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February 12, 2013

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The National Stock Exchange of India Ltd
Exchange Plaza, 4th Floor,
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Dear Sirs,

We enclose herewith for your information, a transcript of the proceedings of the conference call held by the Management team of the Company with financial analyst on February 1, 2013, post the announcement of Q3 results for 2012-13.

Yours faithfully
For Godrej Consumer Products Limited

Ramesh Iyer
Dy Company Secretary

Encl: as above

Investor and Analyst Q3 FY13 Conference Call

Feb 01, 2013

Rakshit Ranjan - Moderator

Good afternoon, everybody. We welcome you all to the conference call. We have with us the senior management team of Godrej Consumer Products led by Mr. Adi Godrej. I will hand it over to Mr. Godrej to give you an overview on the quarterly performance and then we will open the call for Q&A.

Adi Godrej - Chairman

Thank you, Rakshit.

Thank you and good afternoon everyone. I welcome all of you to the Godrej Consumer Products Limited conference call to discuss the earnings for the third quarter of financial year 2012-13.

Joining me today on this call are Mr. Mahendran, Managing Director, Nisaba Godrej, Director and President, Human Capital & Innovation of the Godrej Group, Vivek Gambhir, Chief Strategy Officer of the Godrej Group, Shashank Sinha, President, International operations, P. Ganesh, Executive Vice President - Finance, Commercial and Company Secretary and Sameer Shah, Associate Vice President, Finance and Investor relations.

I will recap our six 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 open the phone lines for any questions you have.

One of our most important imperatives is to sustain leading positions in the three core categories that we participate in - home care, personal wash and hair care in India. Across these categories, our focus is on growing ahead of the market, driving consumption, penetration and strengthening our portfolio. If we look at our domestic business, across categories, this has been yet another quarter of very strong sales growth and market share gains.

Our household insecticides category delivered yet another quarter of robust performance with 28% sales growth. This growth is much higher than the category growth. The growth drivers are distribution synergies, innovation and continuous brand investments. We continue to gain market share and enjoy leadership positions across all formats of electrics, coils and aerosols. While the category growth did get some benefit of dengue and malaria incidences, we remain optimistic of the strong category growth and us growing ahead of the category growth.

Our soaps business continues to grow strongly, at 20% growth for the quarter. Strategically our mix change combined with price led growth has contributed to our overall growth. Volume growth was around 2%, compared to the reported category growth of around 8%. We however feel that the reported category growth of 8% for the quarter has been highly over-stated. This is also evident from the fact that our volume growth, as reported in the overall category growth is around 12%, which is much higher than our actual volume growth of 2%. Also, the 2 year CAGR of category volume growth is 1%, which we believe is a more realistic estimate of category volume growth.

Overall though, we have been consistently growing ahead of the category in value as well as in volumes. In this quarter though, we also saw the temporary effect of complying with the new packaging norms, wherein we reduced the grammages of few of our lead sku's resulting in lower volumes per unit sold. This is a temporary phenomenon and relatively lower volumes per unit will get averaged out in the coming few quarters.

We continue to be the second largest toilet soaps player in the country. Towards the end of last quarter we launched a major refresh of Cinthol. Cinthol, as you know, enjoys tremendous brand equity. With the Cinthol refresh, we hope to address three objectives: (1) Connect to a vibrant, energetic, young India, (2) Build a strong personal grooming brand and (3) Deliver premium experiences to our consumers. We strongly backed the Cinthol refreshed launch with a very compelling "Alive is Awesome" marketing campaign. The response so far on new products and marketing campaign has been very positive and we do expect to reap benefits of heavy investments made in the quarter over the coming quarters. Gross margins have expanded on year over year and sequential basis with full impact of price increase and efficient vegetable oil buying. With the recent fall in vegetables oil prices, we expect margins to expand, along with maintaining our focus on gaining market share.

We continue to enjoy market leadership position in the hair colourant category. Our growths picked up to 17% during the quarter and we are optimistic of maintaining if not surpassing category growth in the coming quarters. In early October, we launched Godrej expert rich crème hair colour, a very innovative product, leveraging learning and technology from our Argentine business. We strongly backed the Godrej expert rich crème hair colour launch with a very compelling "Oh My God" marketing campaign. The response so far on new products and the marketing campaign has been very positive and we do expect to reap benefits of the strong investments made in the quarter over the coming quarters.

During the quarter, we also heavily supported our marketing campaign on AER air fresheners and Ezee liquid detergents. The response on AER again has been very refreshing and has contributed

close to 1% of our sales growth during the quarter. Liquid detergents also grew at high growth rate of 24% during the peak season in the quarter.

We continue to build strong brands and the same is also reflected in 4 of our brands - Goodknight, Cinthol, Godrej No.1 and Godrej Expert Powder Hair Colour being ranked in the 100 Most Trusted Brands 2012 by Brand Equity.

The second pillar of our strategy is to drive growth in our international business, guided by our 3x3 strategy, of being in three core categories and in emerging geographies in Asia, Africa and Latin America.

Our biggest international business, Megasari in Indonesia continues to grow at a strong pace of 30%, aided by the success of new launches and distribution expansion. Local currency growth was around 31%. Megasari is the market leader for urban household insecticides, air care and wipes in the Indonesian market. EBITDA margin was stable at 20% (before payment of technical & business support fee). HIT Magic, which is a disruptive innovative paper format mosquito repellent, continues to gain good traction replacing coils in the market. Hit one push aerosol was successfully launched during the quarter. In line with our '3x3' strategy, we have also entered into an agreement to divest our noncore foods category in Indonesia.

Our African operations, which comprise Rapidol, Kinky, Tura and Darling, made steady progress during the quarter. We integrated the Kenya business of Darling group from November 2012. Revenues stood at Rs 226 crores and EBITDA margin at 20%. The integration of the Darling businesses is proceeding smoothly. In late October, we launched the Good Knight brand in the household insecticides category in Nigeria. We are investing adequately to build a strong brand and make a meaningful presence in the category. The response so far on new products has been encouraging.

Our Latin American operations, which comprise Argentina and Chile, made steady progress during the quarter. Revenues stood at Rs 150 crores and EBITDA margin moved up to 8% during what typically is the relatively strong season for hair colors. The integration of the Chile business is going on quite smoothly. We had several launches during the course of the quarter supported with upfront higher brand investments. We also continue to invest in growing our business in the neighboring countries of Argentina.

Our Europe business registered revenue growth of 15%, with EBITDA margin of around 5%. Local currency growth was around 9%. Owned brands like Bio Oil, Cuticura and Touch of Silver continue to grow well. We also added scale to the business by acquiring UK's fourth largest brand Soft and Gentle in the female deodorant space. We are quite optimistic on the growth opportunities for the business going ahead.

Our third strategic pillar is to accelerate the pace of innovation and to strengthen our brand portfolio. The last few quarters have seen many innovations and new launches across categories and across geographies. We launched Aer air fresheners, refreshed Cinthol, Godrej Expert rich crème hair colours in India, home insecticides in Nigeria, Hit one push aerosol in Indonesia, Villeneuve sun care range in Argentina, refreshed Illicit in Chile and the Aapri skin care range in

UK. The initial response to these launches has been encouraging. We have been making upfront marketing investments, which will reap benefits in coming quarters.

One of our other key imperatives is creating a future ready sales organization for the domestic business. We have been able to leverage our scale, expand urban coverage and tap rural markets especially for the household insecticides category. We have also adopted best in class sales processes and practices.

Our fifth pillar is to create a global best-in-class supply chain. We have taken strong steps in this area by establishing centers of excellence in TPM, lean, six sigma and low cost automation. We have also set up a strategic sourcing team to leverage scale and reduce our procurement costs. Our gross margin performance, especially in our Indian sub-continent business, is well supported by ongoing cost saving initiatives.

Finally, we continue to execute several initiates to foster an agile and professional entrepreneurial culture in the organization.

I will now cover the highlights of our financial performance this quarter. For the quarter ended December 31, 2012, our consolidated net sales stood at Rs. 1,691 crore, with a growth of 26%. Our consolidated business organic, constant currency sales growth also was very robust at around 20%.

EBITDA margins stood at 16.9%. EBITDA margins are relatively lower driven by strong marketing investments on the new launches, reflected in advertising and publicity expenses as of percentage of sales increase of around 240 bps on year over year basis.

Earnings per share non-annualized stood at Rs. 5.06 for the quarter. The Board of Directors has declared third interim dividend of 100%, which translates to Re 1.0 per share.

Our net sales in the Indian sub-continent increased by 20% to Rs. 938 crore, with significant growth across the core categories. EBITDA margins stood at 18.0%, mainly behind higher marketing investments on the new launches, reflected in Advertising and Publicity expenses as of percentage of sales increase of around 390 bps on year over year basis.

Our international operations, which accounted for 45% of our consolidated turnover during the quarter, reported revenues of Rs. 758 crore, an organic, constant currency growth of 18%. EBITDA margins stood at around 15.3%.

As you can see, our operating performance has been very strong. The GCPL team has worked very hard to deliver these excellent results. I believe our strong performance is a reflection of clear strategic focus, superior execution and our top notch team.

I am very confident of the opportunities ahead for GCPL, both in India and overseas in the coming quarters and expect to carry the strong sales momentum and enhance profitability in the coming quarters. As always, we will strive to enhance shareholder value and drive growth.

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

Continue: - Q&A…

Questions and Answers:

Moderator

The first question is from Pritesh Chheda of Emkay Global

Pritesh Chheda

On the international front, if you could dwell something on the numbers. What happened with the Africa margins because there is a big dip; second if we do the math just adjusting for the minority interest, it seems that the business is, other than Africa, the net level is showing some different kind of a PAT number which is far lower. So, if you could clarify those areas?

P. Ganesh

The standalone income also has about Rs 11 crore of dividends received from subsidiary companies, which get knocked off on consolidation. So that's the gap you will need to adjust**.**

Vivek Gambhir

With regards to your first question, as we had communicated in the past, our expectation is that the Africa EBITDA margins would range between 17% and 19%, and we feel fairly comfortable with that. What happened in Africa was, as we had reminded everyone in the conference call a year ago in that quarter, we actually had a one-time benefit of low-cost inventory that actually increased our margins. That benefit is not there. On a quarter-over quarter basis, the margins while they are still healthy look lower than that quarter. The second is that there was a bit of a sales mix shift which happened, just driven by seasonal trend, where there was a higher amount of sales in braids in hair extensions and braids tend to be somewhat lower profitable category. This is a temporary shift which happens occasionally in few quarters but I think over time the mix shifts will again move to the higher-margin hair extension products.

Adi Godrej

Also one of the reasons why the margins seem lower in this quarter is the huge increase in advertising expenditure over the same quarter of the previous year both in the domestic and international field because of the launch of new products. This huge increase in advertising is not likely to continue into the future quarters.

Pritesh Chheda

Including India and elsewhere, we have seen high A&P spends. Now with India, we have seen this phenomenon across a lot of companies. Just want to check the proposed or the incurred high A&P spend is somewhere a function of the fact that it's required to ramp up the demand or to sustain the demand.

Adi Godrej

No, the increased advertising spend was entirely behind new launches. We had an unusually large number of new launches, as I said Aer - Air Freshener, we launched our Expert rich hair crème in sachets and we also had a major Cinthol re-launch. So behind these launches, the advertising expenditure for this quarter was much higher than the corresponding advertising percentage in the corresponding quarter of the previous year**.**

Vivek Gambhir

I think the important point you mentioned is that fundamental demand is still quite robust and so a disproportionate amount of A&P spend was actually towards these new launches which are not contributing the same amount to sales growth quite as yet. They will in the future, but this is not any indication of our belief that the demand is tapering in anyway.

Pritesh Chheda

Which means it should normalise in subsequent quarters**?**

Adi Godrej

That's right.

Pritesh Chheda

My next question is with respect to the recent acquisition again, Soft & Gentle. I just want to understand the philosophy here. We have done these acquisitions; do we follow a return ratio threshold point for these acquisitions? But the question is pertaining to the number of acquisitions which we have done now.

Vivek Gambhir

The honest answer on that acquisition is that we felt that the UK business historically has been subscale and has an outstanding team which can take on more and we got the opportunity to acquire a very strong brand at a very attractive valuation, which will be EPS accretive and will give this business the desired scale to take things to the next level. So while this is not clearly core geography for us, I think opportunistically from an EPS accretive and a strategic part for the UK business it fell like the right call to make.

Pritesh Chheda

A query on the conundrum of reported growth, could you explain that a bit?

Vivek Gambhir

So, I think the situation we have been wrestling with it is how the category has been reporting volume growth. So if you take a look at what happened in the corresponding quarter last year, the category reported growth was negative 6%, it was inexplicable and then all of a sudden this quarter, the category reported growth on a volume basis is 8% which is highly unusual in this category which tends to be quite still from a growth perspective, to have one quarter with negative 6% growth and this quarter reported category volume growth being 8%. So what probably we have been trying to do is look at two years' CAGR of volume growth which seems to be a better depiction of what could be happening in category growth which seems to be 1%. The second conundrum here is the significant delta between our reported growth versus our actual growth. So our reported Q3 growth was 12% whereas our actual growth on a volume basis is 2%. So there seems to be a significant overstating of category growth both being reflected I think in our reported volume growth and base effect of this decline the previous quarter.

Adi Godrej

The most important point is our market share in soaps has been growing**.**

Pritesh Chheda

So, when you are saying our reported growth means you are saying the data agencies number for category growth at 8% vis-à-vis within that GCPL's growth reported by them was 12% but actual is 2%.

Adi Godrej

That's right.

Moderator

Our next question is from Abneesh Roy from Edelweiss.

Abneesh Roy

My first question is on the innovations, if you see Cinthol, Expert and Aer, you said it has done quite well. So my question is on what parameter you really judge the initial period of the launch, and when do you see the numbers benefiting in terms of say the volume growth, I see the hair growth improving in this quarter itself so will it be fair to say that this kind of a growth will be sustainable in hair.

Adi Godrej

Yes, we think the hair colour growth will accelerate going forward in the fourth quarter compared to the previous quarters. In soap also, we see the Cinthol re-launch will help our growth very considerably from fourth quarter onwards. Market shares have been improving in soap and we expect them to continue to improve and now we expect our hair colour market shares also to improve in the quarters going forward.

Abneesh Roy

Sir, my next question is to Shashank. If you see the products launched in Africa, you have launched HI in Nigeria and then cross pollination from UK is also happening in Nigeria. So I wanted to understand why HI has been first entered in Nigeria wherein you see turmoil in terms of the general law and order and if you could give colour on bio-oil? How big is that opportunity?

Shashank Sinha

I think in Nigeria in particular, we actually had a very busy new product launch season. We have also launched in Nigeria, for example Inecto hair color, which is a product that we sell in South Africa and is targeted at the ethnic population. So I think that Good Knight launch timing is more related to the season, as you know it's a seasonal product, and we have received registration in time to catch the insecticide season and therefore this was the window for the launch.

Bio-oil is a premium product. It's a skin care product at the premium end of the market. We have just started to distribute bio-oils in the high-end pharmacies and in supermarkets in the big cities in Nigeria. I would say its early days, but the potential for the product is large but there is going to be a fairly long period of communication and trial generation before we are able to say that there is enough trial and market share for bio-oil, but I think we are really excited about the insecticide opportunity. It's a large market and malaria is a number one reason for deaths happening in Nigeria. I think we have the expertise in all the right product formats, and I think that's the one that we are backing with advertising campaign as well.

Adi Godrej

I would just like to add that whilst Nigeria does have some law and order problems and some terrorism-related problems it's by far the largest population country in Africa. It's a large market so we expect a very strong future for our FMCG products in Nigeria.

Shashank Sinha

And one more word in that Mr. Godrej. I think all the law and order problem of Nigeria are actually in the northern part of the country, which in more sparsely populated. The large consumer business of Nigeria is actually in the lower part of the country, which is relatively more peaceful. So the law and order problems that we read in the headlines about Nigeria, it's in a separate part of the country.

Abneesh Roy

Sir, one follow up on that, you mentioned you are very excited about the HI market in Nigeria. How strong is our distribution currently in that market especially for Tura and if may be Darling? Second is who are the large players and if you could tell us the market size and are we doing a test market launch currently or is it a full throttle launch – all distribution, all price points, all the three categories?

Shashank Sinha

So, just to answer one by one our key competitors are the same global competitors that we have in India, in Indonesia, where we do extremely well and we are the market leaders. Basically S C Johnson and Reckitt Benckiser, there are one or two smaller local companies, but the main competitor are the same ones that we compete within other markets. The answer to your second question is that we are basically launching aerosols and coils. We have not only great products but we are also more or less the lowest-cost manufacturers. And thirdly this is not a test market. We are basically building distribution as we go. With Tura, because it is a soap brand, we already have extensive distribution. The Darling distribution is more wholesale driven. So we are combining the synergies of both our soap distribution and our wholesale distribution network of Darling and basically putting Good Knight in that distribution network. So it's a full launch and we are going to be supporting it with television advertising. So it's a full-scale launch in Nigeria.

Abneesh Roy:

Sir, my last question is for Mr. Gambhir on the expert rich crème. The initial signs have been quite good. So the first question on that is in terms of distribution. How are we placed in terms of the salon and parlor because that's a big market for that product? Second is, for the last many years, this segment has been a very strong focus area for the company, so from the initial signals the confidence is pretty high that finally we have cracked this.

Vivek Gambhir

In terms of the salon engagement, we are in the early stages. We have a lot of work to do but we have some fairly aggressive plans, that over the next couple of years you will see us rolling out as part of the salon programme. Second, you know we are very optimistic. I think the initial feedback has been very positive but I think the next two or three quarters will be a true testimony in terms of the homerun potential of this product, but clearly from all the indications we have got it is the best available crème product in the market against every single competitor through blind consumer tests that we have done. So we definitely have the best product available at an unbelievable price proposition. Our team has to execute to make sure that we can deliver.

Adi Godrej

But the big offtake of this product will be for home use from retail. Of course salons and parlours will add on but the big consumption will be in home.

Abneesh Roy

One follow up on that if you see most other FMCG companies are saying that in the top-end discretionary spends across sectors, especially foods and may be personal, they are seeing signs of slowdown, signs of down trading. So in our three categories in India, how we are seeing the discretionary spends top-end and on the rural, any signs of slowdown at all.

Adi Godrej

There is no sign of slowdown in rural India. In fact generally in our products, we are seeing a good growth across both rural and urban and the growth is across both premium segments as well as bottom of the pyramid segments where new users are entering the category. Two of our categories are under-penetrated-hair colour and household insecticide, household insecticides especially in rural India and we expect a lot of growth coming from new users, non-users getting to become users in these two categories. Of course the soap category is almost fully penetrated.

Moderator

Our next question is from Percy Panthaki from India Infoline.

Percy Panthaki

One question on Africa, can you let me know your organic constant currency growth of Africa for Q3?

Sameer Shah

It's around mid-single digits.

Percy Panthaki

What is the reason, why this has been lower than what we would have hoped for?

Sameer Shah

I think it's predominantly driven by the mix impact as we just heard some time back that in season of quarter three of FY12 we had seen more salience towards premium formats which we didn't witness in this quarter season that's the reason where our volume growth was higher than the value growth and this has resulted in relatively lower organic constant currency growth.

Percy Panthaki

Is this a reflection of consumer sentiment?

Sameer Shah

Too early to comment on that right now.

Percy Panthaki

Sir, second question is on UK. It doesn't fall within your 3x3 metrics. What is the reason you don't divest that business?

Adi Godrej

That business is doing very well. We have already paid back all the loans which we had taken to buy the business. It continues to add strong shareholder value and whilst the 3x3 is for new opportunities in the international business, the UK continues to be a good business and in fact it is the UK business which led us to buying the Rapidol business because the Inecto brand is also present in the UK and then we were introduced to the owners of Rapidol. So it has added tremendous value to our international growth.

P Ganesh

And also the acquisition of the UK business happened before the 3x3 strategy actually took shape.

Shashank Sinha

So, I would just like to add there I think among some of the other advantages of being in the UK is first of all, UK trade is predominantly modern trade. Some of these customers that we are dealing with and we have some leadership brands there, I think this experience gives very transferable skills, gives us a strong platform to learn from that even for the domestic business and I think the second thing is it is a good source of innovation, particularly in hair care and in hair colour, UK is probably one of the most developed and sophisticated markets, so while we directly don't play in the hair colour market, being in the UK I think it gives a great platform for that. So for example this Bolt-on acquisition actually gives us good scale in the UK in another exciting category which is the female deodorants category.

Percy Panthaki

Sir, on your new hair colour in sachet, it's a very exciting product at a disruptive price point. There is no other product in the market which is similar to this right now and therefore obviously I am sure it will do very well. My concern is what stops a competition like let's say a Garnier to launch a very similar product at very similar price or may be just ~15% premium to your price point. Is that a possibility which you would give a reasonable probability to?

Adi Godrej

It is a possibility, not a probability because they have their own formats. It's not likely that they will get into formats that we are in, for example L'Oreal has never entered the powder hair colour market although they are very strong in many geographies. Each company has its own specialization and for a company like L'Oreal to get into cheaper formats means that they might get their own customers of more expensive formats into cheaper formats which may not be what they are aiming for.

Nisa Godrej

I think our strategy in the crème market is to upgrade our powder user base. It is a much larger base than the crème. So every two crème users in India, there are nine powder users. So that's the much bigger market. So we would like to upgrade them with the product they find affordable. The price points in hair colour go from Rs 15 to over Rs 500. There is nothing at the Rs 30 price point. So we find it's a very attractive price point for consumers. Secondly, both the packaging technology and the product development have gone through extensive research both internally and with consumers, and we actually feel it's a very breakthrough product which is not easily replicable by other competitors.

Percy Panthaki

On your margin trend over the long term, if I am looking at let's say a five-year period from 2008 to 2013, now that the year is almost over. If I look at your gross margins between these two data points, there have been more or less flat. But if I look at your operating margins, they have dropped by about 400 basis points. Of course we know the reasons for this, it has been increased brand support as well as increase in employee cost. But just one point to note, there is, apart from the Latam business, most of your other acquisitions, whether in India or abroad are not margin-dilutive. So very little of this 400 basis points can actually be explained by mix impact. So, what I am trying to get at is analysts and investors sitting in let's say FY11, who are actually building in operating margin expansion into FY12 and 13, which has not happened probably for the right reasons. But what is the comfort that you can give us that this will sort of pan out in the future and when I say future may be not a four to five year period but your views on whether it will pan out in the shorter term future or not and what will drive that since it has not happened in the past.

Adi Godrej

Two comments, one as you rightly put it, we have spent a lot of money on advertising and marketing to build strong growth, but a little more importantly in the year FY12 and FY13, vegetable oil prices rose which did negatively affect soap margins to a certain extent. Now, vegetable oils prices have come down. Similarly vegetable oil prices were low during 2009-10 when our margins improved and so our soap margins do go up and down a little with vegetable oil prices and that affects our overall margins because soap is a fair part of our business.

Percy Panthaki

Soaps should be just now after all these acquisitions about 12% to 15% of your EBITDA. So that does explain some part of the margin contraction but not a lot of it. So I just wanted to understand what kind of measures you are taking because we have been expecting and talking about operating leverage and operating profit margin expansion on the back of all the synergies that you have. So I am not asking for any guidance obviously but can you give your thoughts about this how it can pan out in the future? What are the different factors which will play out in the future and which factor will outweigh the other one - whether it will be a positive or a negative?

Vivek Gambhir

Clearly there are opportunities to improve growth margins both in terms of further opportunities for cost reduction. Second of all a lot of a new offerings and innovations are enabling us to play in the more premium end of the market and by participating in the premium end of the market as our portfolio becomes more premium that will allow us to actually improve growth margins as well. Along with that I think there are lots of projects going on across the globe in terms of supply chain optimization, better sourcing. Some of these things will take time but clearly there are margin benefit that we will be able to get from that and as you pointed out I think in Latin America those margins are lower and there are concerted efforts going on with the team here to improve the Latin America margins as well. So I think in a slightly longer-term perspective we feel very comfortable that this business should get us about 20% EBITDA margin but clearly there are lots of projects going on to allow us to get there.

A Mahendran

In all these categories where we have done investments, we are expecting a market share in those segments to grow. For example, the soaps, after the Cinthol launch, our expectation is to grow the market share. So market share growth leads to higher volume and economies of scale thereby the gross profit can improve in that space also.

Moderator

Our next question is from Abhijit Kundu from Antique.

Abhijit Kundu

During the quarter we have seen recovery in hair color, how much of it has been driven by the crème launch?

Sameer Shah

For competitive reasons, we would not like to share as to what has been the NPD driven growth but let me assure you the growth has been higher than what the growth was sequentially.

Abhijit Kundu

In terms of repeat purchases how has been the response in crème?

Nisa Godrej

It has been extremely positive. We are getting reports of offtake happening from stores, we are replenishing a lot of stores and it's also showing up in market share data very strongly although it has been such a short while.

Adi Godrej

I can only say that we were short supplied for periods of this quarter, because the demand was much more than the original expectation, but now because of our replenishment system we are adequately supplied.

Abhijit Kundu

And in case of soaps the volume growth has been to the tune of 2%. I am just verifying that?

Adi Godrej

Yes, volume growth was 2% but overall volume growth in soaps is not much and value growth was 20%.

Moderator

Our next question is from Prakash Kapadia from iAlpha Enterprises.

Prakash Kapadia

If I look at the current operating side expenditures, some sense on employee expenses, how much of these would you attribute to the Darling Phase-II acquisition and some of the variable-linked pay which you have on a quarterly basis and over the long run, where do we see employee cost stabilising, given that internationally employee costs are higher? So is 9% kind of a good estimate in the near future? And on the other expenditure side, is power and fuel, freight or processing charges what seems to have gone up there, that's on the expenditure side and just one thing on Aer, is it more like currently a model, where it is B2B or B2C is also as part of our growth plan.

P Ganesh

Coming to your first question on employee cost, if you look at employee cost sequentially on standalone, the differential is purely on account of higher variable remuneration provisions during the quarter, which again is based on the outlook for the year and when you look at the consolidated space the incremental is largely on account of Darling Phase-II where we have consolidated Kenya operations for the first time this quarter.

Sameer Shah

Coming to your second point on other expenditure, starting with domestic business, first other expenditure has gone up because of higher share or sales growth from home insecticides, so directionally home insecticides has higher percentage trade promotions spends compared to soaps and hair colour. So it's purely a function of category mix.

Prakash Kapadia

And the other major heads power and fuel, freight and processing?

Sameer Shah

Yes, processing charges also get clubbed under other expenditure.

P Ganesh

And these would also go up in line with the sales increase which we are seeing.

Prakash Kapadia

And some sense on Aer. Is it more currently B2B or B2C driven; is the focus on car fragrance or is it home fragrance as well, currently?

Nisa Godrej

It's a mixture of both, it's predominantly through retail but we have also signed up some very lucrative tie-ups with car companies and other channels and we have a very strong car channel also that we sell through.

Prakash Kapadia

Okay, so both seem to be the focus areas.

Nisa Godrej
Yes.

Moderator

The next question is from Prasad Deshmukh from Bank of America.

Prasad Deshmukh

Sir, I have just one question on the Indonesia business. Continuously we are showing a strong constant currency growth in Indonesia. Just wanted to understand what are the factors for this kind of growth rate other than introducing new products, some time back you had said that you are present only in parts of Indonesia. So how much of this has been driven by geographical expansion and how long can those factors sustain?

Adi Godrej

We are not only in part of Indonesia, we are throughout Indonesia.

Shashank Sinha

The sustained level of growth that you are seeing in Indonesia is on the back of both increase in our market share as well as innovation and I think in the past we have talked about our big innovation there like HIT Magic. We continue to introduce new products like we have introduced one push aerosol; we have introduced new innovations in air fresheners, in baby care. So I think our innovation rate is quite high in Indonesia and on top of that our base business market share has been constantly increasing behind the marketing activities that we are doing. On top of that in the last year, in the last 12 months, we have actually further increased our direct distribution by opening a new branch in Indonesia. Now we have five branches in Indonesia, so I think distribution expansion in a country like Indonesia with 10,000 islands, it is always something that we continue to work on, is a part of the story but it's a very small part of growth. The large part of the growth is delivered through market share increase and innovation.

Adi Godrej

But I want to clarify, we are throughout Indonesia. We might have more concentrated efforts in some parts of Indonesia but our distribution is throughout the country and of course the Indonesian economy is also doing very well.

Prasad Deshmukh

Alright and some colour on this divestment of the food business?

Adi Godrej

Well it's a non-core business, it came with the overall business and we have got a very good valuation which will add very considerably to our extraordinary profit in the fourth quarter.

Prasad Deshmukh

Okay so amount cannot be stated right now?

P Ganesh

The extraordinary profit which will come into the books will be in the range of about US $26 million.

Moderator

The next question is from Amit Sachdeva from HSBC.

Amit Sachdeva

One question on Africa, going back to the growth rate this year. As you mentioned that it was mid-single digit. Can you also sort of see how the trend is looking as you go in the next quarter because considering we have done the Phase-II acquisition already, how do we go from here? How do you see the year panning out, considering Nigerian launch as well? What sort of factors play out say for the remaining of the year and next year? Can you give a little bit more colour of what you see the outlook for the future?

Sameer Shah

What we have seen in this quarter, a mid-single digit, organic constant currency growth, is becoming seasonal in nature. We are pretty optimistic of driving early double-digit kind of constant currency organic growth in the continent going ahead.

Moderator

The next question is from Hemant Patel from Axis Capital.

Hemant Patel

I have two questions, one - notice the volume value divergence in the soap segment and that has actually increased over the last quarter. I was wondering has there been any sort of price increase or is it a mix improvement that you are seeing and in the context that you are having a commodity cost actually going down.

Sameer Shah

If we look at the price-led growth in all the three quarters of this year, this has been more or less in the range of 16% to 18% which is also what is there in Q3 - 20% being the overall value growth and 2% is the volume growth. So it has been in that range.

Hemant Patel

No, my point is that in the last quarter you had a 6% kind of volume growth and 18% kind of value growth. So the divergence has only gone up in this particular quarter. What I wanted to know is in the context of the commodity cost actually coming down, have we gone around for another price increase round this quarter?

Adi Godrej

No, I think sometimes these changes come about because of the mix within the soap category, so if the Cinthol growth is higher, value growth relative to volume growth becomes higher and vice versa.

Hemant Patel

Okay and another question in terms of volumes itself are we coming back to more normative level of volume growth which will be in the mid-single digits over a period of time.

Adi Godrej

Yes, soaps volume growth have never been beyond single digit and it will remain at mid to low-single digit because it's a totally penetrated category.

Hemant Patel

And this price increase base effect will probably catch up by the next year is what I presume.

Adi Godrej

It's possible because if the raw material cost comes down, there is not likely to be much price increases.

Hemant Patel

Okay and couple of questions on the international business again. On Africa in terms of the single-digit organic growth, could you give us some insight into what has really happened in Rapidol and Kinky as well in terms of growth rate?

Shashank Sinha

The Rapidol growth rate has been double digit by itself and there our market share in both the Caucasian and in the ethnic hair colour market has been quite strong. As you know about a year ago, we introduced the Renew brand in a totally new segment where we were not present which was the Caucasian hair colour segment and we have since gained a lot of market share and at one point in time close to 20% market share. So I think the Rapidol growth has been double digit. In Kinky, because it's a store-led model, there have been both closures and opening of stores. So what you see is a net effect of non-profitable stores, because of variety of external reasons, which we have had to close as well as the organic growth. So I think that gets subdued and there we have had single-digit growth. So I think if you look at the mix, it is probably going to be a high single-digit growth but the Rapidol retail business has grown in double digits.

Hemant Patel

And Darling business, in an organic basis, has that actually suffered because if I were to actually add up everything, would it mean that the Darling business has not got tractions for what we had prior to the Phase-II acquisition?

Sameer Shah

This has been predominantly a hair extension impact and not only Darling and as what we shared earlier there was a mix impact which we saw in the quarter to the extent which we didn't see in the base quarter, as a result of which we registered a very strong volume growth but not the value growth. We see this more as seasonal in nature as of now.

Moderator

Our next question is follow-up question from the line of Sagarika Mukherjee from SBI Cap Securities.

Sagarika Mukherjee

In hair colour segment, in the crème format, if at the current disruptive price level that you are selling the product at, do you think the long-term margin of the business can match the domestic margin business of GCPL?

Adi Godrej

The margin will still remain strong because the costs are lower because of the sachet packaging.

Sagarika Mukherjee

Okay so do you think that the margin of this crème business will be at least more than the domestic margin, I mean it will only add to the higher margins.

Nisa Godrej

Yes, definitely.

Moderator

The next question is from Vivek Maheshwari from CLSA.

Vivek Maheshwari

One comment about the packaging impact that you had mentioned, was that limited to soap and is it material at all?

Vivek Gambhir

Yes, it was only for soaps.

Vivek Maheshwari

And was it material to move the needles during the quarter or not really.

Sameer Shah

If we just look at the units growth and we registered very strong high single-digit units growth versus the two percentage volume growth. So that will give you a good feel of how strong and continuous our unit growth has been in the category for the quarter.

Vivek Maheshwari

And second thing on HIT magic paper, where are we in terms of launch in India? I believe you were in the process of getting approvals of fiscal '14. Is it possible to see this product in India?

Nisa Godrej

We can't comment on new product launches.

Vivek Maheshwari

Over the last few quarters, both in India as well as Indonesia, your growth has been fairly strong from the next two to three year perspective. No explicit guidance but what is the range that we could expect both in domestic as well as in Indonesian market now that the base will be tougher as we go ahead?

Shashank Sinha

As our base is becoming bigger in countries like Indonesia do we expect to continue that top-line growth, was that your question?

Vivek Maheshwari

Yes right, that is my question and over and above that in Indonesia for example in the last few quarters your growth broadly has been upwards of 25%. So the base obviously is tougher on a YoY basis, the coms will be tougher for you as you will go ahead?

Shashank Sinha

We are seeing very strong macroeconomic growth in Indonesia. The overall GDP growth is quite good; inflation is under control, the macroeconomic environment continues to be very strong that's one. Secondly, if you look at the per capita income, the number of new consumers coming in is still very positive. We have leadership positions in the main categories that we play in and we continue to increase our gap with our nearest competitor. So in terms of just our market share improvement there is still room for an increase but we are on a good momentum and fourthly our pace of innovation has been very high in Indonesia and we intend to continue maintaining that. So I think if we look at all of that while the base is becoming bigger I think that there is still a lot of headroom for growth in a country like Indonesia.

Vivek Maheshwari

Could you offer the same comment for India business particularly in the context if palm oil prices are coming off and if there are fewer headwinds, could volume acceleration offset the impact particularly in category like soap? As you rightly mentioned that there is a limit given the high penetration levels. So what would be the ballpark range that you would expect from two-three years' perspective in the domestic business?

Sameer Shah

We would not like to get into a guidance but if we look at our track record of the last five to seven years, we have been growing in high-single digit volume growth, with the initiatives which we have been taking in last two to three years on building brand equity for Godrej No 1, straddling now at premium as well as pace of the pyramid in soaps category. We are again pretty optimistic

of those kinds of growth which we have recorded in the past and also growing ahead of the category.

Moderator

The next question is from the line of Priya Ranjan from Macquarie Capital.

Priya Ranjan

My question is regarding to innovation particularly in baby care, I guess that Godrej is already present through the Snuggy brand in India and you have a very strong portfolio in Indonesia particularly of wipes, etc. So can we see expansion in, particularly participation of Godrej in baby care where growth rate is very high?

Vivek Gambhir

These are clearly very important decisions that we would not like to discuss but I think we will evaluate the potential of these categories at the right time.

Priya Ranjan

Because I guess this category is growing very fast and the competition as of now is very limited so the early mover advantage will definitely help.

Vivek Gambhir

Thanks for your feedback on that, we will definitely consider that.

Moderator

The next question is from Nikhil Vora from IDFC Securities.

Nikhil Vora

Just one thing on Cinthol the re-launch that we have done, how comfortable are we with the relaunch that we have done not just in terms of the initial specs of the brand or the re-launch but also in terms of the category extensions that we propose to do and how consistent are we likely to be with this re-launch that we have done.

Nisa Godrej

We are very happy with the re-launch I think in terms of what we set out to do - expand our consumer base, offer more premium products. I think if you look at the product range it has clearly done that. Cinthol is a both an old and very premium brand in India and we actually feel that we haven't leveraged that in the past. So we are very bullish about the deodorant category and shower gels, we think we will see a lot of growth in Cinthol in the coming years and we are very excited about it also.

Nikhil Vora

How consistent are we likely to be in getting the brand up and running. Is it going to be a couple of quarter's affair or we are likely to be lot more consistent with the brand unlike in the past?

Adi Godrej

We think it will be a long-term consistency with getting Cinthol to grow.

Moderator

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

Kaustubh Pawaskar

We are seeing that palm oil prices are on a declining trend and we are seeing improvement in the margins. So going ahead do you expect this decline in palm oil prices, the small and regional players to enter the competition and it will add pressure on your sales volume that is the first question. The second is that since innovation is our pillar for growth going ahead, do we expect this ad spends to remain higher in the coming quarters or over the next two to three years?

Adi Godrej

Two points first whenever vegetable oil prices have been low; our soap business has done very well both in terms of profitability as well as growth in market share. So we don't expect any major competition from smaller player; they might be a little more active but we have done extremely well in times when vegetable oil prices are low. Secondly, the percentage of advertising to sales in the third quarter this year is a very high level which is not likely to continue over periods of time; however, advertising-to-sales ratios will remain more or less as in the past in the coming quarters.

Moderator

The next question is from Ashish Upganwalar from Spark Capital.

Ashish Upganwalar

Just wanted to understand on the other expenses bit, you said that the major reason has been that HI has been growing faster but this will be a recurring phenomenon where the growth in HI will be higher. So does that mean that other expenses will continue to be higher during that?

Sameer Shah

It's purely driven by what is the category growth. So depending upon the growth in each of the three categories this would be fluctuating to that extent.

Ashish Upganwalar

On the raw materials front, any outlook to share, the decline in palm oil prices. So how sustainable is this and would you have a view on how things would look going ahead into the next two to three quarters.

Adi Godrej

Very difficult to predict commodity prices and but currently palm oil prices are lower than they were over the last say couple of years but it is very difficult to predict vegetable oil prices because to a certain extent it depends on the agricultural situation in different parts of the world and to a certain extent it also depends on crude oil prices because vegetable oil derivatives go into biodiesel production.

Ashish Upganwalar

Any take on the gross margins, I understand that soap sales are a smaller segment now on the overall scheme of things, but going ahead in FY14 are we looking at some kind of gross margin expansion.

Adi Godrej

I think our gross margins are likely to remain at the present level. We are working very hard with several teams to increase gross margin in various ways through logistics through raw material purchase etc. So some positive effect from that may come.

Moderator

The next question is from Arnab Mitra from Credit Suisse.

Arnab Mitra

The tax rate this quarter was a little higher than normal so any reason for that and how do we look at fiscal year 2014-15 in terms of tax rate.

P. Ganesh

While the tax rate for the quarter was slightly higher on account of tax we pay on dividend, which gets knocked off on consolidation as well as slightly higher rate in Indonesia, on an ongoing basis in terms of full year we are still on track for an average of 23%.

Arnab Mitra

And this is because we had that tax benefit in Nigeria. So going ahead, next year also you would think it should be in 23% range or we could see some reduction because of that?

P. Ganesh

No it would be more or less in the same range because we are also adding on new geographies. So Kenya has been added which doesn't have the tax benefit as of now, so in the near term, we should continue to see 22%-23% tax rate.

Arnab Mitra

On the balance sheet side fiscal year 2012, we had seen some reasonably good reduction in working capital so are there opportunities this year also especially on the Darling side and would that be captured in this year or going ahead.

P. Ganesh

So, clearly there are opportunities in terms of optimizing working capital and that will be an ongoing initiative.

Arnab Mitra

After Darling Phase-II, what would be the current debt on the books?

P. Ganesh

Currently we have net debt of about Rs. 1,700 crore on the books and in terms of debt equity ratio, we are at about 0.55.

Arnab Mitra

And what would be the dollar debt for now?

P. Ganesh

Most of it is dollar debt

Moderator

The next question is from Shirish Pardeshi from Anand Rathi.

Shirish Pardeshi

At what stage we are in Darling, I mean are the synergies from this acquisition are coming in FY14 or the phase one synergy has already started kicking in?

Vivek Gambhir

We expect major synergies from Darling to come in, in FY14. So the journey of synergy capture literally just started, so with the next couple of years we would expect to see significant synergy benefits from Darling both in terms of accelerating top-line and also improving the bottom-line.

Shirish Pardeshi

Alright, my second question is on Megasari. I do understand the economy is doing well. Is that, growth is more driven by the volume and penetration-led or distribution on the ground or it's more of an opportunity and we are trying to grab the market share from the competition.

Shashank Sinha

It's a mix of both. As I said predominantly the growth is driven by increase in market shares and introduction of new products, which are the primary drivers of our growth in Indonesia.

Shirish Pardeshi:

In the last quarter we have got the implementation of weight and measurement pack and we have seen the packs actually complying may be at the fag end of November. Is that the primary reason that we would have seen the effect of changing over the pack size and that's why the sales for soaps is a little slower or primarily it is because of the down stocking due to winter season?

Vivek Gambhir

No I think it's the first reason, because if you look at our unit sales in the quarter they were in the high single digits and volume growth was around 2% and so that delta by itself explains that the change to the lower grammages actually had a fairly material impact in terms of overall volume growth this quarter.

Shirish Pardeshi

Is it the new weight and measurement act what is affecting us, all the stocks which is attracting this change has already been placed in the market or still there is inventory pile up which is there and we need to take some time for putting it.

Adi Godrej

No it's all there, we expect better volume growth going forward.

Moderator

The next question is from Suruchi Jain from Morningstar.

Suruchi Jain

I have a couple of P&L-related questions, more housekeeping. Firstly on the net sales, does it include Darling Phase-II acquisition, you mentioned that Kenya has already been built in, are there any other countries that you expect to build-in in your fourth quarter?

P Ganesh

Kenya is something which has come in during the close of this quarter. The Soft & Gentle acquisition which has happened in the UK that will start getting consolidated from quarter four, and these are the couple of changes which have happened this quarter and which will happen next.

Suruchi Jain

Okay so just to confirm Phase-II is only going to be Kenya there aren't going to be any other countries.

Adi Godrej

That will be later; it won't come in quarter four.

Suruchi Jain

And for your Chile acquisition in the nine-month net sales that's already been taken into account right?

P Ganesh

That's right.

Suruchi Jain

From the advertising expenses point of view, you mentioned that's quite high this quarter. Could you give us a sense of what you hope it should be at normalised levels going forward?

Adi Godrej

Advertising-to-sales ratio will be lower in the coming quarters than in the third quarter. It is very difficult to be precise on that.

Suruchi Jain

I am not asking for quarter guidance as such but just in terms of percentage of net sales on an annual basis, I think we see a lot of variation across different consumer firms and so for Godrej it is a little lower than some of the other leading consumer firms.

P. Ganesh

One point I would like to just clarify is that what we report is advertisement and publicity, the sales promotion gets clubbed into other expenses, whereas some of the peer group companies report advertisement and sales promotion. So it's not a like-to-like comparison.

Vivek Gambhir

So, Suruchi I suggest just for your reconciliation on this, let's take it offline and we can try and make sure that what you are looking at is more of an apple-to-apple comparison.

Suruchi Jain

In terms of employee expenses, do you look at it in terms of it going forward increasing as a result of these acquisitions, more in terms of normalised annualized numbers?

P Ganesh

Yes, if you look at the consolidated numbers Kenya acquisition has come-in in this quarter, and so that will start reflecting from this quarter, to that extent that's been increased.

Suruchi Jain

It's been more or less at 8% levels in the past. Do you expect it to be closer to say 9% or more?

Adi Godrej

We don't expect the percentage of employee expenses to sales to change very much except in cases where if our performance-linked variable remuneration rises a lot because of extraordinarily high performance then in those quarters it becomes a little higher.

Suruchi Jain

Okay and just to clarify on the earlier point on advertising if I just compare it to Godrej in previous years and also there is no sales promotion, I understand has been adjusted against net sales and historically it has been at the 8% to 9% levels, with new product launches I understand that it has been higher this quarter and given that Godrej is committed to innovation do you anticipate these high levels to continue.

Vivek Gambhir

It varies by quarter. So next quarter we expect it to moderate but again as and when we have further launches the amount will increase again.

Suruchi Jain

Okay and on an annual basis would you like to comment on that?

Vivek Gambhir

No guidance on that.

Suruchi Jain

Okay and on the debt you said that the amount of debt as in Q3 is Rs 1,700 crore. Could you also tell me what is the current interest rate that you are experiencing given that you have a lot of foreign debt?

P. Ganesh

Most of it is dollar-denominated debt and the average interest rate as on date is about 3% to 3.5%.

Suruchi Jain

On the food category divestment that you had in Indonesia, you mentioned in your press release that it's 22 million in FY12. Would you be able to give us an estimate on what will be the net sales impact for FY13?

Sameer Shah

You have the number of 22 million. You can plug in a growth on it to get a value impact. The other interesting point over here is we would be continuing the distribution for a brand, and so we would be still be recording the top-line for the brand in our business.

Suruchi Jain

Sure and that's why I wanted to understand that does this have an impact or that impact will only be seen after two to three years?

Sameer Shah

Yes, there will be no impact on the top-line on this front for the next two years.

Moderator

The next question is follow up question from Pritesh Chheda from Emkay Global.

Pritesh Chheda

On the working capital requirements in the international operations put together, the steps taken or your thoughts there.

P Ganesh

We continue to focus on working capital optimisation; there are multiple opportunities for further optimisation on this front which is an ongoing initiative. Fact remains that given the large salience of international to our overall operations we will continue to operate on positive working capital on a consolidated basis but clearly there will be more opportunities as we go along.

Pritesh Chheda

Since the last two-three years we haven't seen cash coming out of the working capital. In fact requirements have increased. So is it fair to assume that over the next couple of years, there can be a considerable squeeze?

P Ganesh

As we add to the businesses through Darling acquisition as well as organic growth on both domestic as well as international, the absolute working capital amounts could go up but working capital days is our focus and we should clearly see reductions happening.

Pritesh Chheda

It has been great and it's one of the only companies which have probably done so many acquisitions in the last three-four years and you have now about 13-14 odd acquisitions in so many geographies. If you could tell us how in terms of the reporting line is it managed and the frequency of managing these reporting lines, so this question is probably to Mr. Godrej.

Shashank Sinha

In all our international businesses, the CEOs reporting to the international corporate centre we have built here in Mumbai, I head that. I have got a multifunctional team across all the functions who are fulltime working in the international corporate centre, supply chain, finance, HR, marketing and so on and we actually review the business almost on a weekly basis. So we look at weekly sales and we look at monthly P&L. We have our feet on the ground as well as we have regular interaction whether it is through videoconference or teleconference. I don't know if that addresses your question but we have very clear and well set rules of engagement in the way that we manage all the different varied international businesses.

Pritesh Chheda

So, should I assume here that the supply cost functions are actually centralised and not at the subsidy level.

Shashank Sinha

No, they are not centralised. We have full end-to-end businesses in the countries in which we are but there is a strong working relationship in each of these functions. So for example in the supply chain as you mentioned but also in HR, in IT, in finance, etc., and many of these initiatives are centrally driven like net working capital reduction, like many initiatives in supply chain to reduce cost.

Adi Godrej

The management is localised but help is provided from headquarters.

Vivek Gambhir

So, as an example Dr. Rakesh Sinha is the head of our global supply chain, not Indian supply chain, the supply chain head in a local country would have solid line reporting to the country CEO and a dotted line reporting to Rakesh.

Pritesh Chheda

Okay and lastly I just want to take this forward, in the acquisitions, all that you have made, have you seen a situation where the old managerial team was replaced or changed since acquisition and if it is so which one it would be?

Vivek Gambhir

Nigeria, apart from Nigeria, I think our retention rate of the management committee across all our geographies have been 96%.

Pritesh Chheda

Okay and that includes the old promoters? We do include them as the part of the managerial team?

Vivek Gambhir

No.

Pritesh Chheda

So excluding that you will only come across the situation in Nigeria where the managerial team was replaced.

Vivek Gambhir

That's right

Pritesh Chheda

And this should be then Tura right.

Vivek Gambhir

That's right.

Rakshit Ranjan

Thank you. On behalf of Ambit Capital I thank the senior management team of Godrej Consumer as well as all the participants on the call. I would like to hand over the call to Mr. Godrej for closing remarks please.

Adi Godrej

Well, thank you all of you for joining this conference call and we are very buoyant on the future of Godrej Consumer Products Limited. We will continue on our 10x10 strategy which is grow "Ten Times In Ten Years" that is our long-term objective and thank you very much for joining us on this conference call.

Moderator

Thank you sir. Ladies and gentlemen, on behalf of Ambit Capital Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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