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Scrip code: 532424

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

Transcript of Conference call with Investors & Analysts held on May 19, 2022

Dear Sir / Madam,

Please find enclosed herewith the transcript of conference call of Godrej Consumer Products Limited with the Investors and Analysts held on Thursday, May 19, 2022 at 6.00 p.m.

The aforesaid information is also being hosted on the website of the Company viz. https://godrejcp.com/

Please take the same on your records.

Thank you.

Yours faithfully,
For Godrej Consumer Products Limited

Rahul Botadara
Company Secretary & Compliance Officer

“Godrej Consumer Products Limited
Q4 FY2022 Earnings Conference Call”

May 19, 2022

ANALYST: **MR. ANIKET SETHI - ICICI SECURITIES LIMITED**

MANAGEMENT: **MS. NISABA GODREJ – EXECUTIVE CHAIRPERSON**
MR. SUDHIR SITAPATI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
MR. SAMEER SHAH – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2022 Earnings Conference Call with Godrej Consumer Products Limited hosted by ICICI Securities. 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. Aniket Sethi from ICICI Securities Limited. Thank you and over to you Sir!

Aniket Sethi: Thanks. Good evening, everyone. Thank you for joining. At ISEC, it is our pleasure to host the senior management team of Godrej Consumer Products Limited for the 4Q FY2022 earnings call.

Pratik Dantara: Thank you. Good evening and welcome to the conference call. We will be covering this evening the results for the quarter ended March 31, 2022. On the call with me from GCPL is Ms. Nisaba Godrej, Executive Chairperson; Sudhir Sitapati, Managing Director and CEO; and Sameer Shah, CFO.

Sudhir Sitapati: Thanks, Pratik. Good evening, everyone. I hope you and your families are safe and healthy, and thank you for joining us on the call today. I will first start with an update of our quarterly performance.

We had a weak quarter in Q4 FY2022 with a few silver linings. While our overall sales grew by 7% and we achieved double-digit sales growth for the year, the growth within the quarter was driven entirely by pricing. Our overall EBITDA without an inventory theft in South Africa de-grew by 9%, driven by unprecedented global commodity inflation and scale deleverage in Indonesia. PAT without exception declined by 4%.

Our core geography of India grew top-line at 9% with a two-year CAGR of 21%. While the sales was largely driven by pricing and UVG was down by 3%, on a two-year CAGR basis UVG grew by 12% and on a three-year basis, it grew by about 2%. The silver lining in India, however, has been that EBITDA grew by 14% with EBITDA margins expanding by 100 BPS. This, points to our ability to take measured price hikes to counter inflation. However, the recent inflation brought about by the Ukraine crisis will hit our P&L majorly only in Q1 and we again expect a relatively sharp drop for this quarter.

Indonesia delivered a particularly weak performance with sales declining at 15% and operating EBITDA at minus 48%. This has been driven by tough market conditions, the sharp fall in COVID-19-related categories and a big reduction in our inventory in modern trade and distributors, poor sales compounded by the cost inflation and a 200 BPS investment in ATL, which we continue despite the gross margin falls, has meant that the EBITDA drop has been precipitous.

The silver lining here is that there are early signs of the Indonesian market recovery. For instance, our offtake growth without Saniter, on our core portfolio and accounts where we get data is much better than primary, and have started to grow. With our strong market position, media increases resulting in recent share gains and our determination to reduce our trade pipelines, we expect things to start improving from Q3 FY2023.

Both LATAM and Africa witnessed strong growth, with LATAM growing upwards of 30% and Africa growing in the mid-teens. Africa, however, had very poor margins due to an unfortunate test of inventory in South Africa. The growth primarily in Africa had started to move, but we need to simplify our business and significantly strengthen governance and controls to prevent a recurrence of this unfortunate event. LATAM has performed extremely well on both top line and bottom line. Our pre-hyperinflation EBITDA has now crossed 20% and we generate close to Rs.80 Crores of cash in this business in FY2022.

In terms of categories, while market growth continues under pressure, market shares are broadly good and there is nothing new to report. Our prognosis for FY2023 remains broadly unchanged from what I spoke to you last quarter. We anticipate double-digit top line growth with low-single digit volume growth, bottom line is hard to predict. But if costs moderate to 6000 MYRs of palm oil, about 7% to 8% lower than where they are today and $100 for crude, we should see some margin expansion, especially in the second half of the year. Our personal view, however, is that palm oil may moderate even further, and that is generally good news for us.

Our game plan is to do category development, driven by relevance, access and marketing investments and funded by a digitally-enabled simplification of our organization. We have a slew of category development initiatives in Q1, which we believe will dramatically build relevance of our categories. A few that we have launched in April and May are in hair color. We are the market leaders with more than one-fourth of the market. In India, more than half the category operates between Rs.10 and Rs.15. In April, we have launched Godrej Expert Rich Creme at Rs.15 to drive penetration of the creme format by recruiting the early grey consumer living in middle and rural India and Accelerating new trials with first-time users. We will back this with increased media investment, large scale visibility and leveraging our distribution reach.

Another big initiative that we have taken is in household insecticide where we have dropped the price of Jumbo Fast Card from Rs.15 to Rs.10 to drive recruitment in the category as nearly a third of new trials are entering the category through incense sticks. Again, we are backing this with media investments and on-ground activations.

We will be happy to share more of our category development initiatives in Q1 because some of them will only happen in June and July in our next meeting. Our journey on simplification is another silver lining and is making good progress and the category structure that we created in Q3 FY2022 is yielding early results. Our cost to serve, which is a measure that we look at, which is total costs minus material cost minus working media costs, is down by 250 bps in Q4.

When cost stabilize this will give us significant fuel for growth on digital transformation. But investments are only part of the story in digital transformation, people and culture are more important. And towards that, we are making two senior appointments of people with significant experience in digital transformation, Akhil Chandra, Business Head for Indonesia and ASEAN, has decided to pursue an opportunity outside Godrej. Rajesh Sethuraman will be joining us to take over from Akhil as the CEO of ASEAN from July 1. Rajesh has spent 21 years at HUL and Unilever leading teams across categories and divisions in South Asia and Africa to deliver significant value for the business. In his previous role, he led Unilever's execution of its largest digital transformation program across Asia, Africa and the Middle East.

We are also appointing Vijay Kannan as the Head of Business Transformation and Digital for GCPL. Vijay will report to me and serve on the Global Management Committee. He is currently the Global Chief Information and Digital Officer of Shell's $20 billion lubricants business and has had past experiences in HUL's IT head and prior to that in Asian Paints. Vijay's brief is simple, if we were a digital-first company, how would we dramatically look at reducing our cost to serve.

Thank you very much. Very happy to take questions.

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

Abneesh Roy: Hi, Sudhir. Thanks. My first question is on hair dye pricing in India. So we have seen the crème hair color pricing in India remain in that Rs.25 to Rs.30 for many years in India. And now, we have come out with a disruptive pricing at Rs.15, so questions here, one is, how do you drive average revenue per user, last five years, I have not seen much movement here. Second is, how do you take care of cannibalization from the Rs.15 product, and third is, competitive intensity and parlor presence remains a key work-in-progress. So, if you could discuss that also. Thanks.

Sudhir Sitapati: Abneesh, thanks for that question. I think, the two, three things, one is, the penetration of hair crème category is sub-20% in India. And as I have said in the last two meetings, one of our jobs is to drive market development. And category after category, you will see that access has been a key driver of category penetration. So, I would say that generally what we observe when we bring access into a category is, penetration goes up pretty exponentially and frequency of use also goes up in general. So I am anticipating both of these happening. There is a pretty clear use case that we have discovered for this, which is we are communicating it, which is the first silver hair or touch up, there are a lot of consumers who have just got early silver hair or a short crop of hair like men. For whom we were anyway noticing that the Rs.30 pack was being used 2 times. So we feel that there is a unique case. In general, I do not know if there might be some cannibalization, Abneesh, but these are fast growing markets. And I anticipate that the Rs.30 product will continue to grow, albeit at a slightly slower pace. And we hope that the access we created into the category will drive a lot of growth. And to your point on salons and so on and so forth, we have an excellent professional business that is growing really well and we target salons in B and C, so we were covering our base and that is one of our fastest growing parts of our business, it is a small part. We were growing really fast. But the opportunity in India is enormous for a category like this to go for many years. And I hope this move will reignite growth in the category.

Abneesh Roy: Sure. That is useful. My second and last question is on the Africa business margins. This could quantify the impact from inventory pilferage and what are the checks and balances we are ensuring that it does not recur in South Africa or any other international geographies? And how do you see Africa margins in the near-term and medium-term, because my sense is this item will not recur, it is a one-off, but how do you see in the next few quarters time wise?

Sameer Shah: Hey, Abneesh. This is Sameer here. I think, couple of things, one is, we will, I mean, kind of put in stronger checks and balances, including something like third-party physical verification happening every quarter, as well as work on strengthening both our business processes as well as internal controls to avoid this recurrence in future so that something like this does not recur again. In terms of margins, just to give you a bridge, I mean, if you look at the overall margins, including this pilferage, the drop is actually close to around 900 basis points. 300 bps is because of pilferage, and maybe 350 bps is because of pilferage. 250 bps is because of upfront marketing and route to market initiatives in some of the countries where growth has been, I would say, quite strong. And that is something which we remain extremely confident of even in the coming quarters and years. The rest, I would say, 300, 350 basis points will be because of lag between increase in input prices and then consumer prices, which we will mitigate through price increase. To answer your question, I think there should not be margin deterioration in Africa at least on a full year basis in FY2023. If any, I mean, we should continue to be on the trajectory of gradual margin expansion on a Y-o-Y basis even in FY2023.

Sudhir Sitapati: I mean, Abneesh, despite this, we have kind of improved our margins in FY2022. And the combination I mean, it is a difficult time even there because of input prices, but a combination of increasing salience of FMCG and the growth leverage that we were getting on our businesses because they are growing fast, we expect broadly kind of moderate margin improvement to continue in the medium to long-term.

Abneesh Roy: Okay that is very useful. That is all from my side. Thank you.

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

Percy Panthaki: Just wanted to understand some of your initiatives so, this creme which is launched at Rs.15, what is the difference between that and the basic product you have at Rs.30, Rs.35. Is it just a lesser quantity of creme or is the product itself different?

Sudhir Sitapati: No, it is just a sachet. I mean, it is the same brand. So it is just the principle of the sachet which makes it more accessible for certain cohort of consumers in small town, rural India with the short crop of hair. So it is just a…

Percy Panthaki: Okay. So it is just basically a lesser grammage of the same product, you still have inside two separate sachets which have to be mixed and so on, right. I also wanted to understand this launch of Goodknight Activ+ at Rs.80. Again here also, is it a different product from your base product or is it just a smaller or lesser grammage product compared to the original one?

Sudhir Sitapati: No, I think Goodknight Activ+, we always had a flanker brand on Goodknight in some markets. And Goodknight Activ just a flanker brand in a few markets that we operate, which we think are size sensitive. So, it is not a smaller pack or anything like that, we were always selling Goodknight Activ+ and the refill we have just brought back the machine in a few markets where there was demand and where we felt the need of flanker.

Percy Panthaki: Okay. But is there any difference in the product itself or it is just basically that those markets cannot sustain the normal price point and therefore you want to sell at a lower price point, but you do not want to ruin the brand and therefore you are launching a flanker?

Sudhir Sitapati: No, the Gold Flash is a value-added product compared to the Activ+.

Percy Panthaki: Right. Right, understood, there is a difference in the product itself. Okay. So just a quick one on the HI strategy, I mean, while you said you will announce more initiatives, till now whatever initiatives you have done is just basically trying to lower the price points and therefore make the product more accessible. So, in your opinion, do you think the major roadblock for growth in this category is that, I mean, affordability is that the major thing because we have products like coils, for example, available in a single piece at very, very low price point. And still the penetration is where it is. So, do you think that the reason is something else and not affordability or a price point?

Sudhir Sitapati: No, firstly, I think that price point is only one part of it. I do think the reason is something else. But I think in the interest of confidentiality, perhaps we can discuss this in the next Analyst Meeting. We will do something quite soon here. But I am only talking about things that we have already done, which is in the public domain. You will understand that it is not proper for me to publicly talk about what we will do. But we are not running away from the issue that we are the market leaders of household insecticide. My own hypothesis is that the category needs development. And often to speak in general terms, the three things that drive category development are relevance, access and sampling. So, in the case of creme, that was an example of access. But across these three dimensions in all the categories, let me give you an example of relevance on something that we have just launched, again I can feel free to talk about it. On Aer, which is our air freshener business in India and Indonesia, we have recently relaunched Aer with the proposition of, when guests come home, that is an example of relevance building. We were not just saying that the air freshener smells good. You are saying why you should enter the category, which is when guests come. So that is an example of relevance, and there will be plenty of examples of other things that I will be able to talk to you as and when we launch it in the market.

Percy Panthaki: Right. But at this point of time, are you at liberty to discuss which of these three is the most sort of one which you need to address the most in HI or it is too premature to talk about that as well?

Sudhir Sitapati: I think once we do it, we will talk about it because why talk about something that is not there, right. I think in general, all these three are important for category development. And all of them, we will work at. Even in hair, there is relevance there, which is the first silver hair that is what we were communicating there, is access on sampling as and when we do it. So, we will discuss HI in a little bit more detail the next quarter on what our game plan is and maybe we can talk more comprehensively what we were doing once we have done it in the market.

Percy Panthaki: Sure. And last question from my side. The illegal incense sticks, which was a huge problem earlier and then as COVID came, supplies are disrupted etc. Now, where does that product stand in terms of market share? Is it at pre-COVID levels? I mean, if you can give some data on that in terms of market share, what it was pre-COVID, how much did it fall to at the trough and what it stands at today?

Sudhir Sitapati: Yeah, it is roughly where it was pre-COVID. It is not growing at the rapid pace that it was growing pre-COVID at least in the post-COVID phase, but it is still there and it is still growing. And it is still frankly something that consumers should not use and one of the reasons that what we have done, which is to drop the price of Fast Card from Rs.15 to Rs.10 is so that people in the same price point as incense kick get a safer legal solution.

Percy Panthaki: Right, understood. So it is about 12% if memory serves the market share.

Sameer Shah: Yeah. I mean, as Sudhir mentioned, it is close to pre-COVID levels. But yeah, it is moving around, I think, 13%, 14% mark.

Percy Panthaki: Okay that is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Priyum Daga from VT Capital. Please go ahead.

Priyum Daga: Hi. Thank you for taking my question. My question was regarding the raw material side of the insecticides business. So I wanted to understand what kind of raw materials are used in this business.

Sameer Shah: We use chemicals. Indirect link is crude.

Priyum Daga: All right. My second question was regarding the HI strategy you have not answered, so sure what are we doing so I understand that you cannot disclose on the right now. I wanted to understand like how are you trying to penetrate deeper into the rural areas and how is the demand and is there any side effect?

Sudhir Sitapati: Yeah. I mean, again, it is the same answer that I gave Percy, which is, I can tell you how we were thinking about it, which is relevance, access and sampling. An example of access is bringing down price of Jumbo Fast Card from Rs.15 to Rs.10, of which we were seeing very good results since we have done it a month-and-a-half ago. And We will come back to you specifically with what we were doing in these dimensions in the next few months because what we have done in April and May is, we have acted on hair color, we have made a big intervention in hair care largely in the area of relevance and kind of just increasing the media salience, I hope you see some of our advertising both on pocket, which is we use the bathroom but we were also very excited with the living room format, which in our Indonesian market is our second biggest SKU. So we believe that that has terrific potential in India. Without doing any kind of marketing, it was anyway growing very fast. And now we anticipate with marketing it will grow even faster.

Priyum Daga: All right. One more question, sir. Regarding the Indonesia business, so what have we done to turn around the business? As you have mentioned in the call, what changes are we having there business turning around?

Sudhir Sitapati: The big change that we made from about November onwards or December onwards was to increase our media support. That is a business which has very high gross margins and higher EBITDA but relatively low ATLs. And our strategy there is to increase our ATL which we have done. And as the combination, I think of the Indonesian markets, the sense I get is that I do not think it is out of the woods, but certainly a lot of positive news is coming out of Indonesia in terms of categories starting to grow again. But also, in terms of our own market shares, we are seeing some movement. Unfortunately, it is going to take another two quarters, which is this quarter and the next, for it to show in terms of sales. Because the truth is over the last two, three years, the markets also shrank and we built up inventory through our pipelines.

Priyum Daga: Alright thank you and all the best.

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

Alok Shah: Thanks for the opportunity. Sudhir, my first question is essentially what Percy also asked. So, one is, what you mentioned the relevance, access, etc, on the HI. I also wanted to check with you that are you also working on efficacy? Because while relevance and penetration to my mind, I mean, consumer is fairly aware of Goodknight as a brand, but maybe incremental recruitment may need some kind of tweaks in terms of the efficacy of the product. So, wanted to get your views on the same, is it possible now?

Sudhir Sitapati: But I just prefer to answer. If you do not mind, I am not ducking it or anything, but why do not we discuss the HI strategy. I am happy to talk about Aer and hair care because it is in the market now. I mean, HI also because season starts in June really with the monsoon coming in. So, a lot of our action it is just some time away. So perhaps that is the better time to talk rather than as a discipline.

Nisaba Godrej: Efficacy is something that we were always working on right from what Activ, can we register in news and what product. So I think that is a strength of GCPL and we were always upgrading our product so and so.

Alok Shah: Okay. My second question was that, on the presentation you mentioned about gaining share in 85% of the categories in domestic business. So, just wanted to check that are there pockets of oil and hair color where we could be losing or just one categories where we may not be gaining share.

Sudhir Sitapati: No, I do not think that is it. I think in liquid detergents, we have Ezee, which is a specialist wash and we define the market as liquid detergents and a lot of main wash is entering liquid detergent. So I think it is more mathematical than anything else.

Alok Shah: Okay, got it. Lastly, just a clarification to explanation on the EBITDA margin for Africa. So, what I understand is, while the reported EBITDA margins is down from 600, 650-odd basis point, overall it is 900, but the 200 or 300-odd test would not gets factored in, because it would be exceptional. Is that understanding correct?

Sudhir Sitapati: Correct.

Alok Shah: Okay perfect. Thank you very much and wish you good luck.

Moderator: Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: Thanks. Thanks for the opportunity. My question we have some very intense summer this time around. Which are the categories which will get, I mean, benefited and how has been the initial response? I mean, how has been the initial, what we call it, the intent for you?

Sudhir Sitapati: I mean it benefit soap. It is generally very, very hot period. I am not in favor of household insecticide but anyway May is not peak season for us but soap it will benefit.

Abhijeet Kundu: And have you seen any benefit of that in your Aer as well or it has been more of initiatives taken by you that is driving demand? Because as per our channels, Aer has done very well, I mean, during April and May.

Sudhir Sitapati: Yeah. I mean, I think a lot of the initiatives that I spoke about, which is basically on hair color and Aer, we have rolled out in April, and I can just say that the initial results are as per expectation. Again, we can talk about results next quarter. But certainly these are powerful category development initiatives and we are very bullish about how they work for us.

Abhijeet Kundu: Okay that is it from me thanks.

Moderator: Thank you. The next question is from the line of Trilok from Dymon Asia. Please go ahead.

Trilok: Hi good evening thanks for the opportunity. I wanted to ask, when the initial comment that is highlighted, the Q1 seems to be a little constrained in terms of margins. Are you referring to further sort of pressure beyond what you are already seeing or if you can comment on that, that will be helpful.

Sudhir Sitapati: Ukraine crisis started about three months ago, right, which is the middle of last quarter. And at that time, last quarter, we were still sitting on older batch stocks, so we have kind of managed EBITDA now. This new inflation will take us a little bit of time to adjust to. I mean, I am not overly worried about it, but certainly Europe form today is quoting at 6,500 MYR. It had gone to close to 7,500. Pre-Ukraine is at 5,500. So it is somewhere in between its peak and what it was pre-Ukraine. 5,500 itself is a high price, so the new stocks that comes in is coming in at higher costs. We will of course judiciously do. And I think that I think you should have enough confidence given our India margin performance last quarter despite all that difficulties we faced everywhere else. That we are able to kind of, over a period of time, do.

Trilok: Obviously today only that ban has been lifted, so probably that could also bring some relief hopefully. And what kind of pricing actions we have taken at the portfolio level to mitigate this inflation so far?

Sameer Shah: If you just look at Q4, Trilok, I think the UVG is close to around 12%, right.

Trilok: No, no, I am talking about in this quarter, we are talking about, because what has already been done is done, right?

Sameer Shah: Yeah. So, I think, incrementally we keep on taking price increases, especially in personal wash footprint. It is difficult to aggregate and call out as to what it alludes, because some has got executed, some will get executed as we speak. But directionally my sense is that UVG will go up in Q1 as compared to what it was in Q4 at an overall portfolio level.

Sudhir Sitapati: I mean, in pricing, I think, like all companies frankly, we have to take judicious price increase. One is, we cannot stop consumers, so we got to do it. And two is, for speculative cost, we can price. So, speculative costs like, for example, you always knew and now if purchasing, I did not know that Indonesia ban has been lifted today. But it would be good news for us. But in the short-term, these things we cannot react to them in pricing in the short-term for very speculative and business continuity when have to buy, we have to buy. So, I think you just have a look at it in that context.

Trilok: Sure. Understood. Just lastly, from a new kind of pricing accessibility in both the categories that you alluded to, is it fair to assume that those will not be gross margin dilutive or something of that sort, because obviously penetration is important, but wanted to hear a thought from that?

Sudhir Sitapati: I mean, I think the important thing in this business, as I have said, is to drive volume growth. I think we have very healthy EBITDA in this business. And I mean, our objective is not to drop that. But our objective is primarily to get category volume growth in first. And you must remember that some of these categories like hair color are at operated anyway very high gross margins. So, even if they are dilutive to the category, they are accretive to the company very often. But I would still say that gross margin is super important, but volume growth for us and category development is more important.

Trilok: Sure. Thank you. I will come back in queue.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Institutional Equities. Please go ahead.

Krishnan S: Hi Sudhir as part of your strategy discussion in December you had highlighted two things both are related so I will take both of them. One was the relative inability to drive category development for which initiatives have been taken as you highlighted. The other thing that you had highlighted was high complexity with too many SKUs. Anything that you want to highlight on that front and what that has been done so far.

Sudhir Sitapati: Yeah. I mean, listen, complexity is there. I mean, I said that one of the strengths of the organization is innovation and R&D and our ability to drive new products. And I hope I can speak about a few of them next quarter. And one of our weaknesses is complexity. And complexity is in SKUs, but in many other areas, let me give you an example of Aer, right, which is the communication that we have done, which is when guests come home, you should have Aer and maybe at some point, we can send it across to all of you the communication. We have done exactly the same communication with no changes in Indonesia, India and Malaysia. Now there is a reduction in complexity, right, because two people who are working on it, two advertising agencies were working on it. Two people who are producing the film, I mean it is just an illustrative example of reduction of complexity. So, SKU complexity reduction is on and it is an ongoing process and a pretty sharp one at that. But there are many areas of complexity like this one where when the same advertising works across the world, why spend money and complicate life by having different things. So there is very much a war on complexity and simplification that is going on across for us.

Krishnan S: Very clear. Thanks Sudhir.

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

Avi Mehta: Hi. I just wanted to clarify just on the near-term margin bit. And if I heard you correctly, on FY2023, would it be fair to argue for a pickup in the second half at the EBITDA level? But that would mean that the earlier comment of sequential EBITDA margin expansion is no longer valid. Was that the correct read through of Sameer’s statement?

Sudhir Sitapati: No, I think what and I think Sameer will clarify is that, even if we were conservative with costs, we expect some slight margin improvement in FY2023 over FY2022. And if costs go to where we hope or where we think they will go to, it may even be better than that, but that is what I read out. Sameer, do you want to add anything to that?

Sameer Shah: No, I think that is the clarification of it. So there will be a glide path. I mean, the very short-term I mean, just because of severe commodity inflation, there will be kind of margin pressure. And this will continue to invest for growth, so what, I mean, we will also see is upfront marketing investments, so lot of category development initiatives. But at this point in time, with all the assumptions, even including on commodity, we do believe that FY2023 should see margins expansion. But again, as Sudhir mentioned, the entire focus will be on sustainable UVG during the course of the year. But yeah, I mean, at this point in time, we do believe that there should be margin expansion in FY2023.

Avi Mehta: And just the other bit on Indonesia, would it be also correct to argue that the margin trajectory would mirror the sales trajectory, even if the sales growth comes back in third quarter, margins should also move back to the pre-COVID levels?

Sudhir Sitapati: I think so. I think that is what will happen. As I told you, it may take two quarters because the economy, I mean, CPG did contract for two years and there are consequences of contraction. But yes, I anticipate there too. Both because of judicious price increases there as well and because when growth comes back, we will get back our leverage

Avi Mehta: Okay perfect. Thank you. I look forward to hearing on the HI side in the next quarter.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: Yeah. Hi, thanks for the opportunity. In the opening remarks, you mentioned that you expect palm oil prices to correct by 7%, 8% and maybe further also. Can you elaborate on this visibility on the output of supply that will come starting June from Indonesia and if Russia-Ukraine conflict continues for a longer period and then supplies from those market or other edible oils. If that situation continues, do you still feel that palm oil prices will correct by June or September?

Sudhir Sitapati: In the palm oil case, there have been to three underlying drivers of price hike. One is, even pre-Ukraine, there was a supply demand mismatch, which I think will correct, and I think it is correcting. Two is that there has been the Ukraine crisis and sunflower oil from Ukraine. And three is that the Indonesian ban has further exacerbated the situation. Of these three, we are hoping two will correct. The third one, if it corrects at some point in time, we will get a further upside. But at least one of the three seems to have been corrected already from what

I did not know this, but someone just mentioned that Indonesia has lifted it so slight relief will come there. And I think in May, June, we were anticipating crop and also of course, the sunflower pressure continues to be there on Ukraine. If that happens, then it will go down to the levels we hope for, but we were not planning for that. We think that even somewhere in between that, we will still be able to seek through.

Jaykumar Doshi: At this point of time, do you have visibility of the crop that will from Indonesia, Malaysia, starting June of the new crop?

Sameer Shah: No, no, not at this point in time, but I think all the indicators are that there should not be, I mean, supply side kind of issue at least from crop plantation front.

Jaykumar Doshi: So essentially the demand-supply mismatch that we saw for two consecutive years hopefully should not continue in the following year.

Sameer Shah: That is the thinking at this point in time. But I mean it is not just in isolation in the palm oil, it is also I mean the sunflower oil, right. So there is lot of linkages. Let us see how it goes, but I mean if this Ukraine conflict gets resolved, then definitely there will be further fall in palm oil prices is hypotheses which we have. Let us see.

Jaykumar Doshi: Thank you so much.

Moderator: Thank you. The next question is from the line of Gaurang Kakkad from Haitong Securities. Please go ahead.

Gaurang Kakkad: Yeah, hi. Thanks for the opportunity. So, couple of questions. Firstly, on the India business, if you can share some color between rural and urban growth as to how it is currently panning out?

Sudhir Sitapati: Yeah. So, I think if you look at urban, including alternate channels, the growth has been nearly 1.5x. But directionally we have seen, I mean, because we are relatively under-indexed in rural and rural growth have been on the higher side in terms of demand trends, it feels like more of the same. I mean, we had called it out last quarter also that even if you look at full year in those trends, nothing much has changed, I mean, between both the markets.

Gaurang Kakkad: Okay. Yeah. And secondly, in terms of the Africa business margin, so you have called out the reasons for the margin fall. So leaving aside the one-off, the two factors largely are in inflation as well as upfront marketing spend impacting margins by around 600 bps. So, largely for the Africa margins, we had an earlier guidance of margins given in FY2021 going to around, say, 17%, 18% in the next four to five years. So, largely, if you look at margins, say, this year also margins are largely likely to remain in this 11-odd-percent kind of a range. So then, do we stick to that guidance of 500, 600 basis points improvement in the next two, three years and what gives us the confidence for that?

Sudhir Sitapati: Yeah. I mean that is the game plan and nothing much has changed on that thinking. There could be a year plus, minus in that journey. As we have called out earlier, I mean better favorable category mix, scale play, even I mean very sharp kind of control of wasted cost is on what we think should aggregate to this margin expansion or better kind of ROCEs over a period of time.

Gaurang Kakkad: No, I think this year also, while this quarter has been exceptional both because of the one-time loss and because of commodity in Africa business also by the way is very crude linked because our dry hair business is plastic, this year we have had margin expansion of about 100 bps?

Sameer Shah: On a full year basis, so that journey of 100, 150 bps a year, even this year despite the last quarter we are on. And I mean, this quarter was exceptional both for the pilferage and for the cost increase. So that kind of margin improvement of 100 to 150 bps a year for the next four, five years. We anticipate it will continue like it has in FY2022.

Gaurang Kakkad: Right. Thanks. So, all those like strategy in terms of the four, five-year guidance of premiumization, product mix improvement, cost efficiencies largely those are on track. And do you think you can achieve those margins in FY2026-2027, largely a year-old miss is fine. But largely we are on track in terms of the guidance.

Sudhir Sitapati: I think so. I think it was a quarter miss of Q4. I think we were on track to kind of steadily increase margins in the business to achieve the kind of numbers you are talking about.

Gaurang Kakkad: Sure. That helps. Thanks a lot.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Yeah. Hi, Sudhir. Two follow-up questions. So, first is on e-commerce in India. So we are seeing HI now, for example, get 20% of business digitally and from e-commerce 7% to 8%. And many companies are getting that. So, where would you get SVPN in this and could you also talk about e-commerce, how are you placed there? Are you getting some benefit from there? And how do you pick DTPS present in e-commerce, some of your larger competitors?

Sudhir Sitapati: Yeah. I think, on e-commerce, the right way to look at it is not just about salience of our e-commerce and what is e-commerce salience. I think there are two or three measures that we look at. One is our share within e-commerce, which we were happy with. Two is our findability when people search for our categories, and we were quite happy with that. And three is, it must be accretive in terms of margins to our portfolio, which we think there is still work to be done on. That is how I would look at e-commerce. So I think rather than just worry about salience as a number and just under all circumstance increasing it, I like in any other one, we have to take a balanced view of e-commerce. And of course it is a rapidly growing channel and we are participating and our shares are good there. So we were quite happy with where we are. But that is how we look at it. Quick commerce is doing really well. I mean, in the recent past and in general, quick commerce definitely benefits short tail because quick commerce inventory led to be limited to the winners in the category and in all the categories and we operate as a number one or number two. So certainly from a consumer point of view, what I have got from consumers is that they are very happy with quick commerce. So we will have to wait and watch, Abneesh. I think the way we have to look at any channel is, as and when a channel emerges, we have to resource for it and make sure that we get passionate within that channel and at the right profitability, right, and resource for it and then let the channel emerge. After all, we do not play a role really with the development of the channel.

Abneesh Roy: Right. My second question is on the changes which have happened at the senior leadership level. In the last three years, if I see, Africa business head came from Nestle, we saw remarkable improvement once he came. Now in Indonesia, ex-Unilever, ex-HUL guy is joining. Sudhir himself obviously from HUL. And now the tech head from good MNC experience. So my question is, is there any cultural issue arises from all these very senior appointments because all these appointments are from laterals. So, how are you addressing if any cultural issue is there and are most of the senior level appointments done or do you think in the next one to two years I am not asking for any guidance, but just wanted to understand, is the team now in place?

Nisaba Godrej: Thank you for that question. So, I think, there is also been a lot of promotions from people internally also. So I just want to put that out. Sameer has recently taken over as CFO. There are a number of senior people who are doing bigger roles after Sudhir came in. I think, our philosophy has been that as much as possible that we will have people internally take roles. But where we do not have someone or one particular expertise, I think, is digital transformation. We will go outside. I think when we select people, we do select cultural and value fit, because otherwise at the senior level, it is very hard for them to come in and operate. So, I know you do see Sudhir is from HUL, Dharnesh from Nestle. But we do see them as the individual they are and how will they not just fit into Godrej's culture, but improve it and make it stronger. So, I do not think this cultural fit will be an issue. And I think one strong thing that I have always felt about Godrej is that we are relatively humble people and always willing to change and changes get better. So I think this new talent coming in will be a good refresh. I think we went through this a decade ago. That time also, we had very good high growth and company did well. And I think it is time now to strengthen the leadership team, but there is equally a number of people who are from within the company also.

Abneesh Roy: Thanks. Just one last follow-up on the Indonesia leadership. So when Africa business head change had happened, within very short time, we saw a remarkable improvement in the margins and sales growth both. And obviously we took a lot of corrective actions in the marketing campaigns more effective. Similarly in terms of distribution, we did a lot of changes, more deeper distribution and a lot of analytics usage, etc. Indonesia, when you are getting this person from Unilever, HUL background, is the similar potential available here or already most of these things are well run in Indonesia, so that the opportunity is not available? I am not asking all margins or numbers, I am just asking on the business side, is there a lot of headroom to improve immediately?

Sudhir Sitapati: No. Abneesh, I think both Dharnesh and now Rajesh are both top-class professionals and contribute. But very often these have their own dynamics going on in the market, which are ups and downs. I think suffice it to say that these things have to be looked at in the medium-term, and short-term is not the right way to look at it. Somebody comes and puts things right, and it starts growing immediately that rarely happens actually. So I would definitely say that I am anticipating and hoping that the Indonesian business in the medium-term does really well under Rajesh's leadership, just as GUAM has done under Dharnesh.

Abneesh Roy: Okay that is all from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aniket Sethi from ICICI Securities. Please go ahead.

Aniket Sethi: Hi. Thanks for the opportunity. Sudhir has said, you can discuss the thought process on divestment of BBlunt. If I recollect, the company always had ambition and fashion and premium hair colors. Is it part of the business simplification process? And what are the current ambitions for premium hair colors going forward?

Sudhir Sitapati: Yeah. No, I mean, look, BBlunt is a great brand and it is got a great consumer franchise. I think we have, as we articulated, our drive towards simplification and the core of our business and most of that is market development of some of the categories, right. So, in that we felt that the home for BBlunt brand was probably better somewhere else. So, it is just a set of choices that we make. And if you are about to ask me, while of course there are examples of premiumization like in Africa, in general, I would say that GCPL over the next few years should focus on category development. That is where the biggest bank for the buck is and that is really where our focus is. And I am not sure BBlunt was a driver of category development of hair color or hair.

Aniket Sethi: And will we focus on the premium part in India, Let us say, in the next two to three years?

Sudhir Sitapati: I mean look we had some premium brands like Cinthol in soaps is a premium brand. We do have premium products. It is difficult to simplify in one word but some companies have primary task of premiumization I think our primary task is category development.

Aniket Sethi: That is helpful. Second, a small clarification. In the presentation, it is mentioned that you are gaining shares in about 85% of the categories for the India business. So which exactly where the areas where you have lost some share?

Sudhir Sitapati: I think I mentioned that. Liquid detergent mainly because of the definition of liquid detergents because Ezee is basically a specialist liquid detergent and it is classified in all of liquid detergents that is going to continue, because there is a big movement in main wash to move from powders to liquids, and Ezee does not really participate in main wash in detergents.

Aniket Sethi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jitendra Arora from ICICI Prudential. Please go ahead.

Jitendra Arora: Hi. Just couple of questions from my side. One, as you alluded to, Africa margins improving on a yearly basis and not being worried about the quarter. Assuming the crude phase where we are, we expect EBITDA margins, margin in Africa to continue to improve for FY2023, that is first. Second, on the palm oil, you alluded to three reasons why there has been a spike. So obviously second and third is something which is event-based and temporary, which is essentially your Ukraine situation or what happened in Indonesia in terms of ban. So I would not worry about that honestly, because there is very little we can do or take it into consideration over a longer period of time. However, the first one, which is essentially the demand supply, there is an increasing blend of palm oil in Indonesia with the crude for the domestic fuel requirement, which has affected the demand supply equation in the market over last few years and that has led to the tightness. How do you see that resolving? Do you see incremental supply from Indonesia to cater to that or are you seeing other geographic regions which will be stepping up supply given that this new source of demand has been there?

Sudhir Sitapati: See, I mean, we are always working on blend flex and various oils and so on and so forth. But I think the pre-Ukraine pre kind of Indonesia export ban, if you look at our India margins in Q4, they give you a good sense that we were on our way towards solving that. By this quarter, we would have started that out. So, even if there is a long-term supply demand gap in palm oil, generally soaps is a category which is a relatively small user of palm oil in the larger scheme of things, should be able to manage. I do not think this category is not going to be the one that gets massively affected by it. It will be able to price up for it.

Jitendra Arora: And about Africa.

Sudhir Sitapati: I mean, on Africa, yeah, as I have said before, I think we have seen despite, I mean, Q4 which was a one-off, I mean, both in terms of cost and in terms of the pilferage, we have seen margin improvements even in 2022 and we anticipate that to continue, because again we are at a peak of oil crisis. Already oil has fallen and so on so forth in crude also. So there also a bit like soaps business will gradually take up prices and cover it up. So, I do anticipate some kind of moderate margin improvements in Africa as well. If the commodity plays out the way we think, it will play out. If there is not further shock in oil, none of us know in the volatile world we were living in. What I would say, other things being equal, we will continue the journey that we have actually started in FY2022.

Jitendra Arora: So essentially what we are saying is that there are enough price actions in place which will ensure that the current commodity cost are passed on.

Sudhir Sitapati: I mean certainly it is our intention to improve our margins in Africa and we are going to work towards that. It is not our intention to go for the numbers that I think we alluded to in the next few years which is 17, 18 EBITDA kind of thing. That is certainly our objective and I think we have been with this exception of the previous quarter we have generally been quite successful also at it.

Jitendra Arora: Thank you.

Moderator: Thank you. The next question is from the line of Priyum Daga from VT Capital. Please go ahead.

Priyum Daga: I need some clarification on the marketing side of it. So, on an industry-wide basis, some companies have lost, degrowing in the digital transformation segment. And we have had a stronger personal care growth this quarter. So, is it fair to assume that this kind of gain from market share from some of the organized players?

Sudhir Sitapati: I mean if 85% of our business is gaining on a MAT basis. Certainly in soaps we are doing very well in terms of market share.

Priyum Daga: Okay thank you.

Moderator: Thank you. As there are no further questions I hand the conference over to Mr. Pratik for his closing comments. Over to you Sir!

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

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.