of adopting the Ind-AS accounting standards. The comparable numbers, have come down because earlier we had to net off sales with excise duty and starting this quarter, in terms of reporting excise duty it has to be grossed up with sales and has to be shown as a separate line item. So, arising from sales that would be the impact on the EBITDA margins and on PAT, the impact is arising again on account of Ind-AS in the call put options and few other related matters which could be the major reason for the change in numbers compared to the base. We can share this with you offline. We had also shared an update three months back in terms of what will be the entire FY 2016 P&L, so you can go through it and if you have any queries, we will be happy to guide you.

Kunal Jagda:

What will be the contribution of new launches in the total revenue? What will be the average realization of the new launches, going forward?

Vivek Gambhir:

Typically, we do not talk about forward-looking projections as far as contributions of new launches are concerned. But historically, somewhere between 25% to 40% of our incremental growth has come from new launches. We intend to maintain a healthy ratio of new growth coming from new launches and the good news for us is that these new launches are across the board whether you see Soap, Insecticides, Hair Colors, new categories like Air Freshener or in Indonesia. We are focusing on maintaining a certain momentum of new launches across all of our categories.

Kunal Jagda:

Will 25% to 40% of the incremental growth trend continue?

Vivek Gambhir:

I do not know exactly how the numbers will pan out. But, historically, that has been the trend.

Kunal Jagda:

In the Soaps segment, the decline was mainly due to rebalancing of prices. Can you give the average realization prior to rebalancing the prices?

Sameer Shah:

If we look at our trends starting in Q1 we had deflation of around 9%; Q2, we had deflation of 5%, so effectively over last two quarters our effective price increase would be around 4%. We are expecting Q3 will have a price led growth, difficult to quantify because there are too many moving parts in terms of the mix, promotions, etc. But that is the trend we expect directionally, at least, starting this quarter itself.

Kunal Jagda:

Can you give some view on post rebalancing realization?

Sameer Shah:

In Q2 FY17, we had close to around 5% of deflation and in Q3, we will have a price led growth. It is difficult to quantify at this stage.

Kunal Jagda:

In your Indonesia business, there were some upfront marketing investments but on consolidated basis, there is a decrease of 20% Y-o-Y in your advertisement cost, could you explain this?

Vivek Gambhir:

On a consolidated basis, the A&P has gone up by around 20%.

Sameer Shah:

In terms of numbers, it is Rs. 203 crore for Q2 FY17 versus Rs. 167 crore for Q2 FY16, which is close to around 21% in terms of increase.

Moderator:

We have the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

On the Soaps category, the transitionary phase, based on your past experience, how long does it last? Is it a few quarters for the volume growth to come back or is it just three - four months' phenomena and then these issues resolve and you get back to some normative growth?

Vivek Gambhir:

It is very difficult to answer that because some of it depends on how long the commodity cycle remains. But our expectation is that we would have some improvement happening in Q3 and by Q4, it should all start settling down. What is encouraging is that unit growth has actually been quite decent for us. So while volumes would be negative, a positive unit growth indicates that things are trending in the right direction and so, a little bit depends on the outlook for palm oil, going forward. But status quo by Q4 FY17, things should start normalizing.

Arnab Mitra:

Considering the fact that palm oil has actually moved up a lot from the bottom, is the price hikes now a continuing phenomenon and based on the current commodity prices, have you taken the increases that you had to take?

Sameer Shah:

The palm oil prices have moved up by 25% over last three months to four months. In our case, what we have done to begin with is withdrawal of offers. In its own way, effective price increase at this stage is good enough read with the rate at which we have forward covers for palm oil. So, it all depends and now we have covers for next three months to four months of production, which is also lower versus today's replacement rate. For the time being, it is good enough i.e. the effective withdrawal of promotion or the effective price increase that we have taken.

Arnab Mitra:

On Indonesia, the Household Insecticides growth, is it purely a seasonal issue or any kind of competitive market share issue that you're seeing? How would you expect the H2 FY17 to go in terms of growth?

Vivek Gambhir:

In terms of market share, the picture actually looks stable to slight improvement. From a brand equity perspective and from a market share perspective, there is no concern at all. Our belief is that this is driven entirely by adverse weather conditions and the team is feeling better about H2 FY17 and the H2 FY17 should have a better performance than the H1 FY17.

Arnab Mitra:

On Africa, have you been able to mitigate the impact of the currency with pricing or we will see the full impact going ahead of the currency decline there?

Omar Momin:

We have seen a majority of the correction happen in this quarter and by next quarter, we should get the full impact in terms of pricing and margins.

Moderator:

We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha:

On the growth in the Insecticide business, is it led by our LV segment and have we gained market share there?

Vivek Gambhir:

Generally, all the formats have done quite well and we continue to be the market leader across all the formats.

Amit Sinha:

Believe that out-of-house would not have contributed significantly because it has just been launched?

Vivek Gambhir:

Yes, it is very small right now.

Nisaba Godrej:

Yes, we have just launched it. It has not even been six weeks but we are very excited. We pointed out in the presentation that was sent to you all that the in-home market is over Rs. 4,000 crore and the out-of-home market is only about Rs. 125 crore. Fortunately for us, mosquitoes do not stay indoors. So, we think what this category was lacking was both good product and innovation and investments in habit creation.

Amit Sinha:

In Indonesia, very heavy rains impacted your Household Insecticides sales whereas, in India, heavy rains get more business for Household Insecticides segment, so how do the dynamics work?

Vivek Gambhir:

Too much rain is not very good as far as the present situation is concerned and too much dry weather is also not good. What you need is a mix of periods of rain, accompanied by a certain amount of days of no rains. So, even in India, when you have floods or excess rain, mosquito infestation actually comes down.

Nisaba Godrej:

Mosquitoes breed in stagnant water, so you need periods of still water. So, monsoons are very good, but if it is raining continuously, everything will just get washed out.

Adi Godrej:

Seasonality varies quite a lot in India depending on the region you are in. It gets quite cold in certain parts of India and it gets very hot in certain parts. Whereas Indonesia being a tropical country has relatively the same weather through the year. So, the seasonality is quite different in Indonesia and in India.

Amit Sinha:

On the Hair Color business, the non-crème business seems to be declining significantly in the last two quarters, is it competition from the ayurvedic companies or is it something else?

Vivek Gambhir:

So far, there are no worries about competition from ayurvedic players. Clearly, there is a challenge for us in terms of how do we sustain or maintain some growth in powders. The team is working on some new marketing campaigns to try and drive growth in powders. This is more of a function of overall category challenges.

Sameer Shah:

While crème is growing at a very fast pace and consistently growing over the last two years - three years for us, there is definitely lot of upgradation which is also one of the reasons why we had crème at a higher price point as compared to powder. We need to read both together.

Moderator:

We have the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon:

On Household Insecticides in India, given the continued significant outperformance which you had seen in this category over a fairly long period of time and the dominance that you have, how should we look at the price growth as a new vector for you? Is it realistic to expect price growth to be significantly higher than in the past?

Sameer Shah:

We have taken price increase of around 2% at the end of this quarter. We do expect that most of the other players, as has happened in the past, will follow soon. Revenue growth management or price led growth will be one of the key drivers to overall growth in Household Insecticides. But we will also have to read this with input cost and also the objective of volume growth.

Manoj Menon:

Have you seen inflation in inputs in Household Insecticides?

Sameer Shah:

No much driven by commodities. Crude is the only large commodity play in Household Insecticides, indirect derivative in most of the materials which goes in Household Insecticides and now lower crude prices are getting in the base, so, to that extent, yes; but nothing significant as such at least till now.

Manoj Menon:

In terms of the structure of the industry, till about the last available data, coils was declining, is the trend still continuing? Since it is a significant component of the overall industry, would it pull down the industry growth?

Sameer Shah:

Yes. The trend continues, coils continue to shrink in the overall category.

Nisaba Godrej:

But we should not be worried about that because people are upgrading to other formats. In Household Insecticides, the other formats are much-much more profitable than coils, because coils is much more of a commodity and BTL led business.

Manoj Menon:

On the Africa organic growth of around 18%, how do I look at it given currency depreciation in the local markets is possibly a tailwind for you since you have local manufacturing? Going forward, are you happy with this 18% performance given that you had these tailwinds or do you think you could have done slightly better? How do I look at the growth for the next one year in terms of the Africa constant currency organic growth?

Oman Momin:

Breaking it down into volume and value, the volume will be a more robust indicator of both the quality of growth as well as what you would expect from the future. About two-third of this growth is volume growth, which means that from a fundamental perspective, there is an underlying and double-digit volume growth happening in the business. As far as currencies and pricing goes, these will equilibrate over time. If we have certain expectations on how the African market of currencies will perform with the Indian rupee then that will form the basis for both translation as well pricing equilibrium in these markets. But the fact that we have double-digit volume growth in the business that makes us comfortable about both the health as well the prospects of this portfolio.

Manoj Menon:

Given the Strength of Nature transaction is closed now, the consolidated interest cost line has come off by 10% Y-o-Y during the quarter, any comments on this?

V. Srinivasan:

In the financial results of the previous year, we had a non-convertible debenture which got added to the interest cost in the Ind-AS that is the delta because of which the differential is lower.

Sameer Shah:

The other income and finance cost in Q2 FY17 is Rs. 19 crore versus Rs. 12 crore in Q2 FY16, so there is net-net increase of around Rs. 7 crore, which is largely on account of the interest cost for funding Strength of Nature business.

Moderator:

We have the next question from the line of Latika Chopra from J. P. Morgan. Please go ahead.

Latika Chopra:

What was the underlying organic growth for the SON business?

Omar Momin:

As shared earlier, because there have been a set of acquisitions in SON over the years, we do not have a clean set of data to look at comparable like-to-like growth in this business. As soon as it is in our base, we will be able to give you a clear picture.

Latika Chopra:

With the integration of this business happening with the Africa piece, have we seen any benefits yet which has flown into financials?

Omar Momin:

The biggest part of the integration is when we localize the manufacturing of these products in Africa, which would take a few quarters. From a materiality perspective, we do not have those synergies in the P&L as yet. We would expect that in about two quarters from now.

Latika Chopra:

In Indonesia, how do you expect the growth rates for all the three categories to pan out moving into the H2 FY17? What will be a more sustainable organic constant currency growth rate given all the distribution of product initiatives that you have undertaken? Could you share any updates on your recent foray in the Hair Color segment in Indonesia, what are your learnings so far and how confident are you on gaining market share?

Sameer Shah:

We would shy away from giving a forward-looking guidance. But we do expect recovery in the Indonesia businesses sales growth in H2 FY17. The growth in H2 FY17 should be better than H1 FY17. Gradually, over a period of time we should go back to the growth rates which we have seen in Indonesia over last four to five years that is in the high-teens to close to 20%.

Vivek Gambhir:

We normally wait for some quarters till we get some repeat orders data. So far initial offtakes have been very positive but we would want to wait till we get some data in terms of consumer repeat behavior, which typically takes 4-6 months.

Latika Chopra:

What will be the size of the Aer brand now in India?

Sameer Shah:

For competitive reasons, we will not share the size of the Aer brand. But most of the NPDs and within that, Aer is doing extremely well for us.

Latika Chopra:

Would it be making profits at an operating level? As a brand, has it reached that breakeven?

Sameer Shah:

Yes, it has.

Vivek Gambhir:

This was one of the brands, which turned net contribution positive in a little over two years. One of the faster brands to turn net contribution positive for a new brand.

Moderator:

We have the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

With GST around the corner, there is likelihood that some of your products might see a benefit. So, in case there is a benefit in a category, will that partially be retained and you could have some accretion to margin or do you think that will get completely passed through to the customer? And if there is an increase in rates in some of the products, how is that likely to play out?

Adi Godrej:

As you know, the broad rates have been announced. It is not clear that how each individual category will be placed in those rates. But overall, we expect considerably lower rates on FMCG categories than currently being paid on these categories and it is very difficult to tell exactly what categories will be placed where. But we expect that the rates will be lower and that will lead to some of the margins passing on to the companies, some of it will go in additional advertising, etc. Now, it would certainly lead to faster growth in these categories and overall, greater consumer offtake and therefore, greater investment in production capacity. Overall, GST will lead to higher GDP growth in the country also, which in turn would add further to the growth of the FMCG sector. So whatever we heard up to now is very positive. In about two weeks to three weeks, we will have far greater details which would help us analyze the situation much better.

Vivek Gambhir:

In terms of prioritization, our focus will be on to drive demand up and offtake up because ultimately the higher the demand and the higher the offtake, the bigger the margin benefits from that as opposed to trying to retain this on margin. If the demand increases, that would flow up in a much positive manner as far as profit improvements are concerned.

Sameer Shah:

The area based exemption which we enjoy today, in all likelihood, even in the GST scenario, we will continue to enjoy.

Percy Panthaki:

Despite that, there could be some benefit on the state part of the GST, right?

Adi Godrej:

Yes, other than that, there would be benefit.

Percy Panthaki:

Now that BBLUNT has been launched, what are the key learnings from it? Are we more or less on track on our vision of making BBLUNT a Rs. 100 crore brand in about three years or so?

Nisaba Godrej:

We have had a lot of learning since we launched the brand. We realized that we probably needed Tier II pricing – one at the very premium end and one at a more mass premium end. So that is why we launched this hair color at the mass premium end, this is a big growth driver for the brand. This is a recent launch but the response to the product and in consumer research has been extremely well across consumers. So, we are quite excited about the growth prospects. And yes, hopefully we will hit Rs. 100 crore soon.

Percy Panthaki:

In Nigeria, are we just factoring in the currency translation impact and missing out on demand or demand is more or less likely to be okay in the future as well?

Omar Momin:

Overall the demand environment in Sub-Saharan Africa from economic growth, from overall consumption growth, it is definitely soft in many of the countries we operate in. We have been able to grow our brand despite this environment because of the combination of the strength of the brand, our competitive position and the efforts the teams have put in terms of driving growth initiatives. Our growth is happening despite a weak demand environment but it is because of the strength of the brand and therefore we see it as sustainable at least for a near-term future.

Moderator:

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

Prasad Deshmukh:

On your SAARC business, what growth and margins do you see?

Sameer Shah:

The SAARC business has been a mixed performance. We did have some issues in our Bangladesh business in terms of intense competition from a local coil player. However, our business in Sri Lanka and Nepal has done extremely well. Nepal has grown by strong numbers. Some of the business is still in investment mode and we are upfront investing on talent, infrastructure, even marketing, so that is the reason why the margins are not as expected from these businesses but there has been growth. Bangladesh has been a little bit under pressure.

Prasad Deshmukh:

Is there any reason to believe that the growth momentum that you may have seen in the past in this region may falter in the medium-term or will it continue?

Sameer Shah:

We hope it remains only for a quarter or so and that is what we are seeing on ground. After a quarter or two, we should be again to a very strong growth as what we have seen in the past.

Prasad Deshmukh:

In the categories that you are operating right now in India, where do you see maximum consolidation opportunity from GST? In which segment do you think the benefits will come the most through GST?

Adi Godrej:

The evasion of taxes will become very difficult under GST and the sector in which, there are lot of small companies as competition is the Hair Color segment and we feel there our position will be much better. It will help us even in Household Insecticides business and both these sectors are under penetrated. So with the advantages of GST, penetration increase will also be very good. Generally, my personal view is that the whole Indian economy will do very well and clearly FMCG will certainly strongly participate in that and our company will be a major beneficiary.

Prasad Deshmukh:

On the cost control initiatives that you have, what kind of cost savings that can be there by the end of the year in terms of run rate?

Vivek Gambhir:

Difficult to give precise estimates; the Indonesian project is well under track, India also continues to deliver very strong benefits. Chile has just started; the benefits in Chile will be more in FY18 and less in FY17. Indonesia will see some benefits, but we do not really have a good sense yet because projects are being implemented as we speak.

Prasad Deshmukh:

Can one assume ballpark 10% savings in cost structure at the COGS level?

Sameer Shah:

Going by India experience, we are clocking close to 2% of our revenues as overall banked savings. There is no reason why even in Indonesia we should not be reaching that mark.

Moderator:

We have the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman:

For the other brands in the India business, you recorded over Rs. 100 crore of sales in Q2 FY17. Can you call out two or three sub categories within this and give out some growth rates?

Sameer Shah:

The other brands, which is close to more than Rs. 100 crore comprises of Air Fresheners, Toiletries, which in turn would include Deodorants, Deo Stick, Talcum Powder, Shaving Cream and as we mentioned earlier, Air Freshener is doing extremely well. We also had 1-2 quarters of Deo Sticks, which also is doing quite well and that is why the numbers are more than Rs. 100 crore right now.

Aditya Soman:

Has anything specifically worked for these two categories say Air Fresheners and Deo Sticks?

Vivek Gambhir:

Both are innovations, the deo stick is a relatively newer innovation. Within Aer, the pocket membrane product continues to do well. So these are largely innovation led more than anything else.

Aditya Soman:

On Africa Dry Hair, who are the main competitors and have they also seen similar volumes over the past few quarters?

Omar Momin:

In this business, unfortunately we do not have a sense of the market like a Nielsen. So we would not be able to share with you a sense on how competitors are doing; but our sense is we have been doing better than our competitors in the last few quarters.

Aditya Soman:

An older presentation indicates that about the top three players have 75% market share but I have not been able to really find any large competitors.

Vivek Gambhir:

There are some Chinese and Korean players who are fairly sizable but their market positions again vary by a specific country. In some ways, in terms of consistent market positions across pan Africa, we are the only player who has a strong position across most African markets but there are some Chinese and some Korean players who are quite strong in specific geographies.

Adi Godrej:

We do not have any major multinational company as a competitor.

Aditya Soman:

On Africa Insecticides, can you provide any update on the new launch of few quarters ago?

Vivek Gambhir:

We had a pilot launch in Nigeria and we are basically awaiting registration formalities to be completed in a couple of other countries in Africa. It is taking a little bit longer than what we had hoped for but once registration gets completed, in terms of the proposition we are in pretty good shape. But we will just have to wait and see when we actually get the registration in a couple of countries.

Moderator:

We have the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

In Household Insecticides, you have done a wider launch in Nigeria than the control test launches that you were doing. What are the formats and what proposition are you adopting in Nigeria itself?

Vivek Gambhir:

In Nigeria, the initial launch was a little bit more aerosol-driven and the products were sent from India, which is not a sustainable and scalable cost structure. We had done the launch to see what kind of consumer feedback we would get and the consumer feedback was actually quite positive. But then we went back to the drawing board to figure out what the right manufacturing strategy would be and the consumer feedback also led to changes in some formats and the proposition that we offered our consumers. A lot of rework has already happened in terms of formats and proposition, but we prefer not speaking about it till the registrations actually gets done in a couple of countries in Africa.

Percy Panthaki:

Should we then expect that the real sort of launch in spirit would only be in FY 2018 in Nigeria?

Vivek Gambhir:

We were hoping to get something in place by Q4 FY17. It could happen but FY 2018 seems more realistic because with some of the registration authorities, once the papers have gone in, we do not necessarily always have control in terms of how long these things take.

Percy Panthaki:

Do you already have local manufacturing capabilities or a tie-up with a third-party there?

Omar Momin:

We are evaluating our options. We are looking at both the options. We will talk about it once we are ready.

Percy Panthaki:

On the hair color India business, there is an upgrading from powder to crème but that would mean for every application the revenues to the company is 2–2.5x in the crème format versus a powder format. So the upgradation would have impacted the overall revenue positively, any comments on this?

Adi Godrej:

Not everyone who upgrades comes to us as crème has much more competition than in powders.

Moderator:

We have the next question from the line of Bhavesh Shah from CLSA. Please go ahead.

Bhavesh Shah:

Please share some perspective on the staff cost, which is up by 1% Y-o-Y and other expenditure, which is up by 19% on a consolidated level?

Sameer Shah:

On a standalone level, the staff cost has come down because of the relatively lower performance linked variable remuneration provision, which in turn is driven by the delta EVA. The staff cost at consolidated level, has gone up because we have added inorganic businesses like Strength of Nature as well as Canon Chemicals in Kenya. On other expenses, standalone level, the expenses are lower because we had relatively lower utility cost and within that, the gas cost. In International and hence on Consolidated level, in some of the markets the sales promotion expense is relatively on the higher side. That is the reason we see an increase over there. The same reason for staff cost applies here because in the base we did not have Strength of Nature.

Moderator:

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Percy Panthaki for closing comments. Thank you and over to you!

Percy Panthaki:

Hi, I would like to thank all the participants and the senior management of GCPL for this call. Over to Mr. Godrej for any closing comments.

Adi Godrej:

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

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of IIFL Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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