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May 16, 2016

BSE Limited
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Scrip Code : 532424

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

Dear Sir,

Sub: Transcript of Conference Call held with Analysts on 3rd May, 2016

We attach herewith for your information, a communication which is self-explanatory.

For Godrej Consumer Products Limited

Ramesh Iyer
Dy. Company Secretary

CONSUMER PRODUCTS LTD. MUMBAI 400 079

Investor and Analyst Q4 FY16 Conference Call

May 3, 2016

Moderator:

Ladies and Gentlemen, Good Day and Welcome to Godrej Consumer Products Earnings Conference Call. As a reminder, all participants' line 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Kutty, Research Analyst of Emkay Global.

Prashant Kutty:

Good evening everybody. I would like to welcome Mr. Adi Godrej, Chairman and the senior management team of Godrej Consumer Products Limited. I would now like to hand over the call to Mr. Godrej for his opening remarks. Over to you, sir.

Adi Godrej:

Thank you Prashant and good evening. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the fourth quarter of fiscal year 2016.

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

We have continued to deliver double-digit, ahead of the market performance in fiscal year 2016. During the year, consolidated sales of our business increased by 11% and EBTIDA by 21%, in organic constant currency terms. Volume growth, including consumer offers in our India business was 11%. In our international business, our sales growth of 14%, in organic constant currency terms, was led by strong growth in Africa and Latin America.

During 4Q, the volume growth of the Indian FMCG industry remained subdued at levels similar to the previous quarter. During the quarter, the benefits of low commodity prices were passed on to consumers resulting in relatively higher consumer promotions. In this environment, our India business sustained its volume growth leadership with a growth of 9% including offers.

Despite the volatile macro-economic environment in some of our emerging markets, our international business delivered robust organic sales growth of 18%, in constant currency terms. Overall, our consolidated organic constant currency sales growth of 12% and EBITDA growth of 18% are well ahead of market growth.

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

One of our most important imperatives is to extend leadership in our core categories - home care, personal wash and hair care. We remain focused on delivering superior ahead of the market growth, driving consumption and penetration in our core categories, as well as extending into attractive adjacencies. In our India business, we have delivered another quarter of competitive and profitable performance.

Our Household Insecticides business continues to deliver double digit growth, with a sales growth of 10%. This was driven by high single digit volume growth. Our focus on innovation, effective communication and superior on ground execution have resulted in continued market share gains across formats. We ended the year with our highest ever market share on a full year basis. Our HIT brand delivered strong growth, led by compelling awareness campaigns and effective activations. Good knight continued to lead category penetration and market development. Gross margins continued to benefit from lower crude oil prices.

Sales in our Soaps business declined by 6%, due to deflationary pressures. Volume growth, including offers, was in the low double digits. Our Godrej No.1 Nature Soft – Glycerin & Honey variant launched in the winter soap space has received an encouraging response. Cinthol, our premium soap brand, continues to deliver superior performance. We continue to remain competitive in our sales promotion investments.

Hair Colours sales bounced back during the quarter with a sales growth of 7%. This was led by a recovery in the sales of powder hair colour as well as a double-digit volume led sales growth in Godrej Expert Rich Crème. Godrej Expert Rich Crème continues to gain market share and lead distribution reach and household penetration in the crème category.

In addition to sustaining our leadership positions in our core categories, we are also strengthening our presence in our emerging categories.

Our Air Freshener brand, Godrej aer, continues to perform well and gain market share. Aer is now the number one player in the home sprays air care market on an exit market share basis. The recently launched aer pocket has received a very encouraging response from consumers. We believe this will enable us to further extend our leadership in the air fresheners category.

During the quarter, we launched Cinthol deo stick for men and women in a disruptive cream format priced at INR 69. At 11%, the penetration rates for deodorants in India are low. We believe that this new format (that lasts 3X longer than other formats) at an affordable price point will enable us to democratize the category and drive growth.

Our Health and Wellness portfolio of Godrej Protekt hand washes and hand sanitiser has been successfully introduced in general trade and the initial response has been encouraging. We believe that the hand wash and sanitiser categories have a lot more room to grow, given changing consumer needs and increased awareness of hygiene levels.

Our BBLUNT range of premium hair care and styling products have been launched in modern trade and premium general trade outlets. We remain optimistic about the growth opportunities in the premium hair care market.

The second pillar of our strategy is to drive growth in our international business, guided by our three by three strategy, of focusing on three core categories of home care, personal wash and hair care in the emerging geographies in Asia, Africa and Latin America. We believe that these emerging market geographies hold tremendous long-term potential. Our strategy in these markets will be to drive innovation led growth in the categories where we are leaders and have a competitive advantage.

The growth rates in our Indonesia business improved, with a constant currency sales growth of 13%. This performance was well ahead of the FMCG industry growth, which remains impacted by the overall macro-economic slowdown in Indonesia. Our operating margins (EBITDA) increased by 170 bps year-on-year, driven by calibrated price hikes, lower commodity costs and the optimisation of marketing investments. HIT continues to extend market share gains with exit market share at its highest ever level. Stella delivered competitive performance and maintained its leadership position.

Our Africa business, where we have a business presence in countries in East, West and Southern Africa, delivered a constant currency growth of 26% led by a robust performance in the Darling business. Our Africa business operating margins (EBITDA) improved by 180 bps year-on-year, driven by calibrated price increases in hair extensions and effective cost control. We have completed the acquisition of 100% equity stake in Strength of Nature, LLC in April 2016. This acquisition enables us to turbo charge building our hair care platform in Africa.

Our Latin America business delivered a constant currency sales growth of 31%. This was led by a strong performance in Argentina. Our operating margins (EBITDA) declined by 190 bps year-on-year, due to higher sales and marketing investments in Argentina and Chile. Our hair colour brands, Issue and Illicit, continue to gain market share amidst high competitive intensity.

Our European business, also delivered a competitive performance with a constant currency sales growth of 15% led by strong growth in our own and distributed brands portfolios. Our operating margins (EBITDA) remained largely unchanged. During the quarter, we launched a new range of Soft & Gentle 0% aluminium deodorants and feminine hygiene products in the UK.

Our third strategic pillar is to accelerate the pace of innovation and strengthen our brand portfolio. Innovation is a key driver of our growth strategy and it is our endeavor to delight our consumers with superior quality, world class products at affordable prices. Over the last few months, we have introduced several new disruptive products and renovations like Godrej aer pocket, Cinthol deostick, Godrej No.1 Nature Soft - Glycerin & Honey variant, multi-application pack of Godrej Expert Rich Crème hair colour in India, a new range of 0% aluminum Soft & Gentle deodorants and feminine hygiene products in the UK, a new range of personal care and colour cosmetics in Latin America, wet hair care products under the Aliyana brand and new styles in Darling hair extensions in Africa. We also have a robust pipeline of innovative products to be launched over the next few quarters that will aid stronger growth and market share gains.

Our fourth strategic pillar is to create a future ready sales organisation for our India business. We are driving multiple initiatives to enhance our go-to-market approach. For the quarter, our rural growth continued to be ahead of urban growth and remains an important focus for us. We are focusing on strengthening our presence in rural, driving category penetration and increasing rural salience. We are looking at initiatives like split lines to increase the effectiveness of our sales force. We are also establishing a strong footprint in emerging channels like e-commerce.

Our fifth pillar is to build a global best-in-class supply chain. Leveraging a global, best-in-class supply chain to become more agile, is imperative for us. We are strengthening and enhancing supply chain processes across our businesses. We have made significant improvements in labour productivity through effective shop floor engagement initiatives. We are also leveraging our global scale to optimize our procurement costs. On 'Project PI', our cost transformation project, we have made good progress and expect to see continued impact over the coming quarters. We are now also launching Project Pi in Indonesia.

The sixth pillar of our strategy is to foster an agile and high performance culture. We take much pride in fostering an outstanding workplace and are fully committed to providing our team members with great careers, great rewards and a great work environment. We are also benchmarking ourselves against best-in-class global perspectives and becoming world-class in our approach to attracting, developing and retaining talent.

GCPL was recognised among the top 10 best large workplaces in Asia by Great Place to Work. This is highest rank for any FMCG company. We were also ranked among Aon Hewitt's Best Employers in India 2016.

I will now cover the highlights of our financial performance.

For the quarter ended March 31, 2016, in organic constant currency terms, our consolidated net sales increased by 12% along with a stronger operating earnings growth of 18%.

Our India business reported sales increased by 7% on a year-on-year basis, led by double-digit growth in Household Insecticides, recovery in Hair Colour sales and the strong performance of our other brands. The growth to some extent was impacted by the deflationary pressures in our soaps business.

Our international operations, which accounted for little less than half of our consolidated turnover during the quarter, recorded an organic constant currency sales growth of 18%, driven by robust and ahead of market performance across geographies.

Our consolidated gross margins expanded by 150 basis points, aided by lower input costs, calibrated price hikes and cost saving initiatives. Our consolidated EBITDA margins of 19.6%, expanded by 90 basis points led by better margins in our India, Indonesia and Africa businesses.

In India, EBITDA increased by 15% and margins expanded by 160 basis points year-on-year. This strong expansion in profitability was delivered along with a branded business volume growth of 9%. In our international operations, our organic EBITDA margin of 15%, expanded by 40 basis points year-on-year.

Earnings per share (non-annualised) stood at INR 9.11 for the quarter. For the year, EPS was INR 32.87 and grew at 23% versus last year.

The Board of Directors has declared an interim dividend of 275%, which translates into INR 2.75 per share.

We are investing strategically in creating new growth vectors for the future, while continuing to drive our core to full potential. The response to our new launches, introduced over the last few months, has been very encouraging and we will continue to build on this momentum. We will continue to invest competitively in our brands and enhance our go-to-market infrastructure. Going forward, we remain confident of growing ahead of the market and delivering a stronger operating performance in fiscal year 2017.

The medium and long-term growth prospects in India and our other emerging markets remain robust. I am confident that with our clear strategic focus, differentiated product portfolio, superior execution and top-notch team, we will continue to deliver industry-leading results in the future.

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

Continue: - Q&A…

Questions and Answers:

Moderator:

First question is from the line of Percy Panthaki from IIFL.

Percy Panthaki:

On working capital, receivables and inventory as on March 31, 2016, have seen substantial increase on a Y-o-Y basis. Are there any timing differences or this is a sustainable / structural increase in the working capital?

V. Srinivasan:

It has indeed gone up and in the coming year, we will surely focus on bringing this down considerably. One of the reasons is that the salience of Africa business has increased. Generally, our Africa business working capital is higher than the other businesses. Because of the import constraints and availability of raw materials, we have done some strategic sourcing for some key raw materials in Africa and that has built up the stock. In India, there has been a slight increase in receivables, but we will work on it and bring it down in due course.

Percy Panthaki:

So, the increase in receivables is not sustainable and will probably correct in a few months. Is that correct?

V. Srinivasan:

Yes.

Percy Panthaki:

On the hair colors business, the Crème hair colors has grown in double-digits and your overall sales is at 7%, which means the powder has grown in low-single digits. Why is the growth lackluster?

Vivek Gambhir:

It is a conscious call that we are taking to disproportionately focus on the Crème category, because if you look at penetration of Crème, it's only about 14% in urban markets and it's very low in rural markets. From a format perspective, a lot of our firepower and muscle is being focused on the Crème upgrades. Powder, generally, has seen lower growth; there is still a role for powders in terms of recruitment in rural India. So we will focus a little bit more on powders, going forward. But a disproportionate focus will be on the Crème category.

Adi Godrej:

Also, we should realize that powders are more focused on rural India than on urban India and with the situation in rural India, purchasing powers have been affected. So, once we see a good monsoon, we expect this to accelerate.

Percy Panthaki:

From an overall perspective of the entire hair colors doing a 7% growth, so is it comfortable or would you aim for a much higher growth, going ahead?

Adi Godrej:

Nothing is comfortable. We'd like to have higher growth rates in all our categories, but we must realize the current situation in rural India.

Vivek Gambhir:

As you start seeing an uptick in rural, we should see improved growth in powders. We've not been too happy with the powders growth this year; we are on the lower side. Crème has done exceptionally well. But what has dragged down the overall hair color growth has been somewhat lackluster performance in powders. If the rural market picks up this year, we will look forward to better growth overall in hair colors.

Percy Panthaki:

On the soaps division, are the promotions very tactical and short-term in nature or you expect these promotions to continue for couple of quarters?

Sameer Shah:

This is very much a tactical strategy. The point is we have covers at rates which are quite lower than replacement rates. So strategically, we are looking at gaining volume market share behind some of this accelerated consumer offers. So this is more of a tactical strategy and nothing structural in nature.

Moderator:

Our next question is from the line of Kunal Jagda from Karvy Stock Broking.

Kunal Jagda:

Project Iceberg was supposed to expand the margins in Argentina. But instead we are seeing that the margins have come down. What is the reason behind it?

Vivek Gambhir:

It is a temporary quarterly timing of marketing investments. When we started Project Iceberg, EBITDA margins for Argentina were around 9%, which has now come up to 16% for the whole year. So I would look at it more from a full-year perspective. Some of these quarterly fluctuations happen because of the timing of certain marketing investments that we make, but overall for the year, Argentina has delivered some very strong profit margins.

Kunal Jagda:

What was the total cost savings through Project Iceberg and Project Pi for FY16?

Sameer Shah:

On 'Project Pi', which was more of India cluster project on cost savings, we expect the savings to be around Rs. 75 crore i.e. banked savings which have flown to the P&L. Project Iceberg, a good part of savings was towards manpower expense and we expect those savings to be anywhere in range of Rs. 10 - 12 crore, on a full year basis.

Kunal Jagda:

What are your plans for the Household Insecticides business in Africa and how much growth is expected from Africa for Household Insecticides business?

Omar Momin:

Like we have explained over the last few quarters, we are in the midst of getting both registrations as well as preparing the launch plan for Household Insecticides in Nigeria and Tanzania. We hope to execute that in the first half of this year and we intend to make Household Insecticides a significant platform in our Africa business, over the next two to three years.

Kunal Jagda:

How much would be the revenue from that business?

Omar Momin:

We wouldn't like to give a guidance at this stage.

Kunal Jagda:

Mr. Godrej, how do you look at the 'Swachh Bharat Abhiyan' in the long-term for your Household Insecticides business in India?

Adi Godrej:

Yes, these are the initiatives that will clearly benefit product lines, such as Household Insecticides. Also, with the spread of diseases like dengue, malaria, people are much more conscious. Earlier, Household Insecticides products were used mainly to avoid mosquito nuisance, but, now clearly people use it for disease prevention and control and with the spread of Zika in South America etc., there is concern about mosquito-borne diseases. So, the various government initiatives, together with the concern about health and disease, will certainly help our Household Insecticides business in the medium to long term.

Kunal Jagda:

Will the 'Swachh Bharat Abhiyan' promote growth in the Household Insecticides business?

Adi Godrej:

Yes, we feel so.

Moderator:

Our next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy:

On the overall volume growth, how much faster has rural grown than urban? How has the urban general trade performed? Most other consumer companies are saying that it is the laggard out of three-four different constituents?

Sameer Shah:

For us, if we had to disaggregate our India business sales growth between urban and rural, it has broadly been at similar levels for Q4 FY16.

Vivek Gambhir:

If we compare our performance this quarter versus the previous quarter, rural growth was slightly higher for us in Q3. In Q4 FY16, both of them have been roughly in-line. The urban has been holding up reasonably well. The challenge we have faced has been more on the rural side.

Abneesh Roy:

What are you observing across the drought affected areas, how are the soap volumes versus earlier?

Vivek Gambhir:

In terms of where we are seeing growth challenges, it has been more in West Maharashtra, a certain amount in UP and a certain amount in AP as well and those are correlated with areas that are seeing water shortages. While rural, as a whole, has been seeing challenges, it has been more pronounced in Maharashtra, UP and AP.

Abneesh Roy:

On the tactical sales that are happening in soaps, is it propelled by the leader in the category or the local players or by Patanjali? On a Q-o-Q basis, the YoY expansion has come down from 416 bps to just 45 bps, for the India business. What suddenly drove this spike in promotions?

Sameer Shah:

Let me answer your second question first. When we look at our gross margins, in standalone business, for Q4 FY16, it reads at 56.8%. Now we have had substantial consumer offers, which are sitting in the gross margin. So if I have to strip out the consumer offers impact, the 56.8% gross margin will read at 58.3%, so around 1.5 percentage points as a percentage of revenues have gone in gross margins through consumer offers. That's also the other reason why our advertisement and publicity spends are at 8.7%, because in this quarter, we diverted some part of our advertisement and publicity spends towards consumer offers to play this tactical strategy.

Vivek Gambhir:

Whenever palm oil prices remain this low for an extended period of time, you do start seeing intense activity on promotions and the good news is you can still have a strong profit growth along with promotional intensity. A lot of it does tend to get driven by the market leader. So a lot of the other players do end up responding to the actions the market leader takes. We haven't seen any effect of Patanjali as for as the soap business is concerned.

Abneesh Roy:

Indonesian business has seen a good recovery from 3% in Q3FY16 to 13% growth in Q4FY16. So, is it a sustainable growth that you're seeing? Some of the other companies are saying that in Indonesia, recovery seems to be on cards and is sustainable. So could you elaborate, is it company specific or is it country-specific?

Vivek Gambhir:

No, the market environment is still looking very tough, though there has been slightly better level of confidence over the last two or three months. But the data on home and personal care demand still seems to be very subdued. So our performance is lot more driven by the kind of actions that we are taking. In terms of our innovation agenda and our distribution agenda, there are a series of initiatives that have been launched to continue this growth momentum into the next couple of quarters. So we are hopeful to maintain this level of performance, going forward.

Moderator:

Our next question is from the line of Manoj Menon from Deutsche Bank.

Manoj Menon:

On the Household Insecticides business, is there any seasonality element such as an extended winter or anything that you would want to call out for 10% Y-o-Y growth?

Vivek Gambhir:

The summer and the heat have affected the Household Insecticides business a bit. So, typically in periods with very strong heat, you do see a low infestation of mosquitoes. If I look at March and April particularly, sales have been more subdued, because of the heat. As soon as rains come, it should lead to a better Household Insecticides season.

Adi Godrej:

If there is a good monsoon, it will certainly help the Household Insecticides business, because in monsoon, consumption rises and if there is a good monsoon, then the collection of water at the end of the monsoon helps Household Insecticides industry.

Manoj Menon:

On the innovation side, is there any reason why you chose this tactical spends over investing these dollars for the acceleration of some the marketing investments - how do I look at the budgeting challenge?

Vivek Gambhir:

My suggestion would be to look at an annual basis because on a Q-o-Q basis, there will be significant fluctuations in terms of the marketing mix as well. Total marketing investments is a combination of advertising, below the line and consumer offers. We have been judiciously and competitively increasing our marketing investment to back our innovation launches. Each quarter, there will be some fluctuations based on the mix of advertising, consumer offers and BTL and the timing of launches as well. So in Q4 FY15, we had a series of new launches that had been launched in the beginning of the quarter. In Q4FY16, a couple of launches were towards the end of the quarter, so you did not see the full impact of marketing investment in that quarter. So there will always be some timing issues as far as how we phase these investments, but suffice it to say that as we look at investing behind brand building, we will make the right calls in terms of advertising adequately, as far as advertising, consumer offers and trade promotions are concerned.

Manoj Menon:

Could you call out regarding the performance trajectory of Cinthol versus No.1?

Vivek Gambhir:

Cinthol has been a very strong success. It has been probably the fastest growing brand in the soap segment over the last couple of years with over 15% growth. No. 1 has been more of a challenging situation, simply because of the intensity we have seen as far as consumer promotions are concerned. Two years ago, we had lost a fair bit of share in No.1. Over the last 12 months, we've been gradually regaining some of the lost share. But still our performance in Cinthol has been much better than No.1.

Manoj Menon:

So this tactical activity, particularly in the soaps category, is it more in No.1 or is it evenly spread?

Sameer Shah:

It is more in Godrej No.1.

Moderator:

Our next question is from the line of Abhishek Banerjee from UBS.

Abhishek Banerjee:

What is your outlook for FY17, in terms of revival in consumption? When do you think it will come in?

Vivek Gambhir:

We remain hopeful that we will see an uptick in demand in FY17. Our expectation is that you will see a stronger demand in the second half of the year, but that is predicated on good monsoon. By that time, we believe, all the government efforts on spurring rural infrastructure, investments will lead to improvements as far as rural demand is concerned. Urban demand has been gradually picking up or been holding steady. The stress has been in rural. So we hope that in the second half of the year, rural demand would pick up and net-net this should lead to a better fiscal year 2017 than fiscal year 2016. Also it's important to put this in context; we've delivered about an 11% volume growth in FY16. By any measure, that is a very strong volume growth, even if you compare it to a previously good year. Certainly, we have not seen that much price-led growth, but the flip side is that it's led to strong profit growth. So in that sense, while all of us would wish that the environment was better, we have seen a reasonably good performance as far as strong volume growth was concerned, in FY16.

Adi Godrej:

A good monsoon will be helpful in terms of consumption increase. With the meteorological department prediction that we may have four or five good monsoons because of La Nina developing in the Pacific Ocean, it could be a start of a good consumption cycle.

Abhishek Banerjee:

Will the volume growth be similar to what we had in FY16?

Adi Godrej:

We don't provide guidance.

Abhishek Banerjee:

The employee expenses are up, is it because of any one-time spending or is it supposed to remain at a similar level for the full-year?

Vivek Gambhir:

Because, profit growth was strong this year, our incentive system, which is based on delta improvement in economic value added, has increased the variable bonus. But the flip side is that you have seen significant improvement in EVA. So by and large, if you exclude the variable component from fixed overheads, then the fixed overheads are actually under control, but that's another area we'll take a closer look at from next year onwards. But certainly, there is no cause for concern there.

Moderator:

Our next question is from the line of Amit Sachdeva from HSBC.

Amit Sachdeva:

In Indonesia, the revenue growth at 13% is a good revival, but it is because of low base of the previous quarter. So, is this growth coming from a more penetration-led gain, are you building more distribution or launching more products that are being loaded, so how is it on the ground? Could you give little more color on what to look for the next year?

Also, is it fair to assume that margin expansion in Indonesia due to cost cutting and selected price hikes would be less to be seen? Would your priority now be on more demand recovery and maximizing revenue, how should we look at Indonesia, going forward in next year?

Vivek Gambhir:

The Indonesia FMCG market saw a 6% value decline scenario with almost a 10% volume decline. Where we have done quite well is, one is we've been very focused on a few categories. We've maintained a certain level of advertising; our SOV ratios have been consistent. Second of all, in terms of distribution, we are continuing to make incremental improvements. As I look at next year, there is certainly a renewed focus on further driving distribution. There are plans to add some more variants, particularly low unit packs, given the economic situation. And then third of all, in terms of innovation, there wasn't too much innovation that happened last year in Indonesia. So you'll see a renewed focus on innovation as well. Collectively these three things will give us enough confidence that we should be able to maintain these levels of growth rates.

Margin will definitely be a challenge. The team is trying its best to see if it can maintain these levels of margins, which is why we have launched Project Pi in Indonesia as well. But, if we can revive sales and increase sales, the flow through will be more important as far as margin improvement is concerned. We recognize that at these high margin levels, our priority is, while we try and find cost improvements through Project Pi and all, we'll need to find a way to stimulate demand further.

Amit Sachdeva:

Do you see any incremental distribution gains in terms of your reach and coverage of outlets to be made in Indonesia?

Vivek Gambhir:

Absolutely. We directly reach about 110,000 outlets whereas some of the larger players reach about 250,000 to 400,000 outlets. So definitely, I see an opportunity to increase our direct coverage by about 20% this year.

Amit Sachdeva:

How is the Crème market developing? Through retailer feedback, Garnier has become very active with 'Black Natural' and low-priced products, which is flying off the shelf quickly. Do you see some amount of competition heating up in the space that you own in the low price and high quality Crème segment? Can you give some data on market share, as to where you are and how it's shaping up for you?

Vivek Gambhir:

We remain extra vigilant about any competition. Looking at the data on market share over the last 12 months, we have not seen that being reflected in the market share. A lot of it was just precipitated by the rural slowdown, which affected powders adversely and we've made some recovery in Q4 versus Q3, but more can be done in powders. But on Crème, I'm not seeing any impact on our business as a result of competition as of now.

Amit Sachdeva:

Would you have market data on how the Crème category has grown and how you have grown relative to the category?

Vivek Gambhir:

Let’s take it offline. We will be happy to share the information with you. For Crème, our market share bumped up from about 7% to 9% in overall hair color market.

Moderator:

Our next question is from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra:

The volume growth that was reported last quarter, was it including or excluding promotions?

Sameer Shah:

For the first three quarters of FY16, the volume growth which was reported was ex-offers. For Q4 FY16, we have two disclosures; one is earlier quarter comparable volume growth number, which for Q4 FY16 stands at 6%. If we had to include the offers, which predominantly have been on bar soap, the 6% number would read as 9%.

Vivek Gambhir:

This is a comparison, the volume growth number with offers would be 11% and without offers would be 9%.

Arnab Mitra:

Is there some deceleration in volume growth this quarter?

Vivek Gambhir:

If you purely compare Q3 versus Q4, there has been a deceleration, not just for us, but for the entire industry. Looking at the data from IMRB panels and even from Nielsen data, directionally, Q4 was softer as far as home and personal care demand was concerned, vis-à-vis Q3.

Sameer Shah:

Another point to remember for Q3 and Q4 comparisons for our India business is seasonality. In Q3, we had very high saliency of liquid detergents compared to Q4, where the salience of liquid detergent becomes minimal.

Arnab Mitra:

On the non-soap portfolio, what is the pricing that you now see as we stand today on a year-on-year basis? On soaps, given that palm oil has run up a lot, do you see promotions getting reversed very rapidly as we move into the next couple of quarters?

Sameer Shah:

On non-soaps portfolio, looking at FY16 over FY15, our price-led growth would be anywhere between 2% to 3% for, predominantly, household insecticides and hair colors. And these were the price increases, which were taken during the course of the year. Some of the price increases will even continue in FY17, which were not be there in early part of FY16.

Arnab Mitra:

Fourth quarter would be similar or slightly higher than that, in terms of the non-soap portfolio?

Sameer Shah:

It would be more or less similar.

Arnab Mitra:

On the soap promotion, do you expect it to be rapidly reversed as the commodity price moves up?

Sameer Shah:

It depends on the commodity cycle. We have good covers, which are at rates little lower than replacement rates. Hence, the call of this tactical strategy. But again it all depends on what's the game plan in terms of, 1) volume market share, 2) covers and 3) the call on palm oil prices.

Arnab Mitra:

The improvement in growth rate in Africa is led by pricing or volumes? Also, do you see margins comfortable now as you go ahead?

Omar Momin:

We focused in the early part of the year on expanding our position and gaining market share in lot of the countries that we are playing in. Where we stand now is that we've reached a stable position as far as both pricing, as well as margin, and the idea would be to consolidate from here.

Arnab Mitra:

On the balance sheet front, any reason why payables would be down by almost Rs.150 Crore? On the receivables side, this increase in credit that you're extending, is it largely to modern trade or is it across channels?

Sameer Shah:

On credit to distributors, it's largely general trade. Modern trade has been at similar levels over last 18 to 24 months. One of the many reasons for lower creditors is also the drop in commodity prices. So when you compare absolute values, this in a way also gets influenced by the commodity prices on a Y-o-Y basis.

Moderator:

Our next question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora:

With regards to the new accounting standard Ind-AS that you will be adopting next quarter onwards, can you highlight the key changes, which we should be expecting in income statement as well as in the balance sheet? Secondly, on Godrej Protekt, which you introduced in general trade, what's the distribution reach now and what's the target and how do you see the potential for that product?

Sameer Shah:

On Ind-AS and its impact on our business, we will separately discuss it out with most of the market participants at the right time. Godrej Protekt, in general, has been doing quite well, in line with our internal expectations. It is in process of getting placed in outlets, which would be at a level below premium general trade outlets. So it's at a work in-process stage, but in line with our internal targets.

Kunal Vora:

What will be the size of this market?

Sameer Shah:

Godrej Protekt is a health and wellness platform, which is a medium to long-term game plan. Right now, we are in categories of hand wash, hand sanitizers. Sanitizer would be close to around Rs. 70 - 80 Crore size category, and hand wash would be around Rs. 500 Crore - Rs. 600 Crore size category.

Moderator:

Our next question is from the line of Kaustubh Pawaskar from Sharekhan.

Kaustubh Pawaskar:

For the African business, is it fair to assume that 15% to 20% growth is sustainable over a period of time?

Omar Momin:

We mentioned last year that we were focused on increasing our position in the market; therefore we were focused on high volume growth. Some of that will moderate, but we'll still look to grow in double-digits, going forward.

Kaustubh Pawaskar:

For this quarter, we have seen the advertisement spends are down and you've mentioned that more focus was on the promotional offerings. But going ahead, should we expect advertisements spends to be in the range of 11% to 12%?

Vivek Gambhir:

Typically, these vary by quarter, so we look at total marketing investments, those are around 20% or so every quarter for us. Between that the mix will change, depending on innovations. When we launch a few more innovations in those quarters, the advertising expenses do get to 10% to 11%. And again, if you look at it for the whole year, the advertising expense for India business was 10.7% of sales.

Moderator:

Our next question is from the line of Naveen Trivedi from Trust Research.

Naveen Trivedi:

On the domestic business, are you seeing tailwinds for gross margin expansion in the coming quarters too?

Sameer Shah:

It's very difficult to call out, because it is dependent on commodity prices. What we can share is we have covers on palm oil derivatives which are at rates much lower than the current replacement rates. In terms of crude, the lag is little longer as compared to palm oil and that's because it's an indirect derivative. So we expect the benefit of crude to continue for at least a quarter to two, across our overall business. But it would be very difficult to call out, because that's only one part of the gross margins, the other part which is mix, price, and premiumisation, so let's see how it shapes up. For next quarter to two, we could have expansion, but difficult to call out and quantify it.

Naveen Trivedi:

For palm oil, for how many quarters are you hedged?

Sameer Shah:

We are covered for next three to four months on palm oil.

Naveen Trivedi:

Considering ad spends to be higher in the coming quarters, then EBITDA margin expansion could also be limited?

Sameer Shah:

We have to read this in terms of entire basket of sales promotion spends, advertisement spends and consumer offer spends. So for us, on a full-year basis, that moved up around 150 basis points to 200 basis points. Quarter after quarter, we would definitely play it out tactically, as well as depending upon new product launches and many other moving parts.

Naveen Trivedi:

On long-term debt, barring the debt for SON, do you think other debt will reduce significantly in FY17?

V. Srinivasan:

The Strength of Nature debt won't be showing as on March 31, 2016 balance sheet. As of now, we don't see any significant increase in the debt number in the coming year. If at all, because of the cash flow generated, net debt would only come down.

Naveen Trivedi:

Will 0.5x debt to equity ratio be maintained for FY17?

Sameer Shah:

We would shy away from giving any guidance as to what levels of net debt to equity we would maintain. Mathematically and with some assumptions, directionally it will come down from March 2016 levels.

Moderator:

Our next question is from the line of Aashish Upganlawar from Elara Capital.

Aashish Upganlawar:

The quarterly and full-year volume growth was for the India business or the overall business of the Company?

Sameer Shah:

The entire volume growth, which we just shared for the quarter, as well as for full-year was for India business.

Aashish Upganlawar:

Increasing direct reach that you mentioned was also for India business?

Sameer Shah:

It was for the Indonesia business, where we reach out directly to around 110,000 outlets. The universe or the best in class players, perhaps, could be reaching out to around 250,000 to 400,000 outlets.

Aashish Upganlawar:

Is distribution the key growth driver, going ahead, as far as Indonesia is concerned?

Sameer Shah:

Distribution initiatives as well as new product launches could be some of the key revenue growth drivers. Profit growth driver would be the launch of cost saving project - 'Project Pi' in Indonesia in FY17.

Aashish Upganlawar:

Is double-digit growth possible in Indonesia, how would things look like for next year?

Vivek Gambhir:

If you look at the last five years, I think we will obviously try and maintain that, but difficult to give you an exact number.

Aashish Upganlawar:

How does FY17 look like in terms of pricing of soaps?

Adi Godrej:

Very difficult to tell, it depends a lot on commodity prices. Vegetable oil prices will depend a lot on the various crops of vegetable oil production, on crude oil prices, because vegetable oils are used as replacement in terms of biodiesel, etc. So there are many factors at play and as you know, commodity prices are very difficult to predict. So it will entirely depend on commodity prices.

Aashish Upganlawar:

But from the current quarter's trend, can we expect that for another couple of quarters, the pricing will be negative for soaps category?

Sameer Shah:

We'll definitely have some carry-forward consumer offers of Q4 in Q1, but again it will be very difficult to call out as to what, overall our strategy would be in soaps in Q1FY17.

Moderator:

Our next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra:

We do have some gross margin benefits going into H1FY17, but as you go into second half, probably much of it might not sustain. Do we have enough levers in place from a cost optimization perspective? Of course, we will have consolidation of SON coming through, which makes about 22%-odd margins. Is it fair to assume that operating profit growth can be maintained in line with the topline growth?

Vivek Gambhir:

That is clearly the intent. For H1FY17, there is slightly better visibility in terms of what the gross margin picture could look like. Second half is to be determined; little bit depends on the kind of price-led growth we can see. But as you mentioned, by that time, some of our cost reduction projects which we typically will kick off in the first half of the year, from a cost reduction perspective, generally sees more impact in the second half of the year. And then third of all, as we mentioned, Strength of Nature, as that scales up, that should also provide some margin uplift. At this stage, we still remain hopeful that we can grow our operating margins in line or ahead of sales growth.

Latika Chopra:

Could you share some thoughts on how are you looking at the growth profile for SON?

Vivek Gambhir:

The initial focus will be to try and localize some of the manufacturing for SON. We will start with Nigeria and Kenya first. Once we establish local manufacturing there, along with driving distribution for SON in these two markets, we will also start tapping into adjacent markets like Ghana and Tanzania. Once we get that up and running, then we'll focus on South Africa. So we do have a phased plan to be able to start integrating SON and driving the portfolio in Africa and the team is quite excited and charged up in terms of the potential that we are seeing in the market.

Latika Chopra:

How should one look at constant currency growth for the category, for the geography?

Sameer Shah:

We would shy away in terms of giving guidance on SON. But at an overall level, we expect high single-digit constant currency growth rate for Strength of Nature. If we disaggregate that we expect the growth rates to be much stronger in Africa. For margins also, we are looking at 22% broadly. But we would try to beat some of the growth estimates internally, going ahead.

Moderator:

Our next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy:

Of the 11% volume growth in FY16, how much would you attribute that to innovation, or is it largely due to promotions in some of your key products?

Sameer Shah:

Let's first dissect this 11% growth into 1) with offers and 2) without offers. Out of 11%, only 2% is offer-led growth. The 9% of volume growth is without offer on a full year basis. Now when we look at innovation-led growth, there is a metric known as innovation rate, which is defined as the new product launches of last three years. If you look at all those products in year three, look at the revenues of all those products and divide it by the total revenues of the business in third year. So by that formula, the innovation rate for us, in India business stands at around 17% in FY16. This used to be around 7%, three years ago. So we have seen a massive shift in our innovation rate over last four to five years.

Abneesh Roy:

My next question is on the India business, other brands are now sizable at Rs. 89 Crore, and generated a very strong growth of 28% this quarter, so which are these brands driving growth and which are the big ones in terms of size?

Sameer Shah:

Growth rates are high but we have to also look at the base. 28% growth is on Rs. 89 Crore of Others basket. So for better understanding, Others basket for us would be air freshener, liquid detergents and the toiletry space, which in turn would have deodorants and now Deo Sticks and such other formats.

Abneesh Roy:

Which one is growing faster?

Sameer Shah:

This has few of our new product launches. Deo Stick was more at fag end of the market. The big one for this quarter would be aer pocket, driving close to 30% levels of growth.

Abneesh Roy:

In your international business, Others, which is essentially Sri Lanka, Bangladesh and Middle East, has seen 17% constant currency decline, is it largely because of Middle East or all three?

Sameer Shah:

For us, the larger issues have been more in Bangladesh. Sri Lanka is doing extremely well for us and Middle East is also doing quite well. So we've had larger issues in Bangladesh amongst this basket of geographies.

Abneesh Roy:

Why is it?

Sameer Shah:

It’s driven by the competitive intensity and the nature of category in which we are present in. For example, a large part of our business is coils, and we did see very high competitive intensity from local unorganized players using banned active molecules which did impact most of the other large branded players' performance.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Prashant Kutty from Emkay Global for his closing comments. Thank you, and over to you, Mr. Kutty.

Prashant Kutty:

On behalf of Emkay Global Financial Services, I would like to thank Mr. Adi Godrej and the senior management team of Godrej Consumer for giving us the opportunity to host this call. Thank you everyone and good day.

Adi Godrej:

Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services, 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.